

City of Coatesville

Early Intervention Program

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Contents

- Purpose
- Methodology
- Summary findings
- Baseline operating projections
- Gap closing recommendations
- Revised projections
 - Two scenarios
- Conclusion

Purpose

- Assess current financial condition
- Recognize trends and developments influencing future revenue and expense patterns
- Establish a baseline five-year financial forecast assuming no action is taken
- Identify initiatives to improve financial position
- Develop revised financial forecasts incorporating recommendations

Methodology

- Reviewed financial records and other documentation relevant to the City's financial position:
 - Financial operating results, 1998-2007
 - Redevelopment Authority audits, 2003-2006
 - Records of tax rate and other policy changes
 - Records of the City Reserve Trust Fund
 - Other relevant documentation
- Met with City Manager, Finance Department personnel and other City employees familiar with the Redevelopment Authority, City operations, and economic development initiatives
- Reviewed accepted best practices and compared to processes in Coatesville
- Contacted other outside resources where appropriate

Summary Findings

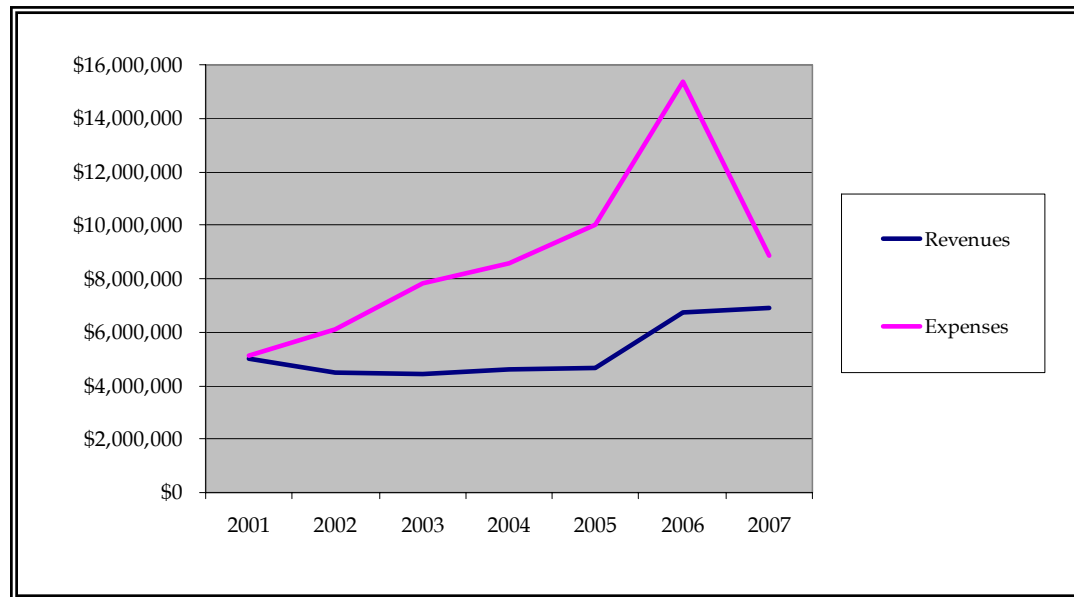
- Recurring deficits; growing budgetary structural imbalance
- Cost of government increasing sharply
 - Large increases in General Fund expenditures from 1998-2005
 - Public safety concerns
- Tax base struggling to keep pace with demand for services
- Economic development activities placed huge strain on finances, but did not produce anticipated benefits
- City responded to deficits by closing gaps with non-recurring revenues, raising taxes, and reducing spending
- Assets sold and proceeds used to fund operations
 - “One-shot” revenue stream thinning
 - Reliance on non-recurring items in prior years allowed structural deficit problems to compound

Summary Findings

- Baseline projections show growing structural imbalance and staggering future deficits
 - Expense growth exceeds revenue growth
- Deficits must be addressed through a combination of revenue enhancements and cost controls
 - Inability to raise taxes without hurting future investment in the City
- Alternatives available that will improve financial position, but no easy fixes
- Ultimately, the City will not achieve structural balance in the budget unless there is significant growth in the tax base
 - Future balanced budgets will depend on revenues generated from economic development projects
- The City must monitor the progress of its economic development activities closely and set benchmarks
- If benchmarks are not reached, the City must prepare for more severe action, which could include staff reductions and tax increases

