# MUNICIPALITIES FINANCIAL RECOVERY ACT
# CONSULTATIVE EVALUATION

# CITY OF ALTOONA
# BLAIR COUNTY, PENNSYLVANIA

## April 3, 2012

**Conducted by:**

**PENNSYLVANIA DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT**
**GOVERNOR'S CENTER FOR LOCAL GOVERNMENT SERVICES**

**COMMONWEALTH OF PENNSYLVANIA**
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# INTRODUCTION

The Municipalities Financial Recovery Act (Act 47 of 1987, as amended) was enacted to foster the fiscal integrity of municipalities so that they can provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial accounting procedures, budgeting and taxing practices. The failure of a municipality to do so adversely affects the health, safety and welfare not only of the citizens of the municipality but also of other citizens in this Commonwealth.

The Municipalities Financial Recovery Act (Act 47), in Section 202-Standing to Petition for a Determination, provides ten categories of parties and individuals who have standing and may request a determination of municipal financial distress from the Secretary of the Department of Community and Economic Development (Department).

One party that has standing to allege that the municipality is financially distressed is 'the governing body' of the municipality. Upon passing a resolution by a majority vote of the governing body, the Department must hold a special public meeting that has been duly advertised as provided by law.

A Request for Determination of Municipal Financial Distress was filed by Resolution of the City Council of the City of Altoona, under the Municipalities Financial Recovery Act. The Request was signed and executed by the Chief Clerk on February 24, 2012 and received by the Department on February 28, 2012. The Request asks that the Department determine the City's eligibility as a distressed municipality under the provisions of the Municipalities Financial Recovery Act (Act 47).

Section 203(c) of Act 47 authorizes the Department to conduct a consultative investigation into the financial affairs of the municipality after receiving a Request but prior to conducting a public hearing as required under Section 203(b) of Act 47. A public hearing is scheduled for Tuesday, April 3, 2012 at 6:00 PM to receive testimony of the requesting party, the Department, and other interested parties relative to whether the Secretary should declare the City of Altoona a distressed municipality under Act 47.

Section 201 of Act 47 enumerates eleven criteria, at least one of which must be present in order for a municipality to be considered for a distress determination by the Secretary. The City of Altoona's Mayor and City Council allege that the following criteria as set forth in Section 201 of Act 47 are present:

(1) The municipality has maintained a deficit over a three-year period, with a deficit of 1% or more in each of the previous fiscal years.

(2) The Municipality's expenditures have exceeded revenues for a period of three years or more.

(11) The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes.

## SCOPE OF EXAMINATION

Our review of the financial position of the City relied upon the accuracy and completeness of the financial information that was presented to us by City representatives as well as certain information that was obtained from other sources. We examined financial, personnel and other pertinent administrative records and information including interim financial reports to the extent that they were available. We made limited effort to verify information presented to us by comparing with original source documents, as would be done on a selective basis in an audit of the municipality.

We are pleased to acknowledge the assistance of the Mayor, City Council, City Manager and other appointed officials and employees of the City for their assistance and cooperation in gathering information during the course of our consultative field work.

## OBJECTIVES OF THE FIELD CONSULTATIVE EFFORT

The objectives of this Consultative Evaluation are twofold:

(1) To determine whether the City has met one or more of the eligibility requirements for a determination of distress under Act 47, and if so,

(2) To examine available financial records and other relevant data in order to recommend whether or not the City should be determined to be distressed under the provisions of Act 47.

The Mayor and City Council's request for a determination of financial distress alleges the presence of Section 201 criteria numbers 1, 2, and 11.

Central to Criterion 1 is validation that the municipality experienced a structural deficit meaning the expenditures exceeded the revenues for all governmental funds for a period of three years with a deficit of 1% or more in each of the previous fiscal years.

Criterion 2 is present when expenditures exceed revenues for a period of three years or more.

Criterion 11 will involve both a finding as to whether the City is at its legal limit for real estate taxes and an in-depth analysis of the City's services, to determine whether there has been a quantifiable decrease in municipal services.

**CONCLUSIONS ON PRESENCE OF DISTRESSED CRITERIA**

**Based upon an analysis of available records and interviews with City officials, it is our conclusion that the City of Altoona can be considered for a distressed determination because Criterion (1), Criterion (2) and Criterion (11) are present.**

**Act 47, Section 201, Criteria 1, 2, 11 Examined and Validated**

The following summary and related charts are provided to validate the criteria alleged by the City for Act 47 consideration. The City has set forth criteria 1, 2, and 11 under Section 201 of the Act that they believe makes them eligible to be considered for an Act 47 determination.

**Criterion (1) the municipality has maintained a deficit over a three-year period, with a deficit of 1% or more in each of the previous fiscal years.**

The City asserts that since 2006, (with the exception of 2007) Altoona has operated under a structural fiscal deficit; whereby, its expenditures have consistently outpaced revenues. The City is currently using unreserved fund balances to fund its operational deficit.

The City further asserts that it has experienced a deficit from 2008 to 2011. For all funds including the General Fund, Highway Aid Fund, Pension Fund, Capital Expenditure Fund, Housing and Community Development, and Non-major Governmental Funds the City has experienced a structural deficit exceeding eleven (11%) of total revenue for the reporting fiscal years 2008, 2009, 2010 and 2011. In fact, in 2011 the deficit was 22% of total revenues for all governmental funds. They also experienced a deficit in 2006.

The City asserts that it has maintained a deficit over a four-year period. This has been confirmed by our review of the history of revenues versus expenditures.

## 1.) Examination of All Governmental Funds Revenues Vs. Expenses 2006 to 2011

Table 1 All Governmental Funds Revenue VS Expenses 2006 to 2011

| Table 1 Altoona All Governmental Funds Rev. VS Expenses 2006 to 2011 | | | | | | |
|---|---|---|---|---|---|---|
| **General Fund Projected Forecast** | **2006** | **2007** | **2008** | **2009** | **2010** | **Unaudited 2011 Estimate** |
| **Revenues** | $27,291,993 | $30,185,610 | $28,327,445 | $27,106,974 | $29,312,411 | $25,557,666 |
| **Expenses** | $27,676,964 | $29,495,199 | $33,134,175 | $32,268,876 | $32,447,887 | $29,001,421 |
| **Surplus/(Deficit)** | ($384,971 | 690,411 | ($4,806,730) | ($5,161,902) | ($3,135,476) | ($3,443,755) |
| **% of deficit to revenues** | 1.4% | | 17% | 19% | 11% | 13% |
| **Annual Audit Report** | | | | | | |

Table 1 illustrates that the City of Altoona has maintained a structural deficit for all governmental funds (General Fund, Highway Aid Fund, Pension Fund, Capital Expense Fund, Housing and Community Development Fund, and Non-Major Funds) for a period of four years with the deficit exceeding one percent (1%). It is anticipated that City will experience a deficit in fiscal year 2012 as well. At the time of this report we did not have the final audited numbers for all funds for fiscal year 2011. We relied on the unaudited year-end financial report provided by the City's Finance Department.

Table 1 provides evidence to validate that the City meets criteria 1 as the City has experienced a deficit for all governmental funds for a period in excess of three years.

**Criterion (2) The Municipality's expenditures exceeded revenues for a period of three years or more.**

The City asserts that it has experienced revenue shortfalls while at the same time City expenditures continued to increase significantly. Table 1 above also validates the presence of Criterion 2.

**Criterion (11) - The Municipality has experienced a decrease in a quantifiable level of municipal service(s) from the previous fiscal year, which has resulted from the municipality reaching its legal limit in real estate levied for general purposes.**

The City is at its maximum real estate tax millage rate of 25 mills for general purposes and levies 5 additional mills with annual court approval. The City also levies several special purposes real estate taxes that include debt service of 11.2 mills, recreation of 6.7 mills, and for shade trees of .1 mills.

The City asserts that its employee complement has dropped significantly since 2006. The Police Department, Public Works Department, and Codes Enforcement Department were all impacted by service level reductions.

Currently, the City funds most of the Public Work employees working on City streets and highways through the Highway Aid Fund; thereby, reducing the dollars available to repair and significantly improve City streets and highways. Planning and Zoning activities have been significantly decreased since 2006. Other Departments have also been impacted by the reduction in workforce.

**Police Department:**

The City of Altoona Police Department has experienced a reduction in staff, and suffers from an inability to offer the level of service previously provided. Since 2009, the department has been reduced from 74 sworn officers to 68, a reduction of 8%. While some newer officers are still undergoing Act 120 training requirements, they are not available to perform police duties until the training is completed. Once these officers complete training they will be able to fully execute their duties. However until they complete their training the force is further impacted in its ability to meet service demands.

