



Swatara Township – Financial Review Memo

In Spring 2024, members of the Board of Commissioners for Swatara Township (or “the Township”) requested a review of the Township’s financial condition because of concerns about declining financial performance in recent years.

They noted that the Township had consecutive years with deficits in its primary operating fund, that it depleted its reserves, and that it was spending more than its annual budgets allocated, especially in public works and related areas.

The Board contracted with Public Financial Management Group Consulting (or “PFM”) to evaluate the Township’s recent financial performance in three areas:

- Has Township government performed worse financially in recent years?
- If so, what caused the declining performance?
- Are the corrective actions that the Board of Commissioners has taken an effective response to any declining performance?

To answer these questions, PFM conducted a financial condition assessment that included the following steps:

- Reviewing audits, budgets, and other financial documents for 2018 through 2023 to identify, quantify, and describe any negative financial trends;
- Interviewing elected leaders and appointed staff to better understand the Township’s performance over this six-year period; and
- Evaluating the corrective actions that the Township has taken or will take to reverse any negative financial trends.

Summary findings: Growing deficits, falling reserves since 2020

The Township’s financial performance has been unquestionably weaker in recent years.

The Township had deficits in its General Fund every year from 2018 through 2023, but not all deficits are created equal. The deficits in 2018 and 2020 were small on a dollar basis (less than \$100,000) and as a percentage of total expenditures (less than 1 percent). In contrast, the deficits were more than \$1 million and 10 percent of total expenditures in 2021, 2022, and 2023.

At the start of this period, the Township transferred money from its primary operating fund to the Capital Reserve Fund to fund future capital projects, which is a sign of financial strength. By the end of this period, the Township was drawing money from its Capital Reserve to help cover a large operating deficit, which is a sign of financial weakness. This followed two years in which the Township used the temporary support from the federal stimulus funding to fund daily operations.

Because of this negative trend, the Township’s financial reserves dropped down to the minimum level recommended by the Government Finance Officers Association (GFOA) at the end of 2022. Reserves rebounded slightly in 2023, but only because the Township moved money out of its Capital Reserve Fund and into the General Fund. The Township still has adequate reserves to serve as a contingency for unexpected events, but that margin is smaller.

The primary contributors to weaker performance were flat tax revenues, rising expenditures, and a change in how the Township handles storm sewer maintenance.

General Fund tax revenues dropped from \$10.6 million in 2018 to \$10.2 million in 2023. The Township reduced its real estate tax rate in 2020 and then shifted increasing portions of the total tax rate to purposes other than daily operations, like debt repayment or supporting the ambulance service. As a result, real estate tax revenue in the General Fund **dropped** by 6.4 percent per year during the review period.

Meanwhile, the Township's spending from its General Fund increased in several areas, most notably in public safety (largely police) where expenditures rose from \$9.2 million in 2018 to \$11.3 million in 2023, or 4.2 percent per year. The Township understandably spends more now than it did in 2018 on police officer salaries, pensions, health insurance and non-personnel costs for vehicles, fuel, and information technology. But with flat tax revenues, any growth in expenditures would eventually push the budget out of balance, as has been the case in Swatara.

This structural imbalance between flat tax revenues and rising expenditures is not unique to Swatara. Most Pennsylvania governments have this structural deficit because of their reliance on real estate tax revenues and the infrequency of re-assessments that would capture growth in the tax base. But the final contributor to weaker financial performance is unique to Swatara.

In 2018, the Township implemented a new stormwater fee to help cover the cost of treating stormwater runoff. Municipal governments and local authorities have treated the stormwater runoff that carries pollutants into the sewer system for decades, but stormwater fees are a relatively new approach to pay for that service.

In the first couple years after establishing the fee, the Township collected more revenue than it spent on employee compensation, contracted services, and materials associated with maintaining and repairing storm sewers. Since the Township recorded the program revenues and expenditures in its General Fund, any positive difference between revenues and expenditures stayed in that fund and helped close the Township's operating deficits.

In 2021, the Township shifted storm sewer maintenance responsibility to a newly created Stormwater Authority and set up a separate enterprise fund to record financial activity. Going forward, that fund will receive the stormwater fee revenue and cover the program expenditures and any positive difference between those amounts will sit in that fund. The General Fund received a smaller benefit from this program in 2022 and 2023 and will continue to do so, so the Township will have to close its operating deficit another way.