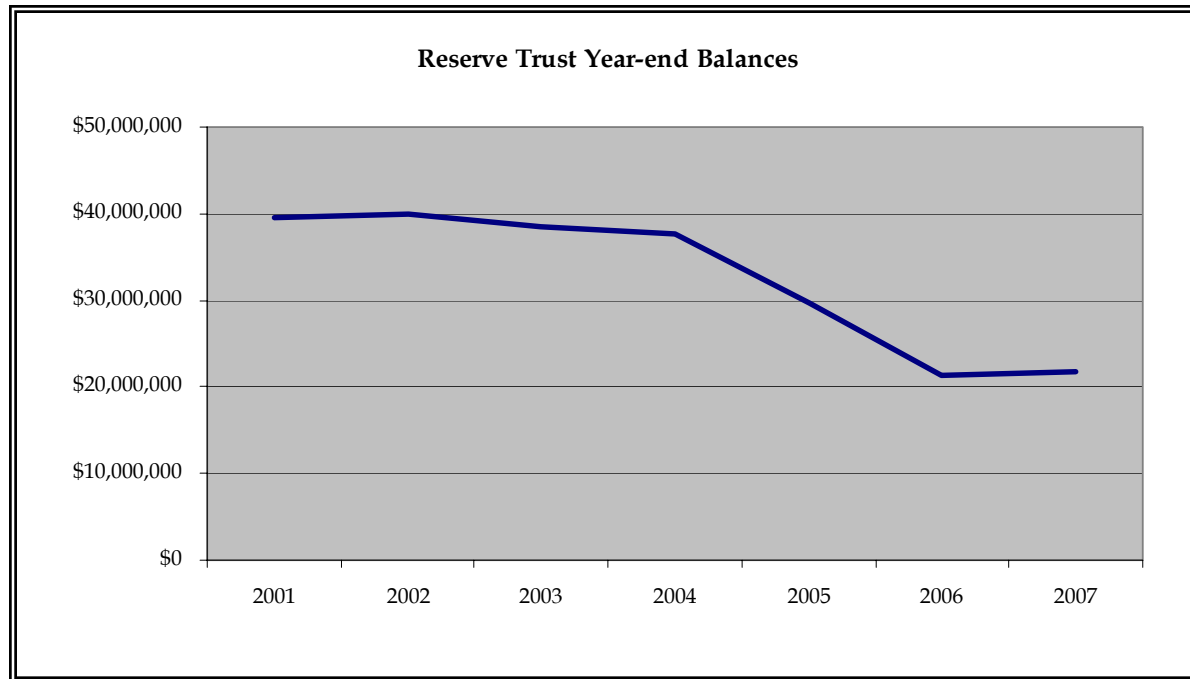
Combined General Fund and Debt Service Fund Results, 2001-2007

(Dollars)	2001	2002	2003	2004	2005	2006	2007
Total Revenues	5,014,948	4,486,332	4,405,677	4,579,811	4,659,390	6,732,626	6,924,063
Total Expenditures	5,137,039	6,090,701	7,818,323	8,591,492	10,006,112	15,371,579	8,884,568
Operating Surplus (Deficit)	(122,091)	(1,604,369)	(3,412,646)	(4,011,681)	(5,346,722)	(8,638,953)	(1,960,505)
Net Other Financing Sources/Transfers	49,508	1,669,397	2,453,851	2,370,300	6,194,545	9,426,241	1,791,183
Net Change in Fund Balance	(72,583)	65,028	(958,795)	(1,641,381)	847,823	787,288	(169,322)
Beginning Fund Balance	898,704	826,121	1,025,868	67,073	(1,574,308)	(725,805)	61,483
Ending Fund Balance	826,121	891,149	67,073	(1,574,308)	(726,485)	61,483	(107,839)



- “One shots” to close budget gap
- Stagnant revenues, increasing expenditures
- Severe deficits in 2004, 2005
- Spending grew at uncontrollable rates
 - 10% in 2004, 16% in 2005
- Significant transfers from Reserve Trust in 2005 and 2006 to fund deficits and refund debt