A smaller police force leads to increases in crime. In 2011, Part I Offenses, which are the more serious crimes, increased 11.3 % in the City. Part II Offenses, such as Vandalism, DUI, and Disorderly Conduct decreased in 2011 by 3.96%.

The increase in serious crime combined with a reduced police force has led to a highly reactive approach to policing in the City of Altoona. The necessity of focusing on increases in serious crime has lead to a decreased concentration on less serious crime. In the past, less serious crimes were typically "self-generating" in that these crimes were discovered by a very proactive police force. However, when the number of police officers is reduced, the policing strategy becomes much more reactive and unable to properly address less serious crime.

In 2010, the City was able to staff the Criminal Investigations Division of the Altoona Police Department with nine detectives. The number of detectives was reduced to seven in 2011. Because of this staffing reduction, the number of cases that are not assigned a follow-up investigation has increased dramatically. The loss of two detectives resulted in approximately 400 cases not receiving a follow-up investigation. The Investigative Division is basically reduced to handling only major crimes and is experiencing a significant backlog of cases.

Reduced manpower in 2011 has had a significant impact on traffic enforcement. The number of citations for vehicle speeding in the City decreased 41%, from 468 in 2010 to

274 in 2011. Additionally, motor vehicle citations decreased 32% from 1,423 in 2010 to 962 in 2011. As a result, reportable accidents in the City increased by 4.6% from 1,221 in 2010 to 1,278 in 2011.

In prior years, the City Police Department conducted 4 to 5 Saturation Details each year during which a number of police officers were assigned to neighborhoods with high incidences of criminal and drug related activity. These details are designed to reduce public safety issues, particularly in these neighborhoods, and to improve quality of life. Due to the reduction in staff, however, the City was able to conduct only one Saturation Detail in 2011. Additionally, the City provided security and traffic control for over 25 special events in the City in 2011. Because of reduced manpower and budgetary constraints, the level of police presence at the events was less than adequate. This circumstance continues in the current year and is cause for public safety concern.

**Public Works Department:**

The City's Public Works Department (DPW) has experienced the sharpest staffing reduction of any City department. In the past ten years, DPW has been reduced by 13 positions and 7 positions within the past three years or an 11% reduction since 2009. This reduction, combined with limited funding to purchase materials for road repair, has diminished the level of service provided by the Public Works Department.

Reduced staffing has necessitated a reduction in snow plow routes in the City from 14 to 10. This reduction has meant an increase in the number of miles each route encompasses from 25 miles to 36 miles and has lead to an increase in the amount of time it takes to clear City streets after a significant snowstorm from 24 hours to approximately 36 hours. Prior to the recent reduction in staffing, the City was able to clear bridge walkways of snow within the amount of time required to plow snow from City streets. As a result of reduced staffing, it now takes until 6-12 hours after snow plowing has been completed for these bridge walkways to be cleared.

The City is only able to pave about two-thirds (68.3%) of the roadway surface in a given year that it should. The City currently funds a majority of its road resurfacing projects through issuance of debt as part of its Capital Improvement Program because there is no money available in the City's General Fund. Monies used for road resurfacing through a federal earmark will be exhausted by the end of 2012.

Since 2003, Liquid Fuels Tax funds have been used to pay most wage costs within DPW, which has further reduced the amount of money available to maintain and service existing roadways in the City. Utility street cuts and minor road repairs are funded through the General Fund. However, decreased staffing and rising road repair costs have lead to a reduced number of street cuts and roads repaired. As material prices rise and staffing has been reduced, it has created a backlog of 60 to 70 storm inlet repairs which further undermines City road conditions.

The City's vehicle fleet is serviced by a staff of mechanics. This staff has been reduced from 4 to 3, or 25% in the last few years. The result of this reduction in staff has been the inability to keep up with preventative maintenance on City vehicles. A reduced staff means reactive maintenance has largely replaced preventative maintenance of City vehicles. Furthermore, during an emergency situation such as a snowstorm where plow trucks are likely to breakdown, the reduction in fleet maintenance staff means vehicles will not be repaired as quickly and, therefore, could negatively impact snow removal and public safety.

Other examples of reduced services provided by the DPW include the elimination of a truck dedicated to removing dead animals, trash, and bicycles from roadways. Completion of leaf and brush pick-up was deferred from last December, when it is typically completed until February and March of this year due to staff reductions. In general, staff reductions and limited financial resources have often required scheduling activities within DPW in a sequential rather than concurrent manner thus further impacting services.

**Code Enforcement:**

One of the most adversely affected departments in the City is the Department of Inspections and Code Enforcement. This department has been reduced from 14 employees in 2009 to 10 current employees, a 29% reduction. Of these, three were building inspector positions which were outsourced to a third-party building inspection service. The result of this change means an increase in the amount of time it takes for building inspections to be performed, which is a decline in service that is qualitative in nature. Such delays further inhibit development in the City, which adversely affects the City's tax base and ultimately affects the level of service the City is able to provide.

The other position was a Code Enforcement Officer. The elimination of this position has lead to a reduction in the number of code enforcement zones in the City from 4 to 3, and an accompanying increase in the territory covered by individual Code Enforcement Officers. This staffing reduction has lead to a quantifiable reduction in service related to code enforcement. For example, total actions taken by Code Enforcement Officers in the City of Altoona decreased from 14,612 in 2010 to 12,382 in 2011. Based on two months experience in 2012, the total number of Code Enforcement actions projected for the current year is less than 10,000. The end result is an inability of the City to adequately address blight, which, in turn, leads to an increase in dilapidated and abandoned buildings within the City.

The Uniform Construction Code (UCC) requires that all individuals performing code enforcement be fully certified through the Commonwealth. When individuals are laid off in these certified fields it makes it difficult to assure that any new hires meet the UCC inspection certification requirements.

During the course of the field survey work, Department staff was able to verify all of the workforce numbers with the City staff. A complete review and breakdown of the City workforce history is included in Table 2 below. Since 2003, the City has reduced its compliment by more than 35 employees and has made internal structural changes within the various departments. In Fiscal Year 2012, the City staff was reduced to 229 positions due to the City's deteriorating financial position. Most of the loss came from the Department of Public Works with a loss of 13 positions during the ten year period.

Table 2 Workforce History by Year

| Table 2 - City of Altoona - Workforce History By Year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **DEPARTMENT** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| Public Works | 69 | 66 | 66 | 64 | 63 | 63 | 63 | 61 | 60 | 56 |
| Police Officers | 74 | 69 | 69 | 69 | 74 | 74 | 74 | 74 | 73 | 68 |
| Police Support | 9 | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Fire Department | 67 | 66 | 66 | 66 | 66 | 67 | 67 | 67 | 65 | 62 |
| Fire Support | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Codes Enforcement | 13 | 13 | 13 | 13 | 13 | 13 | 14 | 13 | 13 | 10 |
| Finance Personnel | 11 | 10 | 6 | 6 | 6 | 6 | 7 | 7 | 7 | 6 |
| Planning & Community Dev. | 15 | 15 | 13 | 14 | 14 | 14 | 16 | 16 | 15 | 13 |
| Administration | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Information Technology | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Deputy Controller | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Total** | **264** | **254** | **247** | **246** | **250** | **251** | **255** | **252** | **247** | **229** |

The above data validates Criterion 11 is present.

## DISTRESS DETERMINATION

Based upon this analysis, it is apparent that the City of Altoona meets Criteria 1, 2, and 11 as enumerated in the Act. The fact that Criteria 1, 2, and 11 were found to be present enables the Department to conduct a further evaluation and recommend whether or not the City of Altoona should be designated as distressed under Act 47.

It is Commonwealth policy, as stated in Act 47, "to foster the fiscal integrity of municipalities so that they provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet the financial obligations to their employees, vendors and suppliers; and provide for proper accounting procedures, budgeting and taxing practices."

It is our opinion that the City of Altoona has exhibited conditions that make it difficult to fulfill its responsibilities as outlined above.

**Accordingly, it is our recommendation that the City of Altoona be declared financially distressed.**

In arriving at a recommendation our analysis also considered other relevant factors, which are discussed below:

1. Current and Projected 2011/12 Financial Position/ Changes in Fund Balance
2. Early Intervention Program Forecast
3. Tax Base and Revenue Trends
4. Debt Service Obligations Outlined
5. Pension Payments and MMO Requirements
6. Expenditure and Workforce
7. Socio-Economic and Demographic Trends
8. Administrative and Financial Management Practices

## 1. Current and Projected 2012 Financial Position and Changes in Fund Balance

A detailed revenues and expenditures analysis for 2012 is summarized in Table 3 below.