Evaluating the Township's corrective actions

In January 2024, the Board of Commissioners reopened and amended the 2024 budget, cutting expenditures from \$18.1 million to \$15.9 million.¹ Revenues were also reduced from \$17.6 million to \$15.4 million. While the 2024 budget has a deficit – as has each adopted budget since 2018 – the \$0.5 million deficit is smaller than the seven-figure deficits in the 2021, 2022 and 2023 budgets.

The budget changes include:

- More conservative tax revenue projections
- Reducing the allocations for personnel spending in “Governing” (Administration and Finance), Police, and Highways
- Reducing non-personnel expenditures from the General Fund through cost sharing with local authorities, rebidding health insurance, adopting stricter purchasing controls, and applying unused escrow funds to pay vehicle leases ahead of schedule.

¹ January 10, 2024 Minutes, Board of Commissioners. https://swataratwp.com/wp-content/uploads/2024/02/2024_01_10-BOC-minutes.pdf

These are reasonable responses that should help close the operating deficits. Adopting more conservative revenue projections is prudent and consolidating senior positions is an effective cost reduction mechanism that should yield long-term savings, provided the Township does not add new positions to replace those that were eliminated.

We do not know whether these responses will go far enough to improve financial performance because that depends on the Township's financial performance during the second half of the year. But the Township should not wait until year end to evaluate its progress relative to budget.

Township Finance should produce quarterly financial reports that use data and descriptive narrative to answer the following questions:

- Is the Township on pace to collect more/less revenue than it projected in the budget, both overall and from its largest sources?
- Is the Township on pace to spend more/less than it projected in the budget, both overall and in its largest expenditure categories?
- How do the Township's revenues and expenditures to date compare to its performance through the same period last year?

The report should answer each of these questions fully, so Swatara's leaders and residents understand what is happening, why it is happening, and what that means for management decisions.

At the end of the year, the Township should use the same criteria that we used to determine if its financial performance is improving. Swatara's elected officials and residents will know performance has improved if:

- ❖ The General Fund has operating surpluses – annual revenues are higher than annual expenditures – without resorting to short-term fixes, drawing down reserves, or transferring money previously set aside for other purposes.
- ❖ The Township's fund balance grows or stays at the target level set by the Township policy.
- ❖ The Township's annual results are better than the budget forecast, both overall and for its largest revenues and expenditures.
- ❖ Total tax revenues are growing fast enough to cover the rising costs of daily operations.
- ❖ Operating expenditures do not grow faster than the revenues available to pay for them.
- ❖ The Township assigns a growing portion of its total resources to capital spending, infrastructure investments or other strategic priorities, without unduly increasing its debt burden.

The rest of this memorandum provides this analysis in more detail.

Question #1: Did the Township's financial performance get worse in recent years?

One important measure of a local government's financial performance is whether it has positive or negative annual operating results in its primary operating fund.

The annual operating result is the difference between revenues and expenditures before interfund transfers and other financing sources are applied. A positive operating result (or surplus) indicates the Township spent less than it collected in revenues that year, and a negative operating result (or deficit) indicates the opposite.

The Township had operating deficits each year from 2018 through 2023, and the size of those deficits grew from marginal to substantial after 2020, as the table below shows. Last year's deficit was the largest at \$2.9 million, or 19.7 percent of revenues.

General Fund Audited Results, 2018 – 2023

	2018	2019	2020	2021	2022	2023
Total Revenues	14,700,555	15,178,446	16,488,903	14,370,899	14,484,099	14,717,330
Total Expenditures	14,716,407	15,722,007	16,551,924	16,026,200	16,671,820	17,620,003
Surplus / (Deficit)	(15,852)	(543,561)	(63,021)	(1,655,301)	(2,187,721)	(2,902,673)

While the Township had negative operating results each year that we reviewed, all deficits are not created equally.

The Township's deficits in 2018 and 2020 were small on a dollar basis (less than \$100,000) and as a percentage of total expenditures (less than 1 percent). In contrast, the deficits were more than \$1 million and 10 percent of total expenditures in 2021, 2022, and 2023.

