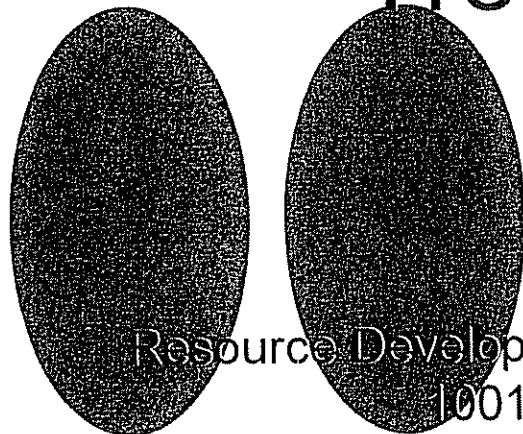


City of Erie
Early Intervention
Program
Financial Condition
Assessment & Financial
Trend Analysis
Steps I & II




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CITY OF ENH
 EARLY INTERVENTION PROGRAM
 FINANCIAL CONDITION ASSESSMENT &
 FINANCIAL TRENDS ANALYSIS
 STELLER & II

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND & INTRODUCTION	3
DEFINING FINANCIAL CONDITION	6
DEMOGRAPHIC OVERVIEW	8
FISCAL OVERVIEW	14
BUDGET	14
CORE REVENUE REVIEW	16
REVENUE SUMMARY	19
CORE EXPENDITURE REVIEW	20
EXPENDITURE SUMMARY	22
PERSONNEL & FRINGE BENEFITS COST REVIEW	24
POLICE DEPARTMENT	24
FIRE DEPARTMENT	25
NON-PUBLIC SAFETY	25
PENSION	26
DEBT SERVICE REVIEW	27
OPERATING POSITION	28
OPERATING DEFICITS	28
FUND BALANCES	29
LIQUIDITY	29
PROJECTIONS	31
BASELINE FINANCIAL PROJECTIONS	31
REVENUES	31
EXPENDITURES	33



The consultant team finds it important to separate and summarize the most significant general findings of its work so the City of Erie might best understand its current financial condition. To do so the team focused on the core, regularly recurring revenues and expenditures necessary to maintain the financial solvency of the City of Erie. One-time fixes and non-recurring activities have been removed from our figures to provide a true picture of the City's financial condition. The result of our analysis is as follows:

Finding 1 – the City of Erie has experienced an annual structural deficit (the gap between ongoing revenue and ongoing expenditures) in its core non-utility operations from FY 2000 to FY 2004. The cumulative structural deficit has totaled approximately \$25 million during this time.

Finding 2 – The structural deficit results from a fundamental imbalance between an annual revenue growth rate of 2.7% and an annual expenditure growth rate of 4.3% over the last few years. The deficits are exacerbated by the inability of annual budgets to use sustainable revenue and expenditure strategies to effectively close this gap.

The annual growth rate in revenues is higher than it would be otherwise because of the introduction of new tax revenues (parking tax) and rate increases on existing taxes (earned income tax). Had these rate increases and new taxes not been implemented, the annual revenue growth rate would have averaged 1.2% between 2000 and 2004.

Finding 3 – The structural deficit is estimated to be \$5.5 million in 2005 and will grow to over \$12 million by 2010 if no corrective action is taken.

Finding 4 – Rather than bring expenditures in line with revenue, the structural deficit has been financed by depleting reserves, transferring surplus utility revenues to the general fund, and employing other one-time revenue strategies. These strategies have served to mask the core structural deficit, are not sustainable, and have only served to prolong the fiscal crisis facing the City.

Finding 5 – In addition to addressing the structural deficit, Erie's leaders must also develop a financial strategy that will replenish the City's reserve funds. Erie's unreserved general fund balance has gone from a \$3 million surplus in 2000 to a \$7.6 million deficit in 2004.

Finding 6 – The structural deficit used in this analysis is understated by the City of Erie's underinvestment in a systematic capital improvement program for non-utility infrastructure. Recommended practice is for cities to invest at the rate of depreciation of their capital assets. The City cannot afford to finance maintenance of and improvements to its infrastructure under its current financial structure.