Table 3- **Comparison of Monthly Revenues and Expenditures**

| **Table 3 - City of Altoona – Comparison of Monthly Revenues Vs Expenditures** | | | |
|---|---|---|---|
| | **Revenues** | **Expenditures** | **Surplus/(Deficit)** |
| | | | |
| JAN | $103,292 | $1,485,642 | $(1,382,350) |
| FEB | $172,157 | $2,054,026 | ($3,264,219) |
| MARCH | $2,414,669 | $3,037,188 | ($3,886,738) |
| APRIL | $5,101,444 | $2,516,724 | ($1,302,018) |
| MAY | $3,211,444 | $2,516,724 | ($607,298) |
| JUN | $2,574,683 | $1,668,813 | $298,572 |
| JUL | $976,924 | $1,853,925 | ($578,429) |
| AUG | $2,331,254 | $4,112,798 | ($2,359,973 |
| SEP | $2,889,215 | $1,976,787 | ($1,456,545 |
| OCT | $841,548 | $1,559,348 | ($2,174,345 |
| NOV | $3,155,360 | $1,875,756 | ($894,741) |
| DEC | $1,358,257 | $1,576,437 | ($1,112,921 |
| **Source: City of Altoona Finance Department** | | | |

The City anticipates a structural deficit by year-end 2012 of approximately $1.1 million dollars when comparing monthly revenues with monthly expenditures.

To further understand the true cash flow picture Table 4 will examine cash flow month to month by incorporating the opening cash and the TRAN activity.

Table 4- Cash Flow Projections with Opening Balance and TRAN

| Table 4- City of Altoona – Cash Flow Projections For 2012 Opening Balance Tran Activity Revenues Vs Expenditures | | | | |
|---|---|---|---|---|
| | **Opening Balance** | **Revenues** | **Expenditures** | **Ending Balances Surplus (Deficit)** |
| | | | | |
| JAN | $2,679,712 | $4,603,292 | $1,485,642 | $5,797,362 |
| FEB | | $172,157 | $2,054,026 | $3,915,493 |
| MARCH | | $2,414,669 | 3,037,188 | $3,292,974 |
| APRIL | | $5,101,444 | $2,516,724 | $5,877,694 |
| MAY | | $3,211,444 | $2,516,724 | $6,572,414 |
| JUN | | $2,574,683 | $1,668,813 | $7,478,284 |
| JUL | | $976,924 | $1,853,925 | $6,601,283 |
| AUG | | $2,331,254 | $4,112,798 | $4,819,739 |
| SEP | | $2,889,215 | $1,976,787 | $5,732,167 |
| OCT | | $841,548 | $1,559,348 | $5,014,367 |
| NOV | | $3,155,360 | $1,875,756 | $6,293,971 |
| DEC | | $1,358,257 | $6,076,437 | $1,575,791 |
| | **Source: City of Altoona Finance Department** | | | |

Table 4 incorporates into the cash flow calculation the opening cash balance for fiscal year 2012 and the TRAN (tax and revenue anticipation note) of $4.5 million dollars. If it utilizes its opening balance and the $4.5 million dollar cash flow the City has a positive year-end cash flow of $1,575,791. Altoona has to borrow the money to subsist for the first part of the year and does not pay the TRAN back until year end, thus putting the City into a cycle of borrowing substantial cash (two months of revenue) to sustain vital services. Although the City does end the year with a positive fund balance the true fiscal picture reflects that each month it operates with a structural deficit.

Table 5 below displays the history of General Fund Revenues, Expenditures, and Changes in Fund Balance through the unaudited figures for 2011. This table illustrates the slowly depleting ending fund balances. As expenditures began to outpace revenues in 2008 the structural deficit grew larger

and larger.  It was exacerbated by the fact that the City was already at its legal taxing limit for general purpose real estate.
As expenditures outpaced revenues by nearly $5 million dollars in 2011 the City began to reduce staffing and service levels to respond to the immediate cash crisis caused by the imbalance between revenues and expenditures.  The service level reductions have impacted all Departments but especially hit the Public Works Department which has reduced its staffing levels and been forced to pay all streets and highway related workers from the Highway Aid Fund, thus reducing the ability to properly maintain streets and highways.

Overall expenditures have continued to increase particularly in payroll and employee benefit related expenditures while revenues have remained stagnant and given the current economy will continue to be extremely sluggish.  Local government economies generally take longer to recovery from a serious economic downturn.

The City has also been relying on Other Financing Sources to help to supplement the General Fund. In fact, there have been increasing interfund transfers that reached a peak of nearly $4 million dollars in fiscal year 2011.  These transfers are coming from the Pension Fund and the Highway Aid Fund.  The City is dependent on these interfund transfers to offset significant cash flow issues that exist and will continue to exist without some fiscal remedy.

Even with the interfund transfers from other funds the City has experienced a structural deficit when reviewing Revenue and Other Financing Sources compared to Expenditures and Other Financing Uses.

As the fiscal picture continues to deteriorate it is assumed that further personnel reductions will be needed to reduce expenditure costs.  More substantive workforce reductions will likely have unacceptable reductions of service.  This may impact the health and safety of the citizens particularly since there have already been decisions by management to reduce staff which inevitably reduces productivity and the ability to properly deliver services.

The City is generally well managed; however, the structural mismatch between revenue and expenditures cannot be overcome without substantive cutbacks in expenses and/or increases in revenue.

| Table 5 City of Altoona Revenues, Expenditures, and Changes in Fund Balance General Fund | | | | | | |
|---|---|---|---|---|---|---|
| | Audited 2006 | Audited 2007 | Audited 2008 | Audited 2009 | Audited 2010 | Unaudited 2011 |
| Taxes | $12,805,311 | $13,500,640 | $13,271,205 | $12,519,466 | $13,477,712 | $14,085,596 |
| Charges for Services | $3,034,141 | $3,130,579 | $3,176,145 | $3,156,937 | $3,225,804 | $3,362,078 |
| Interest & Rents | $ 289,312 | $361,401 | $183,051 | $79,913 | $63,005 | $52,079 |
| Intergovernmental | $2,791,752 | $2,992,246 | $2,852,867 | $3,045,138 | $3,284,250 | $3,564,930 |
| Fines and Forfeits | $256,154 | $ 295,836 | $284,706 | $294,879 | $330,521 | $278,000 |
| Licenses & Permits/Cable TV | $1,685,769 | $ 1,157,783 | $1,176,722 | $1,329,990 | $1,497,991 | $1,410,835 |
| Other Miscellaneous | $28,455 | $46,110 | $14,027 | $51,652 | $44,104 | $0 |
| **Total Revenues** | **$20,890,894** | **$21,484,595** | **$20,958,723** | **$20,477,975** | **$21,923,387** | **$22,753,518** |
| **Other Financing Sources** | | | | | | |
| Operating Transfers In | $1,971,066 | $ 2,234,251 | $2,221,616 | $1,889,071 | $2,087,446 | $3,944,575 |
| Proceeds from Sale of Assets | $12,981 | $7,903 | $0 | $0 | $29,514 | $89,282 |
| Proceeds from Issuance of Debt | $ | $ | $1,348 | $0 | $0 | $0 |
| Other Financing Sources Total | $1,984,047 | $2,242,154 | $,2,222,964 | $1,889,071 | $2,116,960 | $4,033,857 |
| **Revenue & Other Fin Sources** | **$22,874,941** | **$ 23,,726,749** | **$23,181,687** | **$22,367,046** | **$24,040,797** | **$26,787,375** |
| General Admin | $8,832,669 | $ 9,457,418 | $9,329,011 | $9,386,817 | $10,465,785 | $12,971,187 |
| Public Safety | $ 8,783,496 | $9,143,561 | $9,584,310 | $9,672,295 | $10,398,671 | $9,946,018 |
| Public Works | $1,947,333 | $2,061,036 | $2,220,404 | $2,136,280 | $2,183,417 | $2,319,382 |
| Culture & Recreation/Com Dev | $263,213 | $388,281 | $273,150 | $268,473 | $309,601 | $285,867 |
| Conservation and Development | $ 177,435 | $57,721 | $101,116 | $108,479 | $87,006 | $110,343 |
| Miscellaneous Expenditures | $28,729 | 8,034 | $1,647 | $8,099 | $12,494 | $59,300 |
| Debt Service | $1,761,161 | $1,382,322 | $1,351,214 | $1,153,209 | $2,092,549 | $2,020,021 |
| **Total Expenditures** | **$21,794,036** | **$22,,498,373** | **$22,860,852** | **$22,733,652** | **$25,549,523** | **$27.712.118** |
| **Other Financing Uses** | | | | | | |
| Transfer Out | **$60,092** | **$40,000** | **$20,000** | **$25,000** | **$20,000** | **$** |
| Other Financing Uses Total | $60,092 | $40,000 | $20,000 | $25,000 | $20,000 | $ |
| **Total Expenditures and Other Uses** | **$21,,854,128** | **$ 22,538,373** | **$22,880,852** | **$22,758,652** | **$25,569,523** | **$27,712,118** |
| **Excess (Def) Rev versus Exp** | ( $ 903,142) | ($1,013,778) | ($1,902,129) | ($2,255,677) | ($3,626,136) | ($4,958,600) |
| **Excess (def) of Revenue and other Sources over (under) Expenditures & Other Uses** | $1,020,813 | $1,188,376 | $300,835 | ($391,606) | ($1,529,176) | ($924,743) |
| **Fund Balance - Begin of Year** | $2,956,889 | $4,003,860 | $5,193,485 | $5,461,951 | $5,120,806 | $3,604,455 |
| **Increase In Inventory** | $26,158 | $1,249 | ($32,369) | $50,461 | $12,825 | $ |
| **Tot. Fund Balances End Yr.** | $4,003,860 | $5,193,485 | $5,461,951 | $ 5,120,806 | $3,604,455 | $2,679,712 |
| **Source: Annual Audits** | | | | | | |

