



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

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IN RE:	:	REQUEST FOR TERMINATION OF
	:	STATUS UNDER SECTION 255.1 OF
CITY OF ALTOONA	:	THE MUNICIPALITIES FINANCIAL
BLAIR COUNTY	:	RECOVERY ACT
	:	

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REQUESTING PARTY:

The City of Altoona, City Council, in conjunction with the Recovery Plan Coordinator, Ryan Hottenstein, Stevens & Lee/Financial Solutions.

**DEPARTMENTAL DETERMINATION/ORDER**

1. On May 3, 2012, the City of Altoona (the "City") was designated a financially distressed municipality pursuant to the Municipalities Financial Recovery Act ("Act 47"), codified at 53 P.S. 11701.101 et seq.
2. On June 23, 2017, the City of Altoona, Act 47 Coordinator recommended in the Coordinator Report the termination of distressed status under Act 47, Section 255.1.
3. A public hearing was held on August 9, 2017 in accordance with Section 255.1 (a).
4. In considering whether distressed status shall be terminated, Section 255.1 requires a consideration of whether:
  - a) Operational deficits of the municipality have been eliminated and the financial condition of the municipality as evidenced by audited financial statements

prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in this act.

- b) Obligations issued to finance the municipality's debt have been retired, reduced or reissued in a manner that has adequately refinanced outstanding principal and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.
- c) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of default.
- d) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after termination of distressed status.

53 P. S. 11701.255.1 (c)

- 5. First, operating deficits of the City of Altoona have been eliminated and the financial condition of the City, as evidenced by the audited financial statement through 2016 prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in Act 47.

6. Second, obligations issued to finance the City's debt have been retired, reduced and reissued in a manner that has adequately refinanced outstanding principal and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in Act 47.
7. Third, the City did not and does not now have any claims or judgments that would place the City in imminent jeopardy of financial default.
8. Fourth, reasonable projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues include anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

AND NOW, this the 13 day of September, 2017, upon review of the record of the hearing held on August 9, 2017, the recommendations of departmental staff and the Recovery Plan Coordinator along with other considerations, the above-captioned request is granted.

IT IS ORDERED that the status of the City of Altoona, Blair County as a distressed municipality under the Municipalities Financial Recovery Act, Act 47 of 1987, as amended, is terminated.



By: \_\_\_\_\_

Dennis M. Davin  
Secretary

**CITY OF ALTOONA  
BLAIR COUNTY**

**EVALUATION OF CITY'S REQUEST TO TERMINATE DETERMINATION OF  
DISTRESS UNDER ACT 47, THE MUNICIPALITIES FINANCIAL RECOVERY ACT**

**Hearing Held: August 9, 2017**

## **REPORT OF THE HEARING OFFICER**

## FINDINGS OF FACT

A public hearing was held in the City of Altoona, Blair County on August 9, 2017 to receive testimony relative to the City's request to the Department of Community and Economic Development (DCED) to make a determination that the conditions that led to the designation of distress on May 3, 2012 are no longer present under Act 47 of 1987, as amended, the Municipalities Financial Recovery Act. The purpose of the hearing was to gather information on the City's financial condition to assist the Secretary of DCED to determine the City's financial condition and to inform the officials, employees and citizens of the City of Altoona of the Act 47 termination process.

The information that follows was presented by the Recovery Plan Coordinator, Mayor and City Manager of the City of Altoona as well as a Local Government Policy Specialist of the DCED southwest regional office through their testimony.

Evidence was presented that demonstrates the eligibility of the City to have the designation of distress status terminated under the Municipalities Financial Recovery Act, Act 47 of 1987, as amended. No testimony was received that contradicts the evidence presented at the public hearing.

In summary, the City of Altoona has addressed and alleviated the conditions that led to the initial designation of distress status. In addition, the City has addressed the factors for the Secretary of DCED to consider cited in Section 255.1 of Act 47 of 1987, as amended supporting the recommendation of the Coordinator to terminate the distress designation. Section 255.1 requires that a public hearing be held prior to consideration of termination of distress status.

The City of Altoona revenue and expenditure history, general fund cash balance history, government-wide fund balance history and revenue and expenditure projections indicate a documented financial recovery as indicated in the Coordinator's Report, required under Section 255.

The Coordinator's Report documents the City of Altoona's financial condition and position. The City presently has a consistent series of revenue streams to provide realistic and affordable service levels going forward. Countywide reassessment and becoming a Home Rule municipality has provided an enhanced and stable tax base that allows the City to fund current services and to increase those levels of service if warranted. It is now incumbent upon the City to remain vigilant and to proactively manage the provision of City services within the context of the fiscal and management resources available to the City.