Finding 7 – To its credit, the City of Erie has done a reasonably good job of seeking out non-tax revenues, particularly licenses and permits, and fines and forfeitures that have modestly lessened the structural deficit.

Finding 8 – The City has done a less than adequate job in controlling expenditures and in creating cost effective operations in many departments, particularly in 2000 through 2003. This finding is particularly true in the area of police and fire costs. Police costs have been rising at an annual rate of 5.7% between 2000 and 2004. Fire costs have been increasing at an annual rate of 4.2% during the same period. The City has also moved to one of the most inefficient and expensive shift schedules we have observed in the fire services. A shift schedule for fire services consistent with fire departments around the country has the potential to save approximately \$1.8 million annually without reducing services.

Finding 9 – Creating a sustainable and structurally balanced budget for the City, replenishing depleted reserves, and adequately funding infrastructure investment will require a combination of increased revenues and decreased expenditures as neither side of the balance sheet can resolve the City's fiscal problems on its own.

Strategies for increasing revenues must include:

- The City receiving fair rates of return on its assets such as the sewer system and golf course;
- Tax increases and the imposition of new taxes such as an amusement tax; and
- Access to regional revenue-sharing programs that utilize resource bases such as gaming revenues and sales taxes.

Strategies for decreasing expenditures must include:

- Abandonment of non-essential services;
- More businesslike operations in such services as the municipal garage; and
- Cost-effective shift schedules and an industry-consistent work week for fire services.