## 2. <u>Early Intervention Program Forecast</u>

The City obtained an Early Intervention Program (EIP) grant from DCED and engaged the Pennsylvania Economy League in 2005 and again in 2009 to undertake a review of its finances and to develop a multi-year financial plan. Again in 2010 the Pennsylvania Economy League provided an update to the City on its fiscal position.

# Financial Forecast for 2011 to 2015

As part of the Early Intervention Study Phase II prepared in Fiscal Year 2009, the Pennsylvania Economy League developed a five-year financial model. The model provides a forecast of Altoona's financial future based on revenue and expenditure assumption and related economic concerns. Pennsylvania Economy League noted that the current global and national economies in general are very weak with considerable volatility. Local government particularly in a rural area appears to be lagging further behind than the rest of the Country's recovery.

While some improvements in the economy have been noted, the factors affecting state and particularly local government finance have yet to show any real economic improvement or recovery. Keeping these grave economic predictions in mind, the following projections were developed for the City of Altoona.

The General Fund is the primary fund for revenues and expenditures related to most governmental services provided by the City of Altoona. This includes Administration, Public Safety, Public Works, and Parks and Recreation. Included in the projections are increases in wages and health benefits. These are the result of collective bargaining agreements for police, fire, and non-uniformed employees.

Since personnel costs comprise the majority of the expenditures in the General Fund it is important to define the impact this component will have on the overall budget. The General Fund financial forecast without corrective action for 2011 through 2015 prepared by PEL is shown in Table 6.

The result of the PEL study present unique dilemmas for the elected and appointed officials of Altoona as it is important to remain competitive with surrounding municipalities while it cannot afford to place a significant burden on taxpayers and businesses.

Table 6- General Fund Forecast from 2011 to 2015

| Table 6 Altoona General Fund Financial Forecast from 2011 to 2015 | | | | | |
|---|---|---|---|---|---|
| **General Fund Projected Forecast** | **2011 Forecast** | **2012 Forecast** | **2013 Forecast** | **2014 Forecast** | **2015 Forecast** |
| **Revenues** | $24,673,000 | $24,572,000 | $24,645,000 | $24,707,000 | $24,760,000 |
| **Expenses** | $26,837,000 | $27,690,000 | $28,532,000 | $29,506,000 | $30,561,000 |
| **Surplus/(Deficit)** | ($2,164,000) | ($3,118,000) | ($3,888,000) | ($4,798,000) | ($5,801,000) |
| **Cumulative Surplus/(Deficit)** | ($3,499,000) | ($6,617,000) | ($10,505,000) | ($15,303,000) | ($21,104,000) |
| **Pennsylvania Economy League EIP Phase II Report** | | | | | |

## 3. TAX BASE AND REVENUE TRENDS

The City's real estate tax assessment has steadily declined from 2005 to 2012 as reflected in Table 7. The City's overall decrease for the eight year period examined is $3,400,561 or 2%.

The City currently imposes a separate millage rate on land (land value tax-LVT) for general purposes. In prior years dating back to at least 2006 the City imposed a separate millage rate for general purposes on land and buildings (improvements), along with use of special purpose levies for debt service, recreation and shade trees. The City uses a predetermined ratio of 100% of assessed value since the 1980s as provided in the Third Class City Code. Blair County property is assessed at 100% as of 2010 with prior years being at 75% of assessed value using 1959 as a base year to value property.

**Table 7- Trends in Assessed Value**

| Table 7 - City of Altoona -Trends In Assessed Valuation | | | |
|---|---|---|---|
| **Year** | **Assessed Valuation Taxable** | **Annual Change** | **Effective Single Equivalent Millage Rate** |
| 2005 | $193,096,976 | | |
| 2006 | $192,280,422 | -0.40% | 42.31 |
| 2007 | $192,132,337 | -0.07% | 42.31 |
| 2008 | $192,521,048 | 0.20% | 42.31 |
| 2009 | $190,449,101 | -1.10% | 42.31 |
| 2010 | $188,918,350 | -0.80% | 47.84 |
| 2011 | $189,975,350 | 0.50% | 47.84 |
| 2012 | $189,696,415 | -0.15% | 48.29 |
| City uses predetermined ratio of 100%<br>Source: City of Altoona Finance Dept | | | |

Chart 1 illustrates that the City of Altoona has 33% tax-exempt property leaving 67% of real estate subject to the property tax. Efforts have been made to encourage non-profits in the City to contribute their fair share. However, the City has had little success in gaining voluntary compliance from these tax-exempt properties. The City currently has an agreement in place with the Altoona Regional Health System to receive payments in lieu of taxes annually in the amount of $215,000 for the period 2007 through 2016.

State law (Institutions of Purely Public Charity) that deals with the definition of a charitable organization has limited the City's efforts to secure contributions from non-profit charitable organizations.

City records indicate there are 21,412 taxable properties and 1,023 tax-exempt properties. While this figure is approximately 5% of the total number of properties in the City, it accounts for 33% of the total assessed value. Chart 1 below illustrates the comparison of taxable and tax-exempt assessed value.