Year-end fund balances over the past four years in the general fund have provided the City with sufficient cash flow for operations. Positive changes in year-end fund balance in the general fund have resulted in the City achieving a strong financial position since Altoona entered the Act 47 program. The City is using its local taxing authority to generate earned income tax revenue

through their Home Rule Charter and they will no longer being dependent on the use of Act 47 to generate additional revenue. Altoona is projected to continue to operate with an annual budget surplus and by all indication this is expected to continue into the foreseeable future.

As the Hearing Officer, I, Marita J. Kelley, Deputy Executive Director of the Governor's Center for Local Government Services, made opening remarks welcoming everyone to the public hearing and stated the public hearing is being held in accordance with Act 47 of 1987, as amended 2014. I stated that the purpose of the proceeding was to receive testimony on the City of Altoona's request to Exit the Municipalities Financial Recovery Program, based upon the Act 47 Recovery Coordinator's recommendation in the Coordinator's report, dated June 23, 2017.

Notice of the public hearing was advertised in accordance with Section 255.1 and the Sunshine Law. Ryan Hottenstein, Act 47 Recovery Coordinator, Matthew Pacifico, Mayor, Marla Marcinko, City Manager, and Michael Foreman, Local Government Policy Specialist of the DCED Southwest Regional Office of the Governor's Center for Local Government Services, provided testimony regarding whether to rescind the determination of distress status, under Act 47, the Municipalities Financial Recovery Program.

Act 47 Recovery Coordinator, Ryan Hottenstein of Stevens and Lee/Financial Solutions provided testimony indicating that the City of Altoona was officially declared a financially distressed municipality by the Secretary of the Department of Community and Economic Development on May 3, 2012. Stevens and Lee/Financial Solutions was subsequently appointed Act 47 Recovery Coordinator for the City to develop a Recovery Plan.

Mr. Hottenstein cited that Altoona City adopted the original Recovery Plan on December 9, 2012 and adopted its subsequent amended Recovery Plan on September 14, 2016. In addition, he stated that as part of the Recovery Plan implementation and review process, Act 47 amendments under Act 199 of 2014 require the Coordinator to complete a report stating the financial condition of the municipality no later than 180 days after the beginning of the final year of distressed status. The report is required to include one of the following findings based on existing conditions within the Act 47 municipality.

Mr. Hottenstein recited the following provisions of Section 255 of Act 47:

- 1) Termination of distress status;
- 2) Municipal disincorporation;
- 3) Fiscal emergency; and
- 4) Three-year exit plan.

Mr. Hottenstein noted that he delivered the Recovery Coordinator Report stating the financial condition of the City of Altoona on June 14, 2017. It was officially filed on June 23, 2017. The Report set forth findings that the condition within the City warrant a rescission of distress status under Act 47 in accordance with Section 255.1.

In summary, Mr. Hottenstein found:

- 1) Operational deficits of the City have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in Act 47.
- 2) Obligations issued to finance the City's debt have been retired, reduced or reissued that has adequately refinanced outstanding principle and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in Act 47.
- 3) There are no claims or judgments that would place the City in imminent jeopardy of financial default.
- 4) Reasonably, projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, and the continuation or negotiation of collective bargaining agreements and the provision of municipal services.

Mr. Hottenstein continued, by stating that after delivery of the Recovery Coordinator's Report, written comments were accepted for a period of 15 days from the official filing date of June 23, 2017 until July 10, 2017. A public meeting was held to receive comments on July 12, 2017 in the City of Altoona in accordance with Section 255.1 of Act 47. No written comments were received during the 15 day period nor public comments at the July 12, 2017 public hearing. As such, the Recovery Coordinator's Report filed on June 23, 2017 was not amended and filed as originally provided.

Mr. Hottenstein went on to indicate that he reviewed various financial and operating data and he determined that the three criteria the City met to be declared a financially distressed municipality in May 2012 have been alleviated leading to the recommendation to terminate their distress status.

Mr. Hottenstein recounted that his review of prior operating budgets revealed operating surpluses in 2014 and 2015. The City's audits indicate the City incurred operating budget surpluses in 2014 and 2015 of \$1,310,419 and \$891,664 respectively. The City reported ending 2016 with an operating surplus of \$1,292,906. During 2016, the City's unaudited operating revenue was \$29.3m or within 4.9% of the budgeted amount. Unaudited operating expenditures were also lower at \$27.9 Million or 3.7% of the approved budget by \$1.1m. Accordingly, the City is expected to have a 2016 operating surplus of revenue over expenditures of approximately \$1.3 Million. The City ended 2016 with \$7.8 Million in cash and \$66,987 in accounts payable.