CORE REVENUE SOURCE

	2000	2001	2002	2003	2004	2005	2000-2004 \$ Change	Annual %	% of TOTAL
Real Estate Tax	\$ 23,019,534	\$ 23,177,918	\$ 23,506,172	\$ 24,804,398	\$ 24,370,528	\$ 24,381,235	\$ 1,350,994	1.5%	38.4%
511 Taxes-EIT	\$ 5,077,686	\$ 5,500,000	\$ 6,785,423	\$ 9,109,874	\$ 9,406,304	\$ 8,690,175	\$ 4,328,618	21.3%	14.8%
511 Taxes- Other	\$ 907,351	\$ 855,029	\$ 915,500	\$ 1,041,677	\$ 1,156,032	\$ 1,996,006	\$ 248,681	6.9%	1.8%
Utility Taxes	\$ 617,771	\$ 576,446	\$ 598,001	\$ 598,950	\$ 627,557	\$ 692,171	\$ 9,786	0.4%	1.0%
Parking Taxes	\$ -	\$ -	\$ -	\$ -	\$ 451,006	\$ 476,178	\$ 451,006	0.0%	0.7%
Alcoholic Beverage Tax	\$ 88,150	\$ 75,000	\$ 84,700	\$ 87,550	\$ 83,950	\$ 76,420	\$ (4,200)	-1.2%	0.1%
Interest & Rents	\$ 65,213	\$ 72,752	\$ 71,688	\$ 51,311	\$ 65,165	\$ 88,735	\$ (48)	0.0%	0.1%
Intergovernmental	\$ 2,546,857	\$ 2,680,054	\$ 1,948,929	\$ 2,321,028	\$ 2,242,661	\$ 2,274,550	\$ (304,196)	-3.0%	3.5%
Special Assessments	\$ 27,283	\$ 1,183	\$ 5,141	\$ 4,434	\$ 3,178	\$ 7,280	\$ (24,105)	-22.1%	0.0%
Department Earnings	\$ 1,700,800	\$ 1,811,437	\$ 918,464	\$ 379,041	\$ 165,470	\$ 1,380,142	\$ (1,535,330)	-22.6%	0.3%
PILOTS	\$ 718,628	\$ 684,170	\$ 735,970	\$ 434,125	\$ 713,135	\$ 532,938	\$ (5,493)	-0.2%	1.1%
Licenses & Permits	\$ 940,346	\$ 1,133,396	\$ 933,448	\$ 1,273,281	\$ 1,461,270	\$ 1,516,124	\$ 520,924	13.8%	2.3%
Charges for Service	\$ 334,374	\$ 287,435	\$ 274,437	\$ 195,268	\$ 325,593	\$ 387,896	\$ (8,781)	-0.7%	0.5%
Fines & Forfeitures	\$ 1,560,323	\$ 1,631,278	\$ 1,568,718	\$ 1,696,597	\$ 1,697,100	\$ 1,722,837	\$ 136,777	2.2%	2.7%
Central Service Reimb.	\$ 1,494,375	\$ 1,431,883	\$ 1,226,391	\$ 730,364	\$ 874,227	\$ 835,235	\$ (620,148)	-10.4%	1.4%
Municipal Garage Reimb	\$ 404,872	\$ 427,319	\$ 412,755	\$ 403,996	\$ 442,947	\$ 575,825	\$ 38,075	2.4%	0.7%
Other Miscellaneous	\$ 1,659,219	\$ 1,846,113	\$ 1,897,155	\$ 1,938,469	\$ 1,584,595	\$ 3,019,518	\$ (74,624)	-1.1%	2.5%
State Pension Aid	\$ 3,015,248	\$ 3,285,995	\$ 3,381,870	\$ 3,219,925	\$ 3,128,963	\$ 2,918,683	\$ 113,715	0.9%	4.9%
Water Lease Payments	\$ 1,857,619	\$ 1,941,212	\$ 1,858,989	\$ 2,339,334	\$ 2,379,873	\$ 2,314,931	\$ 522,254	7.0%	3.8%
Golf Course Revenues	\$ 991,823	\$ 1,081,169	\$ 1,027,167	\$ 1,179,425	\$ 813,767	\$ 793,852	\$ (178,056)	-4.5%	1.3%
Risk Management	\$ 8,412,117	\$ 7,884,461	\$ 12,253,369	\$ 12,351,109	\$ 11,309,310	\$ 11,511,952	\$ 2,897,193	8.6%	0.2%
Operating Transfers	\$ 1,774,824	\$ 3,666,817	\$ 3,246,236	\$ 891,335	\$ 150,000	\$ -	\$ (1,624,824)	-22.9%	
TOTAL	\$ 57,214,413	\$ 60,051,067	\$ 63,650,523	\$ 65,051,491	\$ 63,452,631	\$ 66,192,683	\$ 6,238,218	2.7%	
ANNUAL \$ CHANGE	\$ 2,836,654	\$ 3,599,456	\$ 1,400,968	\$ (1,598,860)	\$ 2,740,052	\$ 1,559,555			