Chart 1 – Taxable/Tax Exempt Property

Total Tax-Exempt Assessed Value
Total Taxable Assessed Value

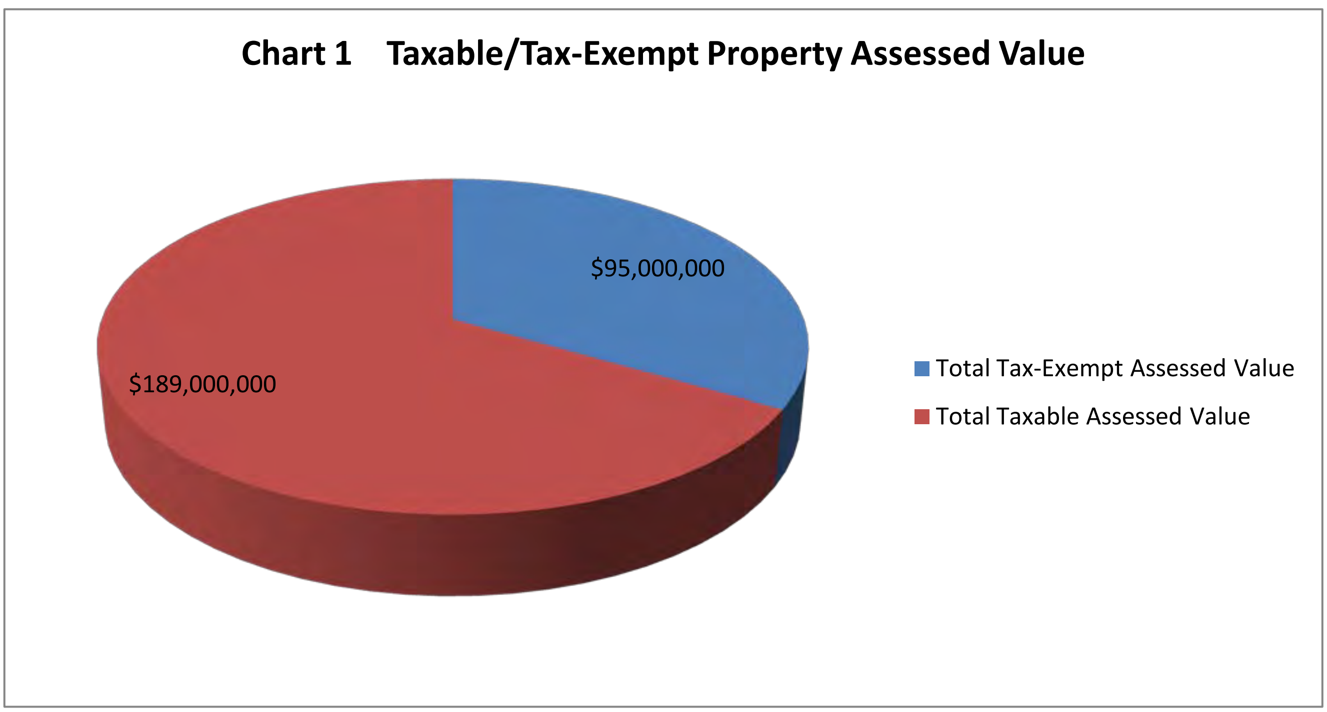


Table 8 below provides a summary of the real estate taxes collected calculated in constant dollars taking into account the annual rate of inflation. For the entire period examined of 2006 through 2012, the City was at its maximum millage rate of 25 mills for general purposes and also utilized its authority to levy 5 additional mills of real state tax with annual court approval. The City also levies a Recreation millage at 6.72 mills and a Shade Tree millage at .1 mills. Even with the City levying additional millage and calculating the revenue generated in constant dollars, the level of real estate revenue collected continued to drop through fiscal years 2006 to 2008; with a slight increase in 2009. In 2010 the City increased its Debt Service millage to 11.2 which is reflected in the increase in real estate revenue for 2010, 2011 and proposed for 2012. While general purpose millage remained at 30 mills when calculating collections in constant dollars; however, actual real estate tax revenue dropped.

### Table 8- Real Estate Tax Revenues

**Table 8 - City of Altoona– Real Estate Tax Revenues**

**Formula:** Real Estate Tax Revenues (Constant Dollars)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 Unaudited | 2012 Budgeted |
|---|---|---|---|---|---|---|---|
| Real Estate Tax Revenues | $7,383,646 | $7,430,211 | $7,349,851 | $7,293,720 | $8 ,174,956 | $8,149,624 | $8,163,207 |
| CPI for Local Area | 195.7 | 201.5 | 211.3 | 212.1 | 215,5 | 225.4 | NA |
| CPI in Decimal | 3.10 | 1.23 | 1.27 | 1.3 | 1.50 | 4.50 | NA |
| Millage Rates | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| **Real Estate Tax Revenues** | **$7,368,554** | **$7,216,339** | **$7,008,968** | **$7,266,210** | **$8,045,978** | **$7,791,677** | **$8,163,207** |
| **(In Constant Dollars)** | | | | | | | |

**Source: Bureau of Labor Statistics Federal Government**
**City of Altoona – Finance Department**
***30 Mills – General Purpose 25 Mills is limit; with annual court approval, up to 5 additional mills may be levied.**

Table 9 displays the actual tax revenue trends for the period of 2006 through 2011 (unaudited) and projected for 2012. From 2006 to 2007 the General Fund total tax revenue increased. Revenues in 2008 dipped below the 2007. In 2008 Local Services Tax collection declined and in 2009 revenues for Local Services Tax continued to stagnate while Earned Income Tax dropped significantly. Total tax revenues increased in 2010 and 2011 due to the imposition of the debt service millage. The 2012 Budgeted revenues anticipate a slight decline from 2010 and 2011.

The real estate tax in constant dollars as mentioned above experienced some minor fluctuations through 2009 and an increase was realized for 2010, 2011, and projected 2012 which included increases for the debt service special purpose tax. The realty transfer tax decreased with a downward trend of approximately 36%. The earned income tax has fluctuated from a low in 2006 to a high in 2008 with variations again in subsequent years through 2011 (unaudited.) The local services tax hit a peak in 2007, then decreased significantly in 2008 and began to fluctuate in subsequent years.

The mercantile/business privilege tax revenue went from a low in 2006 to the highest collections realized in 2011 (unaudited) with an overall increase of approximately 30%. The mechanical devices tax generates revenue annually as a minor source of income for the City. Two new additional sources of revenue for Altoona instituted in 2011 are the per capita and occupation taxes. Trending out collections is premature at this time based on a lack of actual information on revenue received.

**Table 9- Tax Revenue Trends**

| Table 9- City of Altoona - Tax Revenue Trends | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2006** | **2007** | **2008** | **2009** | **2010** | **2011 Unaudited** | **2012 Projected** |
| **RE Tax-Current** | $7,383,646 | $7,430,211 | $7,349,851 | $7,293,720 | $8,174,957 | $8,149,624 | $8,163,207 |
| **Realty Transfer** | $389,016 | $388,477 | $297,168 | $268,501 | $246,910 | $247,705 | $245,000 |
| **Act 511-EIT** | $2,250,844 | $2,927,802 | $3,153,875 | $2,622,820 | $2,826,330 | $2,978,355 | $2,725,000 |
| **OPT/LST** | $1,050,608 | $1,140,894 | $800,397 | $826,410 | $866,136 | $908,578 | $890,000 |
| **Mechanical Devices** | $15,530 | $14,495 | $14,420 | $12,552 | $11,140 | $12,365 | $14,000 |
| **Amusement Tax** | $963 | $294 | $293 | $300 | $323 | $323 | $350 |
| **Business** | $738,379 | $797,397 | $1,001,518 | $960,645 | $950,422 | $1,010,615 | $970,000 |
| **Per Capita** | | | | | | $77,308 | $100,000 |
| **Occupation Tax** | | | | | | $4,415 | $5,000 |
| **Total Tax Revenue** | **$11,828,986** | **$12,699,570** | **$12,617,522** | **$11,984,948** | **$13,076,218** | **$13,389,288** | **$13,112,557** |
| **Source: City** | **Finance Dpt.** | | | | | | |

## 4. <u>DEBT SERVICE OBLIGATIONS OUTLINED</u>

The City of Altoona currently has debt obligations that include General Obligation Bonds and Parking Authority Bonds which are defined below in Table 10. All debt service payments for principal and interest have been made on time during the period examined. In 2011 the City borrowed $1 million dollars in General Obligation Bonds to finance Parks and Recreational facility improvements including a swimming pool, basketball courts and other park facilities. This investment is partially funded through the dedicated tax millage for debt service park improvements. Overall the City is current on all debt payments and follows the amortization schedules to make complete and timely payments.

**Table 10- Total Bonds and Notes Payable for Governmental Fund Type and the City's Related Component Units as of 2010**

| Table 10 - TOTAL BONDS AND NOTES PAYABLE FOR GOVERNMENTAL FUNDS TYPE AND CITY'S RELATED COMPONENT UNITS AS OF 2010 | | | |
|---|---|---|---|
| **Total Bonds Payable for both Governmental Activities & Total Component Units of the Government** | **Governmental Activities** | **Parking Authority** | **Total Bonds and Notes Payable for Gov. Funds & Component Units** |
| GO Bond, Series of 2002 | | $249,130 | $249,130 |
| GO Bond Series A of 2003 | $18,949,808 | | $18,949,808 |
| GO Bond Series **B of 2003** | $2,237,960 | | $2,237,960 |
| GO Bond Series of 2008 | $8,450,945 | | $8,450,945 |
| GO Bond Series of 2009 | $11,306,615 | | $11,306,615 |
| GO Bond Series of 2010 | $10,519,646 | | $10,519,646 |
| **Total Bonds Payable** | **$51,464,974** | **$249,130** | **$51,714,104** |
| **Source: 2010 Annual Audit:** | **Bonds & Notes** | | |

The City currently has $51 million dollars in General Obligation bonds for Governmental Activities. The City also has a General Obligation bond for the Parking Authority which totals $249,130. The combined debt for the City is $51.7 million dollars. In 2011 a bond of $1 million dollars was issued for debt service for park improvements. The scheduled payments for this bond are not listed on the bonds and payable notes table since details relating to the bond will be in the 2011 audited report that has not yet been released. As discussed earlier this new bond issuance will be funded through the debt service tax increase.