City Reserve Trust Fund



- Beginning balance close to \$40 million
- Significant principal withdrawals in 2005 and 2006
- Year-end 2007 balance approximately \$21.7 million
- Reduces capacity to generate interest income for operations
- No repayment plan

Redevelopment Authority

- Established in 1999; responsible for all redevelopment functions within the City of Coatesville
- Key long-term assets:
 - Property held for resale = \$4.6 million (book value)
- Key long-term liabilities:
 - Line of credit = \$7.0 million
- City ultimately responsible for RDA obligations
- City currently considering proposals for Flats

Baseline Operating Projection, 2008-2013

Key revenue growth rate assumptions

	2009	2010	2011	2012	2013
Real Estate Taxes	0.5% annual assessment value incr, 88% collection rate				
Earned Income Tax	CPI	CPI	CPI	CPI	CPI
Local Services Tax	0.0%	0.0%	1.0%	1.5%	2.0%
Business Privilege Tax	0.0%	0.0%	1.0%	1.5%	2.0%
Real Estate Transfer Tax	0.0%	0.0%	1.0%	1.5%	2.0%
Licenses and Permits	3.0%	3.0%	3.0%	3.0%	3.0%
Fines	0.0%	0.0%	0.0%	0.0%	0.0%
Charges for Fees/Services	0.0%	0.0%	0.0%	0.0%	0.0%
Intergovernmental Revenue	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Earnings	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenue	0.0%	0.0%	0.0%	0.0%	0.0%

- Current real estate tax revenue based on 88% collections
- Earned Income tax revenue to continue steady growth in line with inflation
- Most other revenues flat or moderate growth in later years of projections

CPI = 2.6%

Source: (Federal Reserve Bank, Survey of Professional Forecasters, 2008-2012)

Baseline Operating Projection, 2008-2013

Key expenditure growth rate assumptions

	2009	2010	2011	2012	2013
Salaries and Wages					
Police	4.0%	4.0%	4.0%	4.0%	4.0%
Fire	Consistent with CBA			4.0%	4.0%
AFSCME	\$0.75/hr	\$0.75/hr	\$0.75/hr	\$0.75/hr	\$0.75/hr
Other	4.0%	4.0%	4.0%	4.0%	4.0%
Employee Benefits					
Health Insurance	10.0%	10.0%	10.0%	10.0%	10.0%
Materials and Supplies					
Fuel	7.5%	7.5%	7.5%	7.5%	7.5%
Other Mat & Sup	CPI	CPI	CPI	CPI	CPI
Equipment and Maintenance	CPI	CPI	CPI	CPI	CPI
Utilities	5.0%	5.0%	5.0%	5.0%	5.0%
Debt Service	Fixed	Fixed	Fixed	Fixed	Fixed

- Unchanged level of employment
- Salary growth rates based on labor contracts
- Out years not governed by labor contracts are based on recent annual salary increases
- Health insurance increase based on recent growth trend
- Materials and supplies and utilities growth based on growth trend
- No new borrowing

Other key assumptions

- Short-term \$2.0 million borrowing to meet 2008 cash needs
 - Repayment in 2009
- The RDA's line of credit will be repaid through land sales
- The City will transfer \$200,000 per year for capital projects

Baseline Operating Projection, 2008-2013

	2008	2009	2010	2011	2012	2013
Total Revenues	6,620,218	6,764,252	6,849,537	6,941,828	7,038,753	7,140,465
Total Expenditures	8,883,305	9,269,067	9,676,842	10,115,730	10,562,031	11,033,610
Operating Surplus (Deficit)	(2,263,087)	(2,504,815)	(2,827,305)	(3,173,902)	(3,523,279)	(3,893,144)
Transfers In						
Reserve Trust Interest Earnings	1,020,000	1,020,000	1,020,000	1,020,000	1,020,000	1,020,000
Short-term Borrowing	2,000,000					
Transfers Out						
Repayment of ST Borrowing		(2,070,000)				
Capital Transfer	(526,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Net Other Financing Sources	2,494,000	(1,250,000)	820,000	820,000	820,000	820,000
Net Change in Fund Balance	230,913	(3,754,815)	(2,007,305)	(2,353,902)	(2,703,279)	(3,073,144)
Beginning Fund Balance	(107,839)	123,074	(3,631,741)	(5,639,046)	(7,992,949)	(10,696,227)
Ending Fund Balance	123,074	(3,631,741)	(5,639,046)	(7,992,949)	(10,696,227)	(13,769,371)