CORE SERVICE EXPENDITURES

	2000	2001	2002	2003	2004	2005	2005	Annual \$ Change	Annual %	% of TOTAL
General Administration	\$ 5,556,353	\$ 5,639,752	\$ 5,462,182	\$ 6,272,668	\$ 6,333,518	\$ 7,890,538	\$ 777,165	\$ 777,165	3.5%	8.9%
Police	\$ 14,239,990	\$ 14,564,688	\$ 15,404,693	\$ 18,185,943	\$ 17,502,229	\$ 16,804,836	\$ 3,262,239	\$ 3,262,239	5.7%	24.6%
Fire	\$ 12,060,825	\$ 11,814,946	\$ 12,358,109	\$ 14,154,229	\$ 14,102,204	\$ 12,667,731	\$ 2,041,379	\$ 2,041,379	4.2%	19.8%
Building and Health	\$ 397,045	\$ 392,476	\$ 416,462	\$ 443,040	\$ 385,595	\$ 361,958	\$ (11,450)	\$ (11,450)	-0.7%	0.5%
Public Works	\$ 8,034,260	\$ 7,337,644	\$ 8,196,133	\$ 9,298,330	\$ 9,061,402	\$ 9,473,114	\$ 1,027,142	\$ 1,027,142	3.2%	12.7%
Parks & Recreation	\$ 2,714,151	\$ 2,345,154	\$ 2,506,691	\$ 2,042,400	\$ 2,169,431	\$ 2,156,684	\$ (544,720)	\$ (544,720)	-5.0%	3.1%
Debt Service	\$ 6,609,238	\$ 12,242,771	\$ 8,628,587	\$ 8,521,477	\$ 8,652,826	\$ 9,661,698	\$ 2,043,588	\$ 2,043,588	7.7%	12.2%
Golf Course Expense	\$ 997,741	\$ 1,102,650	\$ 1,049,684	\$ 1,059,871	\$ 1,165,751	\$ 946,264	\$ 168,010	\$ 168,010	4.2%	1.6%
Risk Management	\$ 10,045,760	\$ 11,054,907	\$ 11,863,854	\$ 10,518,171	\$ 11,723,900	\$ 11,626,516	\$ 1,678,140	\$ 1,678,140	4.2%	16.5%
Operating Transfers	\$ -	\$ -	\$ -	\$ 560,489	\$ -	\$ 123,046	\$ -	\$ -	0.0%	0.0%
TOTAL	\$ 60,655,363	\$ 66,494,988	\$ 65,886,395	\$ 71,056,618	\$ 71,096,856	\$ 71,712,386	\$ 10,441,493	\$ 10,441,493	4.3%	0.0%
ANNUAL \$ CHANGE	\$ 5,839,625	\$ (608,593)	\$ 5,170,223	\$ 40,238	\$ 615,530	\$ 2,610,373				
CORE SURPLUS (DEFICIT)	\$ (3,440,950)	\$ (6,443,921)	\$ (2,235,872)	\$ (6,005,127)	\$ (7,644,225)	\$ (5,519,702)				

CORE REVENUE & EXPENDITURE PROJECTIONS WITHOUT CORRECTIVE ACTION

	2004	2005 Projected	Annual Change	2005	2007	2008	2009	2010
Real Estate Tax	\$ 24,370,528	\$ 24,381,235	1.5%	\$ 24,746,953	\$ 25,118,157	\$ 25,494,930	\$ 25,877,354	\$ 26,265,514
511 Taxes-EIT	\$ 9,406,304	\$ 8,690,175	2.0%	\$ 8,863,978	\$ 9,041,258	\$ 9,222,083	\$ 9,406,525	\$ 9,594,655
511 Taxes Other	\$ 1,156,032	\$ 1,996,006	1.5%	\$ 2,825,946	\$ 2,868,335	\$ 2,911,360	\$ 2,955,030	\$ 2,999,356
Utility Taxes	\$ 627,557	\$ 692,171	5.0%	\$ 726,780	\$ 753,119	\$ 801,275	\$ 841,339	\$ 883,406
Parking Taxes	\$ 451,006	\$ 476,178	5.0%	\$ 499,987	\$ 524,987	\$ 551,236	\$ 578,798	\$ 607,738
Alcoholic Beverages	\$ 83,950	\$ 76,420	0.0%	\$ 76,420	\$ 76,420	\$ 76,420	\$ 76,420	\$ 76,420
Interest & Rents	\$ 65,165	\$ 88,735	0.0%	\$ 88,735	\$ 88,735	\$ 88,735	\$ 88,735	\$ 88,735
Intergovernmental	\$ 2,242,661	\$ 2,274,550	0.0%	\$ 2,274,550	\$ 2,274,550	\$ 2,274,550	\$ 2,274,550	\$ 2,274,550
Special Assessments	\$ 3,178	\$ 7,280	0.0%	\$ 7,280	\$ 7,280	\$ 7,280	\$ 7,280	\$ 7,280
Department Earnings	\$ 165,470	\$ 1,380,142	0.0%	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
PILOTS	\$ 713,135	\$ 532,938	0.0%	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Licenses & Permits	\$ 1,461,270	\$ 1,516,124	3.0%	\$ 1,561,608	\$ 1,608,456	\$ 1,656,710	\$ 1,706,411	\$ 1,757,603
Charges for Service	\$ 325,593	\$ 367,896	3.0%	\$ 399,533	\$ 411,519	\$ 423,864	\$ 436,580	\$ 449,678
Fines & Forfeitures	\$ 1,697,100	\$ 1,722,837	3.0%	\$ 1,774,522	\$ 1,827,758	\$ 1,882,591	\$ 1,939,068	\$ 1,997,240
Central Service Reimb.	\$ 874,227	\$ 835,235	3.0%	\$ 860,292	\$ 886,101	\$ 912,684	\$ 940,064	\$ 968,266
Municipal Garage Reimb	\$ 442,947	\$ 575,825	5.0%	\$ 604,616	\$ 634,847	\$ 666,589	\$ 699,919	\$ 734,915
Other Miscellaneous	\$ 1,584,595	\$ 3,019,518	0.0%	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
State Pension Aid	\$ 3,128,963	\$ 2,918,683	0.0%	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000	\$ 3,100,000
Water Lease Payments	\$ 2,379,873	\$ 2,314,931	4.5%	\$ 2,419,103	\$ 2,527,963	\$ 2,641,721	\$ 2,760,598	\$ 2,884,825
Golf Course Revenues	\$ 813,767	\$ 793,852	0.0%	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000
Risk Management	\$ 11,309,310	\$ 11,511,952	0.0%	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000
Operating Transfers	\$ 150,000	\$ -						
TOTAL	\$ 63,452,631	\$ 66,192,683	1.1%	\$ 66,130,304	\$ 67,059,484	\$ 68,012,028	\$ 68,988,672	\$ 69,990,181