The deficit on its own does not provide a complete picture of the Township's financial performance. Township governments may have positive or negative one-time events that skew their results and obscure their true performance, and this was true in Swatara throughout the review period. The Township's audits show the following large one-time events ("other financing sources") in the General Fund:

- In 2018, the Township transferred \$355,000 from its General Fund to the Capital Reserve Fund.

Designating a portion of current year resources to fund future capital projects complies with financial best practices.

- In 2019 and 2020, the Township acquired capital leases that added \$659,000 and \$445,000 respectively to its General Fund balance. The Township used these leases to purchase vehicles and equipment. On the audit, these funds are shown as "proceeds from capital leases" and they offset some of the capital outlay expenditures.

Using lease proceeds to acquire equipment and vehicles that meet the definition for capital assets is a reasonable financial management practice.

- In 2021, the Township transferred \$1.3 million from its federal American Rescue Plan Act of 2021 (ARPA) allocation into the General Fund. The 2021 audit describes the purpose of the Township's 2021 interfund transfers as "to pay debt service of the Township and to reimburse for general

government services²." Debt spending increased in 2021 but only by \$51,000 over 2020 levels, so the \$1.3 million ARPA transfer appears to primarily offset some of the Township's \$2.2 million deficit.

Using a short-term source of funding (federal grant money related to the pandemic) to fund ongoing operating needs does not comply with financial best practices.

- In 2022, the Township transferred another \$1.4 million from its ARPA allocation into the General Fund. The 2022 audit describes this transfer as a reimbursement to the General Fund for ARPA-related expenditures. Township staff was unable to produce records demonstrating which expenditures were covered by ARPA funds in 2022. As such, the transfer seems to primarily offset some of the Township's \$2.8 million deficit, similar to the funds' use in the year prior.

Using a short-term source of funding (federal grant money related to the pandemic) to fund ongoing operating needs does not comply with financial best practices.

- In 2023, the Township transferred \$2.5 million from the Capital Reserve Fund into the General Fund, primarily as a supplement to close the \$2.9 million operating deficit.

Drawing down reserves – especially those set aside for capital projects – to partially close an operating deficit does not comply with financial best practices.

When we combine the annual operating results with these "other financing sources," we get the following summary of the Township's General Fund financial performance.

General Fund Audited Results, 2018 – 2023

	2018	2019	2020	2021	2022	2023
Revenues						
Taxes	10,554,437	10,407,262	10,025,553	10,048,741	10,424,678	10,228,769
License, fees, and permits	1,289,771	1,090,884	1,184,189	1,024,321	1,319,841	1,227,673
Fines and forfeits	126,759	130,862	143,053	122,607	93,672	127,211
Interest and rents	61,658	93,268	31,078	22,371	20,022	135,375
Intergovernmental	911,173	990,425	2,294,514	961,100	1,470,731	1,353,919
Department earnings	1,399,138	2,271,934	2,598,930	1,355,840	868,310	1,252,626
Miscellaneous	357,619	193,811	211,586	835,919	286,845	391,757
Total Revenues	14,700,555	15,178,446	16,488,903	14,370,899	14,484,099	14,717,330
Expenditures						
General government	1,677,714	1,724,083	2,023,193	1,820,081	1,862,084	1,954,255
Public safety	9,216,810	9,295,736	9,526,534	10,031,690	10,753,448	11,308,771
Highway and street	2,438,752	3,011,113	3,219,546	2,455,898	2,590,905	2,156,402
Culture and recreation	583,342	706,493	674,450	775,028	469,941	471,839
Debt service principal	131,433	167,246	265,436	315,735	216,705	278,493
Debt service interest	6,803	16,989	32,806	28,615	19,637	28,274
Capital outlay	661,553	800,347	809,959	599,153	759,100	1,421,969
Total Expenditures	14,716,407	15,722,007	16,551,924	16,026,200	16,671,820	17,620,003
Surplus / (Deficit)	(15,852)	(543,561)	(63,021)	(1,655,301)	(2,187,721)	(2,902,673)
Proceeds of capital asset sales	6,243	24,109	21,243	0	10,698	11,958

² 2021 Annual Comprehensive Financial Report, page 58.