- Avg annual revenue growth – 1.5%
- Avg annual expense growth – 4.4%
- Positive 2008 fund balance attributable to short-term borrowing
- Widening structural imbalance
- \$13.8 million negative fund balance by 2013

Summary of Select Recommendations

Recommendation	Net Budgetary Impact				
	2009	2010	2011	2012	2013
Improve Real Estate Tax Collection Rate	45,694	97,468	123,807	150,408	151,060
Regularly Adjust Fees to Recover Cost of Services	10,357	18,298	26,445	34,804	43,380
Establish Savings Targets for Collective Bargaining		50,000	150,000	250,000	350,000
Reduce Patrol Force from 28 to 25 Patrol Officers	219,749	229,036	238,718	248,814	259,341
Reduce Non-Uniformed Staff by 2 FTEs	89,190	92,052	95,016	98,085	101,264
Establish a More Structured Capital Improvement Process					
Implement a Performance Measurement System					
Improve Financial Reporting					
Special focus on cash flow forecasting and monitoring					
Reengineer the Purchasing Process					
Improve Volunteer Firefighter Recruitment and Retention					
Other Recommendations	122,765	130,809	152,313	154,403	156,558
TOTAL BUDGETARY IMPACT	487,755	617,663	786,299	936,514	1,061,604

- Complete list of recommendations in the five-year financial planning document
- Implementation of recommendations is vital, however, even fully anticipated budgetary impact is achieved, significant deficits remain
- Tax base must grow strengthen if budgetary balance is to be achieved

Recommendations

Economic Development Initiatives

- Budgetary impact estimates based on the City's projections
 - Real estate transfer taxes
 - Real estate taxes
 - Permit fees
 - Earned income taxes from new residents, construction, and workforce
- Risk in these projects are accounted for through discounting
- Group 1 - projects that are confirmed or completed
 - Brandywine Center
 - Brandywine Ridge
 - McCool Properties
 - Famous Restaurant
- Group 2 - unconfirmed projects
 - Examples:
 - Flats development – supermarket, townhomes, etc
 - Artist Colony Tower
 - Convenience Store
 - Brandywine View
 - Tower Projects

Gap Closing Measures

- Group 1 Initiatives – City’s Budgetary Impact Projections

	2009	2010	2011	2012	2013
Real Estate Transfer Taxes	94,110	73,710	0	0	0
Real Estate Taxes	144,217	241,563	241,563	241,563	241,563
Permit Fees	98,280	98,280	0	0	0
EIT - Workforce	11,800	13,900	13,900	14,100	14,100
EIT - Residents	9,600	62,100	62,100	71,700	71,700
EIT - Construction	49,140	0	0	0	0
TOTAL	407,147	489,553	317,563	327,363	327,363

- Not discounted for risk
- Brandywine Ridge project accounts for slightly more than half of revenue impact
- Brandywine Center project accounts for roughly 40 percent of revenue impact

Gap Closing Measures

- Group 2 Initiatives – City’s Budgetary Impact Projections

	2009	2010	2011	2012	2013
Real Estate Transfer Taxes	846,623	1,276,509	791,314	341,133	345,740
Real Estate Taxes	39,620	1,118,106	1,401,975	1,924,506	2,378,071
Permit Fees	1,128,830	1,702,012	925,086	454,844	460,986
EIT - Workforce	300	214,850	247,700	260,800	261,150
EIT - Residents	60,000	193,300	302,050	444,550	654,550
EIT - Construction	564,415	143,296	263,771	113,711	115,247
TOTAL	2,639,788	4,648,073	3,931,896	3,539,544	4,215,743

- Not discounted for risk
- Tax revenue impact of Flats related development estimated at \$3.0 million over the five-year period
- Towers development to generate \$2.9 million in tax revenue through 2013