	2004	2005 Projected	Annual Change	2006	2007	2008	2009	2010
General Administration	\$ 6,333,518	\$ 7,890,538	3.0%	\$ 8,127,254	\$ 8,371,072	\$ 8,622,204	\$ 8,880,870	\$ 9,147,296
Police	\$ 17,502,229	\$ 16,804,836	5.0%	\$ 17,645,078	\$ 18,527,332	\$ 19,453,698	\$ 20,426,383	\$ 21,447,702
Fire	\$ 14,102,204	\$ 12,667,731	4.0%	\$ 13,174,440	\$ 13,701,418	\$ 14,249,475	\$ 14,819,454	\$ 15,412,232
Building and Health	\$ 385,595	\$ 361,958	2.0%	\$ 369,197	\$ 376,581	\$ 384,113	\$ 391,795	\$ 399,631
Public Works	\$ 9,061,402	\$ 9,473,114	3.0%	\$ 9,757,307	\$ 10,050,027	\$ 10,351,527	\$ 10,662,073	\$ 10,981,935
Parks & Recreation	\$ 2,169,431	\$ 2,156,684	2.0%	\$ 2,199,818	\$ 2,243,814	\$ 2,288,690	\$ 2,334,464	\$ 2,381,153
Debt Service	\$ 8,652,826	\$ 9,661,698		\$ 9,695,701	\$ 9,694,514	\$ 9,695,520	\$ 9,694,156	\$ 9,703,277
Golf Course Expense	\$ 1,165,751	\$ 946,264	4.0%	\$ 984,115	\$ 1,023,479	\$ 1,064,418	\$ 1,106,995	\$ 1,151,275
Risk Management	\$ 11,723,900	\$ 11,626,516	0.0%	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000
Operating Transfers	\$ -	\$ 123,046	0.0%	\$ 0	\$ -	\$ -	\$ -	\$ -
TOTAL	\$ 71,096,856	\$ 71,712,385	3.0%	\$ 73,952,910	\$ 75,988,236	\$ 78,109,646	\$ 80,316,190	\$ 82,624,502
CORE SURPLUS (DEFICIT)	\$ (7,644,225)	\$ (5,519,702)		\$ (7,822,606)	\$ (8,928,752)	\$ (10,097,618)	\$ (11,327,519)	\$ (12,634,320)