**Table 11- Debt Service Expenditures 2006 - 2011**

| **Table 11 - City of Altoona - Debt Service Expenditures – 2006 – 2011** | | | | | | |
|---|---|---|---|---|---|---|
| **Formula:** Debt Service Expenditures/Revenues for the General Fund and the Debt Service Governmental Fund | | | | | | |
| | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
| Debt Service Expenditures | $1,761,161 | $1,382,322 | $1,351,214 | $1,153,209 | $2,092,549 | $2,020,021 |
| GF Operating Revenues | **$20,890,894** | **$21,484,595** | **$20,958,723** | **$20,477,975** | **$21,923,387** | **$22,753,518** |
| **Debt Service Expenditures as a % of Operating Revenues** | **8.43%** | **6.43%** | **6.45%** | **9.25%** | **9.5%** | **8.89%** |
| **Source: City of Altoona Finance Department** | | | | | | |

Table 11 indicates that the City's debt service ratio to total revenues does not exceed 10%. According the Government Finance Officers Association (GFOA) the City is within sound financial management practices for debt service.

## 5. PENSION PAYMENTS AND MMO REQUIREMENTS

The Municipal Pension Plan Funding Standard and Funding Act (Act 205 of 1984, as amended) governs the actuarial funding of all municipal employee pension plans. The City of Altoona has individual pension plans for police, administered by Phoenix Benefits Group, the firefighter's pension plan is administered by Dunbar, Bender and Zapf and the non-uniform employee plan is administered by Mockenhaupt Benefits Group.

The three pension plans – police, firefighters and non-uniform employees – are funded through the City's General Fund appropriations, state aid and employee contributions. The amount of the City's budget appropriation for pension plans is determined annually by the Chief Administrative Officer of the pension plan under Act 205 of 1984, as amended and is known as the Minimum Municipal Obligation (MMO). This obligation includes funds received through state aid for employee contributions and City funds.

All three employee pension plans were under-funded except in years 2005 and 2007 when the non-uniform employee pension fund had assets which exceeded unfunded liabilities. In all other years (2005 through 2011) examined, the three respective pension plans for police, firefighters and non-uniform employees had liabilities that exceeded their assets. Based upon the pension evaluation criteria established in Act 44 of 2009 the City's fire plan is classified as moderately distressed and its police plan as minimally distressed.

Act 205 MMO aggregate payments made in 2010 were $2,734,187 and in 2011 were $4,720,908. The 2012 General Fund budget includes an appropriation to make an MMO payment in the three respective pension plans totaling $4,545,996. See Table 12 for the full summary of the City's pension plans.

**Table 12- Pension Assets and Liability Summary**

| Table 12 City of Altoona Pension Assets and Liability Summary | | | | | |
|---|---|---|---|---|---|
| | **Year** | **Assets** | **AAL/UAAL** | **(Under) AAL** | **Funded Ratio** |
| **Police** | 2005 | $25,130,774 | $29,608,666 | $4,447,982 | **85%** |
| | 2007 | $29,152,895 | $30,914,484 | $1,761,589 | **94%** |
| | 2009 | $26,000,437 | $35,449,887 | $9,449,450 | **73%** |
| | 2011 | $28,686,366 | $37,273,091 | $8,586,725 | **76%** |

| | | | | | |
|---|---|---|---|---|---|
| **Fire** | 2005 | $21,157,493 | $32,364,099 | $11,206,606 | **65%** |
| | 2007 | $25,057,773 | $34,033,274 | $8,975,501 | **71%** |
| | 2009 | $23,166,022 | $36,460,704 | $13,294,682 | **64%** |
| | 2011 | $26,030,615 | $39,321,731 | $13,291,116 | **66%** |
| | | | | | |
| **Non Uniform** | 2005 | $13,303,272 | $13,018,135 | ($285,137) | **102%** |
| | 2007 | $15,248,791 | $13,666,563 | ($1,582,228) | **112%** |
| | 2009 | $14,485,912 | $15,104,375 | $618,463 | **96%** |
| | 2011 | $15,490,361 | $16,341,572 | $851,211 | **95%** |
| **Source: Annual Audit** | | | | | |

## 6. EXPENSES FOR PUBLIC SAFETY

The table below indicates the rise in the cost of police and fire protection from 2006 to 2011. Public safety expenses in general have increased 12% during this time period. This is attributed to dramatic increases in expenditures for Uniform Construction Code enforcement and planning and zoning. These increases have been offset by an increase in total revenues of 6% over the five year period.

Typical of most municipal government operations, personnel and benefit costs are the largest budgeted category making it difficult to adjust operations to meet available income. Without further service reductions, there is little ability to reduce expenses to meet the current revenue stream.

Wages for City employees established through collective bargaining agreements have increased annually. City employee health benefits, specifically health insurance, have increased annually by an average of 10% since 2006. In 2010 health insurance rates jumped to 13%. Eighty-three percent 83% of the City's expenditures are for salaries, wages, and employee benefits including healthcare, workers' compensation, unemployment benefits, and, pensions

Current management of expenses and cost containment is difficult. The City has negotiated collective bargaining agreements that have significant, unsustainable financial impacts including pension and post retirement health care costs that are increasing at a pace far greater than the CPI.

The City has in effect three labor agreements, which cover approximately 90% of the total labor force. The City's most recently contracts resulted in wage increases for the following unions. The International Association of Fire Fighters is in effect through December 31, 2013 and consists of increases of 2%, 2%, and 2.5% over the life of the contract. The Fraternal Order of Police Agreement is in effect through December 31, 2013. The American Federation of State, County, and Municipal Employees is in effect through December 31, 2013. The FOP and AFSCME agreements consist of increases of 2.5%, 2.5% and 3.0%.

The continuation of these trends will likely necessitate further reductions to the City's workforce and reductions to service levels.

**Table 13- Public Safety Expenses**

| Table 13- City of Altoona - Public Safety Expenses | | | | | | |
|---|---|---|---|---|---|---|
| **Formula:** Public Safety Expenses/Total Net Operating Revenues | | | | | | |
| | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** |
| Public Safety | $8,783,496 | $9,143,561 | $9,584,310 | $9,672,295 | $10,398,671 | $9,946,018 |
| Total Net Operating Revenues | $20,890,894 | $21,484,595 | $20,958,723 | $20,477,975 | $21,923,387 | $22,753,518 |
| **Public Safety as a % of Total Net Operating Revenues** | **42.04%** | **42.56%** | **45.73%** | **47.23%** | **47.43%** | **43.71%** |
| **Source: City Finance Dept.** | | | | | | |

## 7. <u>SOCIO-ECONOMIC AND DEMOGRAPHIC TRENDS:</u>

In addition to the above fiscal trends, our analysis found that socio-economic and demographic trends have further contributed to the financial difficulties of the City of Altoona.

## Population

Compared to other cities of similar population with the exception of York, Altoona has experienced a gradual decline in population over the last 20 years. This is greater than the population loss within the county and is in contrast to the state as a whole where the population increased 7%. The loss of population coupled with a high percent of families below the poverty level and population above age 65 has a negative impact on the City's tax base and creates added stress on the City's ability to meet increasing demands for service.

**Table 14- Comparative Population in Similar Sized Cities**
**Source: 2010 American Community Survey and PA State Data Center**

| Table 14<br>Comparative Population in Similar Sized Cities | | | | | |
|---|---|---|---|---|---|
| | **1990 Total Population** | **2000 Total Population** | **2010 Total Population** | **Change** | **% Population 65 years and over** |
| **Altoona** | 51,881 | 49,523 | 46,320 | -11% | 15.6% |
| **Harrisburg** | 52,376 | 48,950 | 49,528 | -6% | 9.1% |
| **Williamsport** | 31,933 | 30,706 | 29,381 | -8% | 11.4% |
| **Chester** | 41,856 | 36,854 | 33,972 | -19% | 10.4% |
| **Wilkes-Barre** | 47,523 | 43,123 | 41,498 | -13% | 16.2% |
| **York** | 42,192 | 40,862 | 43,718 | +4% | 8.9% |
| **New Castle** | 28,334 | 26,309 | 23,273 | -8% | 18.3% |
| **Johnstown** | 28,134 | 23,906 | 20,978 | -26% | 23.1% |
| **Blair County** | 130,542 | 129,144 | 127,089 | -3% | 17.7% |
| **Commonwealth** | 11,881,643 | 12,281,054 | 12,702,379 | +7% | 15.4% |