Gap Closing Measures

- Scenario 1

- All gap closing initiatives in the plan
- Gradually increasing levels of budgetary impact from Group 1 initiatives
- Zero budgetary impact from Group 2 initiatives

	2009	2010	2011	2012	2013
Group 1	75%	80%	85%	90%	95%
Group 2	0%	0%	0%	0%	0%

- Scenario 2

- All gap closing initiatives in the plan
- Gradually increasing level of budgetary impact from Group 1 initiatives
- Gradually increasing level of budgetary impact from Group 2 initiatives

	2009	2010	2011	2012	2013
Group 1	75%	80%	85%	90%	95%
Group 2	35%	40%	45%	50%	55%

Gap Closing Measures

- Capital Transfers
 - Both scenarios assume \$526,000 in spending for capital in 2008
 - Funding split from operations and the fund balance remaining in the Rainy Day Capital Reserve
 - Both scenarios assume \$200,000 in annual capital transfers from 2009-2013 and through 2017
 - Debt obligations mature in 2017
 - Funding from a principal transfer of \$1.7 million from the Reserve Trust to the Rainy Day Capital Reserve
 - Reserve Trust principal is not to be used for new recurring spending on operations
 - Establishes the \$20 million firm floor balance in the Reserve Trust

Revised Financial Forecast – Scenario I

	2008	2009	2010	2011	2012	2013
Revenues	6,620,218	6,764,252	6,849,537	6,941,828	7,038,753	7,140,465
Adjustments						
Economic Development Revenue						
Group 1		305,360	391,643	269,929	294,627	310,995
Group 2		0	0	0	0	0
Other Revenue Enhancements		122,666	185,624	220,364	255,585	265,084
Total Adjusted Revenues	6,620,218	7,192,278	7,426,804	7,432,121	7,588,965	7,716,544
Year to year change		8.6%	3.3%	0.1%	2.1%	1.7%
Expenses	8,883,305	9,269,067	9,676,842	10,115,730	10,562,031	11,033,610
Adjustments						
Cost Reducing Initiatives		(364,989)	(432,038)	(565,935)	(680,929)	(796,520)
Total Adjusted Expenses	8,883,305	8,904,078	9,244,804	9,549,795	9,881,103	10,237,090
Year to year change		0.2%	3.8%	3.3%	3.5%	3.6%
OPERATING RESULTS	(2,263,087)	(1,711,800)	(1,818,000)	(2,117,674)	(2,292,138)	(2,520,546)
Transfers In						
Rainy Day Fd Balance	420,183					
Rainy Day Fd Prin Transfer from Reserve Fd		1,700,000				
Reserve Fund Interest Earnings	1,020,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Short-term Borrowing	2,000,000					
Transfers Out						
Repayment of S-T Borrowing		(2,070,000)				
Capital Transfers from Rainy Day	(420,183)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Capital Transfers from Operations	(105,817)					
Total Transfers	2,914,183	430,000	800,000	800,000	800,000	800,000
Change in Fund Balance	651,096	(1,281,800)	(1,018,000)	(1,317,674)	(1,492,138)	(1,720,546)
Beginning Fund Balance	(107,839)	543,257	(738,543)	(1,756,543)	(3,074,217)	(4,566,355)
End Year Fund Balance	543,257	(738,543)	(1,756,543)	(3,074,217)	(4,566,355)	(6,286,901)

- Improvement over baseline forecast, but operating deficits remain, even after interest transfers from Reserve Trust
- Negative fund end-year balance positions through 2013
- Without growth in the economic base, deficits will persist, more drastic corrective action required

For illustrative purposes, this financial schedule shows the Rainy Day Fund activity as part of fund balance. This is not typically how operating activity is shown in audited statements.