Regarding the 2017 financial condition, the City adopted a balanced budget on December 7, 2016 with revenues and expenditures equal to \$31.5 Million.

Mr. Hottenstein went on to say that throughout 2017, the Coordinator team will continue to monitor the City's cash fiscal position and prepare monthly cash flow estimates for the City's use. As of June 2017, the City had a customary amount of accounts payable with none known to be over 30 days due with a sufficient cash balance to meet obligations. The City is projected to end 2017 with an operating surplus (revenues over expenditures) of \$1,881,696.



Current projections indicate that the deficit from 2013 has been eliminated and that the City exhibits sound financial management practices. Mr. Hottenstein cautioned that normal expenditure growth assumptions indicate the City is projected to incur a General Fund operating deficit in 2020 and if left unchecked, would continue to grow through 2022. However, there have been two significant changes within the City of Altoona that provide it with fiscal tools to address the projected shortfalls, not available to the City when it filed for Act 47 distress status in 2012.

The first major difference is the adoption of a Home Rule Charter. As a Home Rule community the City is no longer bound by the statutory rates for the earned income, property and deed transfer taxes, providing for greater flexibility in the future to generate tax revenue based on municipal need.

The second major change was that Blair County implemented a countywide property reassessment in 2016 that increased the City's real estate tax base. When Altoona entered Act 47 it was at its legal limit for general purpose millage, leaving no room to gain additional general purpose revenue if needed through a property tax increase. The reassessment enabled the City to reduce the general purpose millage to its current rate of 1.4573 in 2017. One mill is worth approximately \$6.5 Million. The City now has the ability under its Home Rule Charter to raise the general purpose property tax to meet its revenue requirements with no statutory limit. The City will be able to raise revenue necessary for any projected shortfall.

Mr. Hottenstein offered that based on the City's ability to achieve long-term financial sustainability, it is the Coordinator's finding that the financial conditions within the City of Altoona warrant the rescission of status as an Act 47 municipality in accordance with Section 255.1. Mr. Hottenstein addressed each of the factors set forth in Section 255.1 (c) in reaching this finding.

First, operating deficits of the City of Altoona have been eliminated, also the financial condition of the City, as evidenced by the audited financial statements through 2016, prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrate a reasonable probability of future balanced budgets absent participation in Act 47.

Second, obligations issued to finance the City's debt have been retired, reduced and reissued in a manner that has adequately refinanced outstanding principle and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in Act 47.

Third, the City did not and does not currently have any claims and judgments that would place the City in imminent jeopardy of financial default.

Fourth, the reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation or negotiation of collective bargaining agreements and the provision of municipal services.

Mr. Hottenstein noted that the Act 47 Recovery Coordinator has worked with City officials over the last five years to develop an ongoing strategy that will prevent the reoccurrence of past fiscal transgressions and point the way to balanced operating budgets. As such, it is the Act 47 Recovery Coordinator team's finding that the financial condition of the City warrants a rescission of distressed status.

In summary, the City now has a consistent series of revenue streams to provide realistic and affordable service levels. Reassessment and becoming Home Rule has provided an enhanced and stable real estate tax base that permits the City to fund current service levels and to increase those levels if warranted. It is now the City's responsibility to remain vigilant and to actively manage the provision of City services within the context of the fiscal and management resources available to the City.

Susan Friedman, Attorney with Stevens and Lee, P.C. entered into the record the City's current collective bargaining agreements for 2017 – 2021 for the International Association of Firefighters (IAFF); Fraternal Order of Police (FOP); American Federation of State, County and Municipal Employees (AFSCME) for Non-Uniformed Employees and School Crossing Guards; and Meet and Discuss Unit of First Line Supervisors.

Attorney Friedman was pleased to say that collective bargaining agreements have been reached with all five unions that are in effect from January 1, 2017 through December 31, 2021 and enabled the Act 47 Coordinator to make the financial findings and reach a conclusion to recommend the termination of distressed status.

Marla Marcinko, Altoona City Manager provided testimony in which she thanked the Department of Community and Economic Development as well as the Act 47 Recovery Team for the assistance provided to the City over the past five years relative to the implementation of the recovery plans. Ms. Marcinko gave her reassurance that the City will continue the course it is on and will continue to work toward improving operational efficiencies and responsible financial management.

Mr. Foreman, Local Government Policy Specialist with the Department of Community and Economic Development, Governor's Center for Local Government Services in the Southwest Regional Office also testified. Mr. Foreman stated that he serves as a liaison with the City of Altoona and the Act 47 Coordinator regarding the Act 47 program and related technical assistance activities.