	2018	2019	2020	2021	2022	2023
Capital lease acquisition	0	658,734	445,113	0	0	550,591
Transfers in	0	0	0	1,258,764	1,350,259	2,482,520
Transfers out	(335,000)	(30,000)	0	0	0	0
Total other financing sources	(328,757)	652,843	466,356	1,258,764	1,360,957	3,045,069
Net change in fund balance	(344,609)	109,282	403,335	(396,537)	(826,764)	142,396

The last row in the prior table shows the Township’s net change in fund balance, which is another important measure of financial performance. Fund balance measures a government’s financial reserves at a specific point in time, incorporating a wider range of assets than just cash on hand. Rising year-end fund balances generally indicate good financial performance while falling fund balances signal the opposite.

When put into the proper context, the Township’s performance prior to 2020 was much better than the last three years.

The Township reduced its fund balance in 2018 mostly by moving money from its General Fund to its capital reserve account – a sign of financial strength. The fund balance also fell in 2021 and 2022 but without an offsetting investment in a strategic priority. The Township ran large deficits those years and was only able to partially cover them with the temporary support provided by federal stimulus funding. The 2023 year-end audit shows General Fund balance growing by \$142,000 but only because the Township moved \$2.5 million from the capital reserve account to the General Fund.

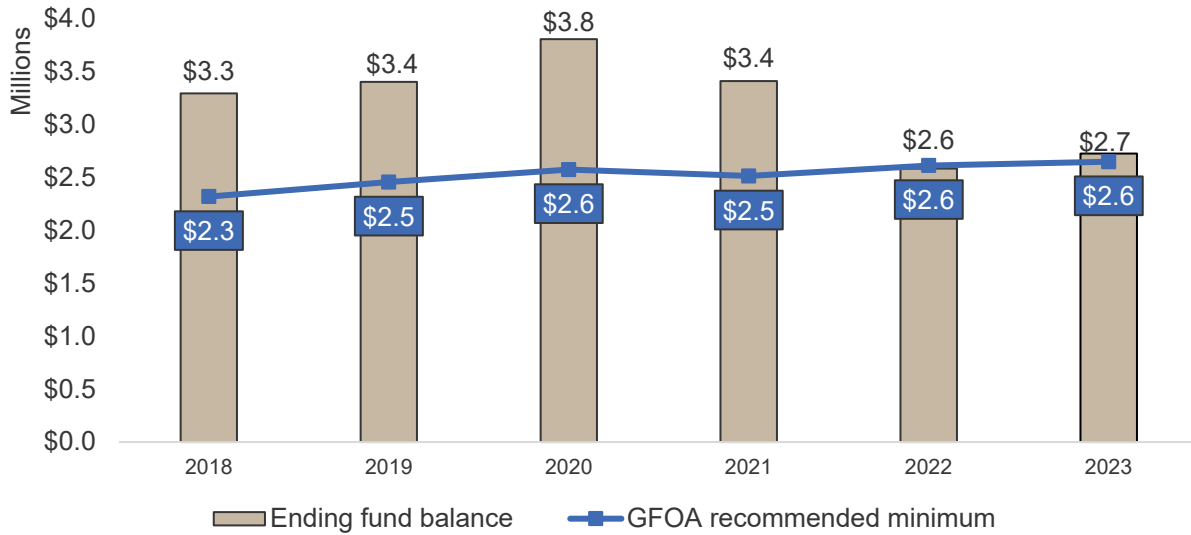
While the fund balance trend over this period is negative, we do not want to overstate the severity of the Township’s position related to having adequate financial reserves.

The Government Finance Officers Association (GFOA) recommends that governments maintain **unrestricted fund balance** in their general fund of no less than two months of operating expenditures.³ Unrestricted fund balance – the portion of reserves for which Township officials have the most discretion to direct where needed -- measures a government’s ability to withstand fluctuations in revenues and other risks.

Based on these guidelines, the Township should have had an unrestricted fund balance of at least \$2.6 million. The Township has been close to or above this threshold each year since 2018. But the trend is concerning, particularly since the operating deficits are growing.

³ GFOA Best Practices: Fund Balance Guidelines for the General Fund. <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>

General Fund Balance and GFOA Recommended Minimum



To this point, we have analyzed whether the Township’s financial performance was worse at the end of the six-year review period than at the beginning. A related, but different, question is whether the Township’s financial performance was **worse than Township leaders expected** throughout this period.

Swatara’s annual budgets should be the appointed and elected leaders best estimate of how they think the Township will perform in the next fiscal year. The budgets include detailed projections of expected revenues and allocations for planned expenditures.