Chart 2 Altoona's Population Decline

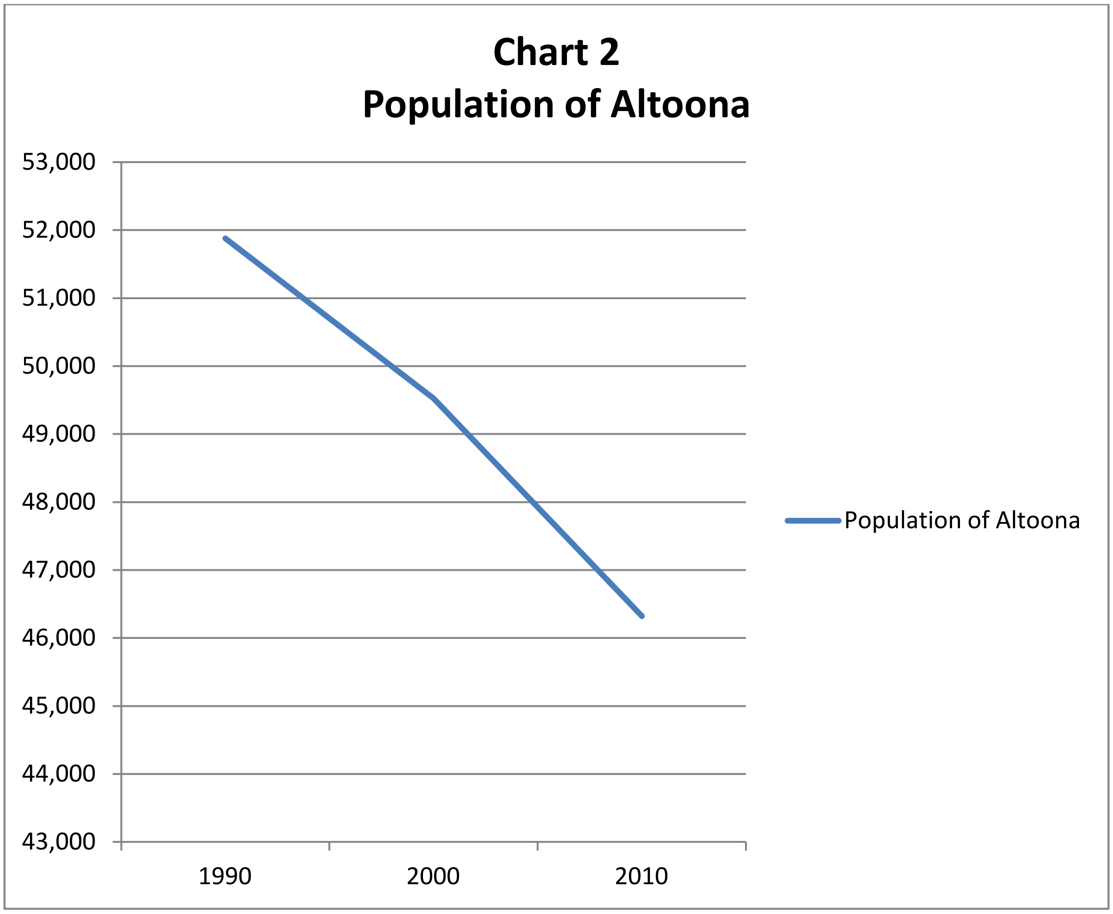



Table 15 below sets forth income poverty and housing values for the City, County, and other cities of similar size and characteristics. The City's demographics clearly demonstrate it has poverty rate of 17.8% of families that are at or below the poverty level according to 2010 census. It is a population that cannot withstand additional tax levies especially on earned income or real estate. The average housing value in Altoona is about half of the average housing value in the Commonwealth and $17,600 less than the average in Blair County. The City's Per Capita Income is only 71% of the state's average.

**Table 15 Comparative Income & Housing in Similar Sized Cities**

| Table 15<br>Comparative Income & Housing<br>in Similar Sized Cities | | | | | |
|---|---|---|---|---|---|
| | **2010 Median Household Income** | **2010 Per Capita Income** | **2010 % Persons Below Poverty** | **2010 Median Home Value** | **2010 % Home Ownership** |
| **Altoona** | $35,629 | $19,245 | 17.8% | $79,800 | 66.8% |
| **Harrisburg** | $31,525 | $18,009 | 30.2% | $79,200 | 40% |
| **Williamsport** | $27,138 | $17,446 | 28.2% | $86,700 | 44.5% |
| **Chester** | $26,787 | $14,251 | 35.1% | $66,900 | 41.4% |
| **Wilkes-Barre** | $29,518 | $16,712 | 25.4% | $77,700 | 51.6% |
| **York** | $28,583 | $14,287 | 36.6% | $80,100 | 42.9% |
| **New Castle** | $30,690 | $16,756 | 21.2% | $56,600 | 67.2% |
| **Johnstown** | $24,819 | $16,383 | 30.7% | $44,800 | 47.7% |
| **Blair County** | $42,363 | $22,880 | 12.9% | $97,400 | 73% |
| **Commonwealth** | $50,398 | $27,049 | 12.4% | $159,300 | 71% |

**Source: 2010 US Census Bureau**

# Chart 3   Median and Per Capita Income Comparisons

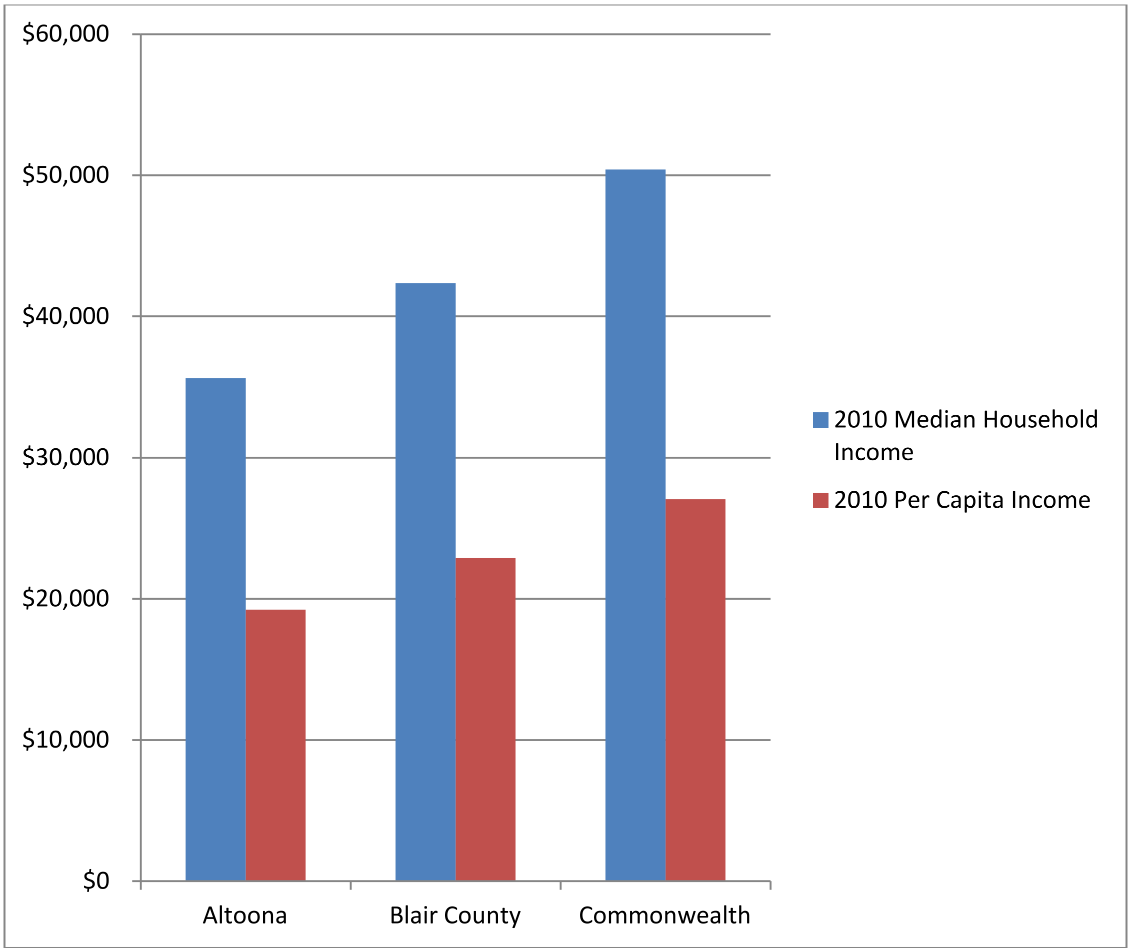



Table 16 below reflects the status of the City's housing stock. Altoona's vacancy rate is about the same rate for Blair County and the state. Much of Altoona's housing stock is pre-1940 construction. Incidents of fire code violations and crime are typically higher where there is older housing stock thus adding further pressure on City services.