Revised Financial Forecast – Scenario 2

	2008	2009	2010	2011	2012	2013
Revenues	6,620,218	6,764,252	6,849,537	6,941,828	7,038,753	7,140,465
Adjustments						
Economic Development Revenue						
Group 1		305,360	391,643	269,929	294,627	310,995
Group 2		791,936	1,626,826	1,730,034	1,592,795	2,107,872
Other Revenue Enhancements		122,666	185,624	220,364	255,585	265,084
Total Adjusted Revenues	6,620,218	7,984,214	9,053,629	9,162,155	9,181,760	9,824,416
Year to year change		20.6%	13.4%	1.2%	0.2%	7.0%
Expenses	8,883,305	9,269,067	9,676,842	10,115,730	10,562,031	11,033,610
Adjustments						
Cost Reducing Initiatives		(364,989)	(432,038)	(565,935)	(680,929)	(796,520)
Total Adjusted Expenses	8,883,305	8,904,078	9,244,804	9,549,795	9,881,103	10,237,090
Year to year change		0.2%	3.8%	3.3%	3.5%	3.6%
OPERATING RESULTS	(2,263,087)	(919,864)	(191,175)	(387,640)	(699,343)	(412,674)
Transfers In						
Rainy Day Fd Balance	420,183					
Rainy Day Fd Prin Transfer from Reserve Fd		1,700,000				
Reserve Fund Interest Earnings	1,020,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Short-term Borrowing	2,000,000					
Transfers Out						
Repayment of S-T Borrowing		(2,070,000)				
Capital Transfers from Rainy Day	(420,183)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Capital Transfers from Operations	(105,817)					
Total Transfers	2,914,183	430,000	800,000	800,000	800,000	800,000
Change in Fund Balance	651,096	(489,864)	608,825	412,360	100,657	387,326
Beginning Fund Balance	(107,839)	543,257	53,394	662,219	1,074,579	1,175,236
End Year Fund Balance	543,257	53,394	662,219	1,074,579	1,175,236	1,562,562

- Structural budgetary balance after interest transfers from the Reserve Trust
- Positive fund balance positions
- Improvement based on the realization of several key economic development projects
- Also dependent on the realization of expected operating income from those projects

For illustrative purposes, this financial schedule shows the Rainy Day Fund activity as part of fund balance. This is not typically how operating activity is shown in audited statements.

Financial Milestones

- Since its immediate financial position is uncertain, the City must track its revenues and expenditures closely, especially as it pertains to economic development efforts
- Set milestones for financial impact, timing, and completion of recommendations and economic development projects
- If milestones are not met, more drastic action may be required
- To support the benchmark tracking, financial reporting must be improved
 - Cash flow forecasting
- Milestones based on City projection data

2009 Milestones

	Budgetary Impact	Projects Scheduled for Completion
Recommendations		
Revenue Enhancement	122,666	
Cost Reduction	364,989	
Group 1 Development	305,360	Brandywine Ridge
Group 2 Development	791,936	Hotel and Tower Project
		Flats Development - Townhomes
		Flats Development - Commercial
		Flats Development - Restaurants
		Artist Colony Tower
		Tower Project - Phase 1
		Cambria Terrace
		Industrial Park
		Convenience Store
TOTAL	1,584,951	

Financial Milestones

2010 Milestones

	Budgetary Impact	Projects Scheduled for Completion
Recommendations		
Revenue Enhancement	185,624	
Cost Reduction	432,038	
Group 1 Development	391,643	
Group 2 Development	1,626,826	Restaurant near PA Rt 82 and PA Rt 340
		Brandywine View Phase 2
		Supermarket
TOTAL	2,636,131	

2011 Milestones

	Budgetary Impact	Projects Scheduled for Completion
Recommendations		
Revenue Enhancement	220,364	
Cost Reduction	565,935	
Group 1 Development	269,929	
Group 2 Development	1,730,034	Brandywine View Phase 3
		Tower Project - Phase 2
TOTAL	2,786,262	

Conclusions

- No silver bullet for the City's financial challenges
- Fiscal stability can be achieved with significant expansion in the economic base and realization of development projects
- The most optimistic financial projections include many ifs and little margin for error
- Progress of economic development projects must be monitored closely
- The City must set financial benchmarks and milestones
- Administration must work closely with labor to control personnel spending
- The City must be prepared to react in case milestones are not reached
- Cash flow reporting and forecasting must be improved
- Consequences of not reaching revenue and expense benchmarks:
 - Tax lien sale
 - Staff reductions
 - Act 47



Conclusion

- Reactions?
- Comments?