As the table below shows, none of the Board adopted budgets expected revenues to cover expenditures for the next fiscal year. They all had operating deficits, and so does the 2024 budget which has a \$503,000 deficit.

Budgeted Operating Results, 2018 – 2023

	2018	2019	2020	2021	2022	2023
Budgeted Revenues	13,489,878	14,664,182	15,055,159	13,585,452	12,468,370	14,888,775
Budgeted Expenditures	14,319,736	15,222,338	15,651,321	15,696,783	15,235,821	15,969,728
Budgeted Surplus / (Deficit)	(829,858)	(558,156)	(596,162)	(2,111,331)	(2,767,451)	(1,080,953)
Balanced?	No	No	No	No	No	No

The Township’s annual budget opens with a statement of how much money the Township has at the time of the budget’s release and how much more it expects to add or subtract (i.e. revenues net of expenditures) during the remainder of the fiscal year. The Township then applies whatever it carries out of the current fiscal year to the next year’s budget, which consistently shows a deficit. The implicit assumption is that the Township will use a portion of its prior year reserves to cover the next year’s operating deficit.

Some governments project deficits in their annual budget as a measure of budgetary conservatism. They may project revenues lower than expected or expenditures higher than expected, and then their annual results are routinely better than the budget expected.

There are some signs this was previously case in Swatara. The Township consistently performed better than projected in the annual budgets during the review period, though running a deficit of “only” \$1.7 million in 2021 or \$2.2 million in 2022 is not good performance. That trend flipped last year when the Township had a larger deficit in its General Fund than the budget anticipated.

Budgeted versus Actual Operating Results, 2018 – 2023⁴

	2018 Audit	2019 Audit	2020 Audit	2021 Audit	2022 Audit	2023 Audit
Budget Surplus / (Deficit)	(829,858)	(558,156)	(596,162)	(2,111,331)	(2,767,451)	(1,080,953)
Results	(15,852)	(543,561)	(63,021)	(1,655,301)	(2,187,721)	(2,902,673)
Difference	814,006	14,595	533,141	456,030	579,730	(1,821,720)
Performed better or worse than budgeted?	Better	Better	Better	Better	Better	Worse

Question #2: What caused the Township’s weaker financial performance?

The Township’s financial performance has been unquestionably weaker in recent years, and the primary factors for the weaker performance are flat tax revenues, rising expenditures, and a change in how the Township handles storm sewer maintenance.

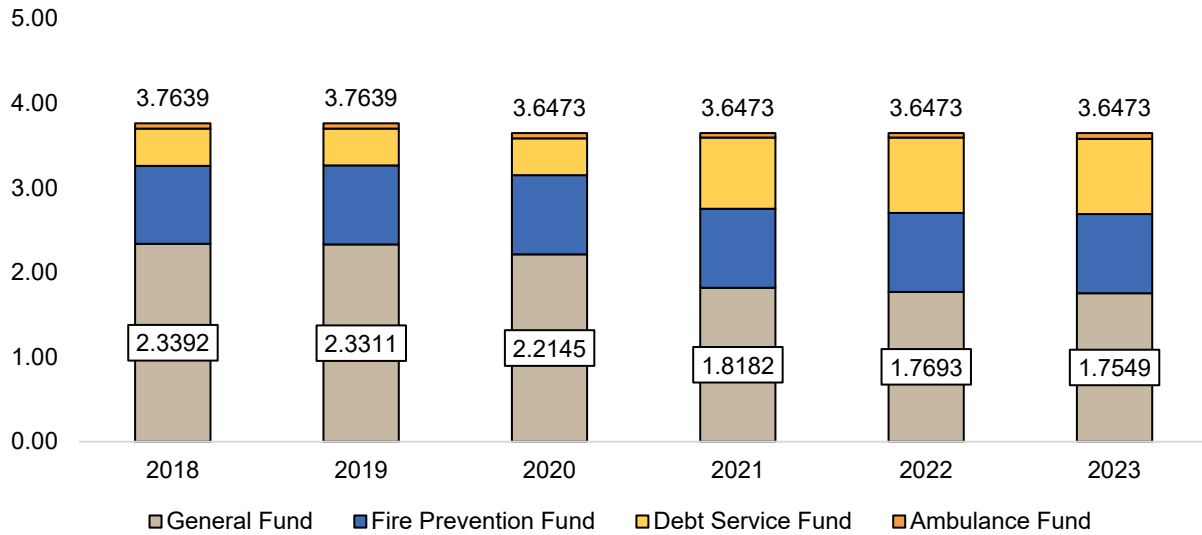
Stagnant tax revenues follow real estate tax reallocation

The Township collects revenue from its real estate tax and a series of employment-based taxes levied using Pennsylvania’s Local Tax Enabling Act (Act 511 of 1965).