Table 16 Comparative Occupied/ Vacant Housing in Similar Sized Cities

| **Table 16<br>Comparative Occupied/ Vacant Housing<br>in Similar Sized Cities** | | | |
|---|---|---|---|
| | **% Occupied Housing** | **% Vacant Housing** | **% Structures built before 1940** |
| **Altoona** | 91.1% | 8.9% | 51.3% |
| **Harrisburg** | 84.9% | 15.1% | 56.8% |
| **Williamsport** | 88.0% | 12.0% | 61.2% |
| **Chester** | 79.3% | 20.7% | 31.0% |
| **Wilkes-Barre** | 85.4% | 14.6% | 62.4% |
| **York** | 86.3% | 15.7% | 52.3% |
| **New Castle** | 84.3% | 9.9% | 24.4% |
| **Johnstown** | 81.7% | 18.3% | 51.3% |
| **Blair County** | 91.8% | 8.2% | 35.9% |
| **Commonwealth** | 89.2% | 10.8% | 28.3% |
| **Source: 2010 American Community Survey 3- Year Estimates** | | | |

Census statistics also show a greater percentage of households paying over 30% of their income towards rent. According to the United State Department of Housing and Urban Development the acceptable threshold for a household to spend on rent is 30% or less of its income. Although rental housing costs seem relatively low in the City of Altoona, they are still considered high in comparison to household income.

Table 17 below provides data related to median rents and percentages of the population paying over 30% of household income towards rent.

Table 17- Comparative Rental Information in Similar Sized Cities

| Table 17 - Comparative Rental Information in Similar Sized Cities | | |
|---|---|---|
| | **Population paying gross rent of 30% or more of house hold income** | **Median rent** |
| **Altoona** | 51.1% | $509 |
| **Harrisburg** | 55.2% | $700 |
| **Williamsport** | 57.8% | $562 |
| **Chester** | 58.4% | $741 |
| **Wilkes-Barre** | 53.8% | $581 |
| **York** | 55.3% | $621 |
| **Johnstown** | 42.7% | $433 |
| **New Castle** | 49.1% | $506 |
| **Blair County** | 43.6% | $557 |
| **Commonwealth** | 48.3% | $739 |
| **Source: 2010 US Census** | | |

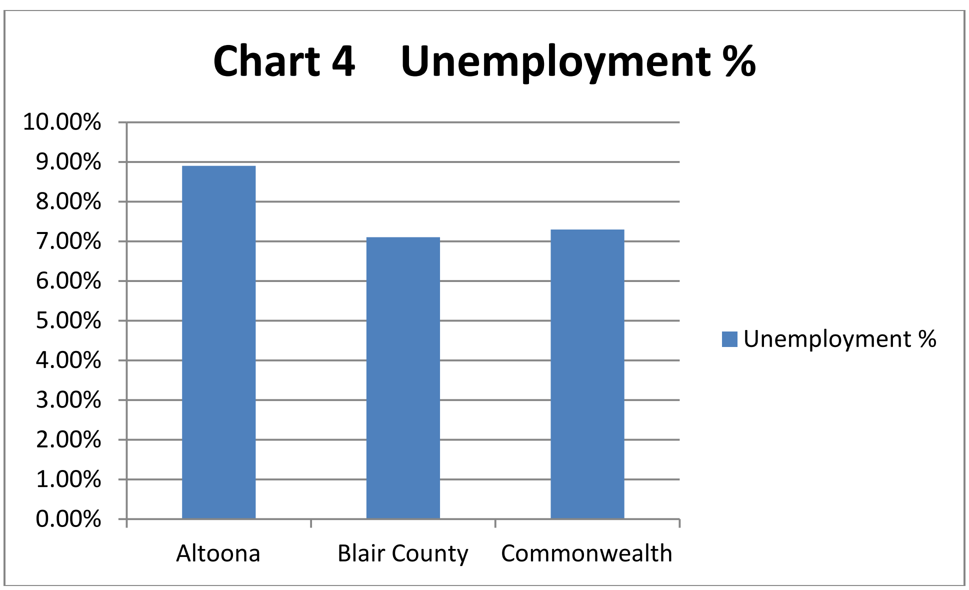
Table 18 below provides data related to residents 25 years and over without a high school diploma and percentage of residents unemployed.

This census information shows a significantly higher percentage of adults without a high school diploma for and the state. The unemployment rate is slightly higher for Altoona compared to Blair County and the state. It can be argued that higher educational levels relate to greater employment levels and thus a more sustainable economic base.

Table 18- Comparative Education & Unemployment in Similar Sized Cities

| Table 18 - Comparative Education & Unemployment in Similar Sized Cities | | |
|---|---|---|
| | **Residents 25 & older with a HS diploma** | **% Unemployed** |
| **Altoona** | 88.5% | 8.9% |
| **Harrisburg** | 78.5% | 11.2% |
| **Williamsport** | 82.0% | 12.3% |
| **Chester** | 76.9% | 14.7% |
| **Wilkes-Barre** | 83.5% | 8.3% |
| **York** | 73.7% | 15.6% |
| **New Castle** | 80.5% | 10.8% |
| **Johnstown** | 83.3% | 11.6% |
| **Blair County** | 89.7% | 7.1% |
| **Commonwealth** | 87.4% | 7.3% |

**Source: 2010 US Census Bureau**



It is obvious from the demographic data presented that there is a low and diminishing ability for the residents to produce the necessary resources to support services at current levels.

In fact, the low median and per capita income contribute to the ever declining tax base and the inability of the City to raise additional revenue to support services. All of the demographics and socio-economic indicators demonstrate continuing downward trends that create barriers for the City in terms of raising enough income to provide services to ensure the health, safety, and welfare of City residents. The economic recession will continue to put fiscal pressures on individual residents and the City as a whole.

It is obvious from the demographic data presented that there is a low and diminishing ability for the residents to produce the necessary resources to support services at current levels.

**8.** <u>ADMINISTRATIVE AND FINANCIAL MANAGEMENT PRACTICES</u>

A review of city audits for years 2006, 2007, 2008, 2009, and 2010 allowed the Department to gain significant insight into the City's fiscal health. The City's unaudited financial reports were used to complete the review of 2011data and projections from the Financial Management Department were used to project the 2012 budget.

The Auditor's did note that an internal control weakness was present in that a complete segregation of duties, so that no one individual performs all functions related to a transaction, does not exist in all circumstances. The purchasing function is performed by and purchase orders are prepared by personnel who also perform payables and disbursement functions. The City has a relatively small number of employees in their Finance Office. This is not considered a material weakness but one that should be recognized and properly addressed in the future.

The City has not completed the 2011 Audit as of the writing of this report. The Annual Audit and Financial Report was properly filed timely with the Department. The CPA audit will determine the validity of the financial statements for fiscal year 2011.

The Finance Department has done an outstanding job at providing the various exhibits in a timely and convenient manner for the Department and they have been more than cooperative in assisting the Department with questions and inquiries relating to the financial records.

## RECOMMENDATION

Based on our analysis of the City's fiscal condition, structural deficits whereby expenditures exceed revenue, workforce trends, cash flow, tax base and revenue trends, debt service obligations, current and projected 2012 financial position, pension obligations, use of inter-fund transfers, socio-economic and demographic trends, it is our recommendation that the City of Altoona be declared distressed under Act 47 at this time.

Clearly the City is and has been experiencing ongoing financial challenges over the past several years. The City's fiscal position has further deteriorated in 2011. These conditions make it difficult for the City to continue to fulfill its responsibilities to provide for the health, safety and welfare of its citizens. Our recommendation is based upon a continuing pattern of:

- Expenditures consistently exceeding revenues for all governmental funds and the general fund;
- Projected year-end cash flow issues;
- Decline of tax revenue in constant dollars taking inflation into account;
- Unfunded pension liabilities;
- Increasing annual costs particularly in personnel and employee benefits; and,
- Socio Economic circumstances put the City at risk for future economic and financial growth.

Given the City's current fiscal position there are serious questions and uncertainty as to its ability to maintain municipal services without an adverse impact on the health, safety and welfare of the community. The current pattern of structural deficits is unsustainable. In our opinion, the City is exhibiting symptoms of distress that support a distress determination under Act 47.