Mr. Foreman spoke about the reason for the initial determination of distress status based on the existence of three of eleven factors in Act 47 of 1987, as amended, the City met upon being determined to be a distressed municipality in 2012. The following three criteria as set forth in Section 201 of Act 47 are: 1) the municipality maintained a deficit over a three-year period with a deficit of one percent or more in each of the previous fiscal years. 2) the municipality's expenditures exceeded revenues for a period of three years or more. And, 3) the municipality 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 and levying real estate taxes for general purposes.

He indicated over the last four-year period the City experienced operating surpluses and deficits since the adoption of the 2012 recovery plan and an operating surplus since the adoption of the amended Recovery Plan in 2016. Annual audits indicate the City incurred operating surpluses in 2014 and 2015, respectively. However, in 2013 the first year the City was operating under Act 47, the City experienced a budget deficit. The 2016 annual audit demonstrates the City ended the year with an operating surplus of approximately \$3.1 Million.

In addition, to budget surpluses showing evidence the City alleviated its operating deficits that led to the City entering Act 47 in 2012 by improving its financial position, City voters approved a Home Rule Charter in 2014, effective in January 2015. The Home Rule Charter not only provides a more effective governance structure of a Mayor/City Council/Manager form of government but also gives the City greater revenue raising options without continued reliance on the extraordinary taxing authority offered under Act 47. The City no longer uses or needs Act 47 to generate additional revenue. It does so under the authority of its Home Rule Charter.

Moreover, the Act 47 Recovery Coordinator, projects a budget operating surplus of approximately \$1.8 Million at the end of 2017. Mr. Foreman made reference to the testimony of Ryan Hottenstein, Act 47 Recovery Coordinator relative to Section 255.1 of Act 47 that Altoona City meets the four criteria to evidence a rescission of their distressed status. The Act 47 Coordinator documented in the recent Recovery Coordinator's financial report filed with the City on June 23, 2017 that Altoona has made substantial progress since entering Act 47 and that will enhance its ability to generate revenue to exit the Act 47 program. As such, a recommendation is made to rescind its Act 47 designation.

The Home Rule Charter adopted in 2014 and effective January 2015, frees the City from the tax limitations in the Third Class City Code and the Local Tax Enabling Act with regard to specific local taxes levied on residents. The recent countywide property reassessment resulted in an increase of the value of taxable property and a lowering of the City's millage rate on real estate taxes. In addition, Altoona has right-sized its municipal service delivery system through negotiation with its three unions incorporating cost containment provisions in the respective collective bargaining agreements through 2021.

Mr. Foreman stated that based on the City's ability to achieve long-term financial sustainability, he concurs with the Act 47 Coordinator's finding and conclusion that conditions within Altoona City warrant a rescission of distressed status according to Section 255.1 of Act 47.

Matthew Pacifico, Mayor of the City of Altoona testified on behalf of the City of Altoona and Council that the City accepts the recommendation of the Act 47 Recovery Coordinator and decision of the Department of Community and Economic Development to exit the Act 47 program. The Mayor remarked that Altoona will continue to demonstrate sound financial management practices. Mayor Pacifico added that there is a third item that occurred on top of the countywide property reassessment and adoption of a Home Rule Charter. The City reached an

agreement with the Altoona Water Authority that provides revenue to the City on an annual basis that did not exist in the past.


I, Marita J. Kelley, Deputy Executive Director for the Governor's Center for Local Government Services, thanked and commended the Mayor and City Council for their commitment and due diligence to get them to where they currently are. I stated that I was very proud of their efforts. I recognized the commitment and hard work of the Act 47 Recovery Coordinator and collaboration with management, Mayor, and City Council, also acknowledging the Recovery Coordinator's due diligence and perseverance working with the City through the five years in the Act 47 program.

I concluded the public hearing by thanking everyone for their attendance and commended City Elected Officials and management for their efforts and progress on behalf of DCED. I indicated that Dennis Davin, Secretary of the Department of Community and Economic Development will make his decision on the City's request to rescind the distress designation as required under Act 47.

### CONCLUSION

The City of Altoona's financial condition and position has significantly improved during the five-year recovery period. The commitment of City Council, City Manager, Finance Director and staff over the five years, in the Act 47 program working with the Act 47 Coordinator and DCED is admirable. The Coordinator's Report reflects the improved financial condition and position that have occurred and form the basis for the recommendation of the Act 47 Coordinator that the City of Altoona should have the distress designation terminated at this time.

Respectfully submitted:



Marita J. Kelley, Hearing Officer