The Township splits its real estate tax revenue between its General Fund where it supports daily operations and three other funds (see table on following page). In 2020, the Township lowered the total tax rate by 3.1 percent from 3.7639 mills to 3.6473 mills. In 2021, the Township reallocated its tax rate, so a larger share of the total flowed into the Debt Service Fund. The Township made similar but smaller adjustments in 2022 and 2023. As a result, the General Fund portion dropped from 62.1 percent of the total in 2018 to 48.1 percent in 2023.

⁴ Some unknown portion of this variance could be due to differences in how transactions are recorded in the audit relative to the budget. For example, the 2019 budget does not anticipate any significant capital outlay expenditures occurring in the General Fund but the 2019 audit shows \$800,000 in capital outlay expenditures from that fund. The same is true for debt service payments which are not in the General Fund budget but are in the General Fund audited results. Since the audit includes more expenditures than the budget, the broader point remains – the Township performed better than anticipated in the budget.

Township Real Estate Tax Rate, 2018 - 2023



The practical result of these changes is the real estate tax generates less revenue to fund daily operations than in the past. The General Fund levy⁵ dropped from \$3.7 million in 2018 to \$2.8 million in 2023, or a 5.2 percent compound annual growth reduction. The Township’s **total** real estate tax levy was basically flat during this period, but the Township allocates **less** of that total to fund daily operations.

The Township’s Act 511 taxes – primarily the earned income tax (EIT) and business privilege tax (BPT)—generated more revenue over this period, even after the BPT reduction during the pandemic. But they did not grow enough to completely offset the real estate tax changes. As a result, the Township’s total General Fund tax revenues were basically flat for the six-year review period.

General Fund Tax Revenues, 2018-2023⁶

	2018	2019	2020	2021	2022	2023 Preliminary	CAGR
Real Estate Tax	3,741,939	3,514,386	3,357,695	2,849,272	2,747,105	2,682,888	-6.4%
Earned Income Tax	2,983,190	3,126,374	3,139,342	3,277,104	3,664,941	3,805,101	5.0%
Business Privilege Tax	2,073,579	2,093,286	1,811,033	1,949,806	2,220,198	2,246,193	1.6%
Local Service Tax	948,858	957,058	917,663	918,676	924,676	925,825	-0.5%
Real Estate Transfer Tax	764,780	699,832	816,180	843,891	841,160	698,877	-1.8%
Total	10,512,346	10,390,936	10,041,913	9,838,749	10,398,080	10,358,884	-0.3%

⁵ The real estate tax levy is the product of the tax base and the tax rate (i.e. assessed value of taxable property x real estate millage).

⁶ The revenues shown here are final (audited) for 2018 through 2022 and preliminary for 2023.

Public safety expenditures grew faster than the tax revenues available to support them

As described in the prior trend, General Fund tax revenues were flat from 2018 through 2023. While tax revenue is not earmarked to pay for specific services, most tax revenue pays for the Township's public safety services. Those services (mostly police) accounted for \$10.8 million (or 64.5 percent) of the General Fund expenditures in 2022 and a similar percentage in 2023.

Public safety expenditures grew from \$9.2 million in 2018 to \$11.3 million in 2023, the equivalent of a 4.2 percent compound annual growth rate (CAGR). The table below shows the largest items in the Police Department's budget and a couple others that grew by relatively large amounts.

Select Police Department Expenditures, 2018-2023⁷

	2018	2019	2020	2021	2022	2023	CAGR
Salaries - Police	4,233,338	4,199,149	4,450,361	4,737,046	4,846,509	4,902,525	3.0%
Health insurance (Active employees)	1,374,226	1,378,969	1,425,415	1,339,855	1,486,940	1,540,927	2.3%
Police Pension - MMO	756,982	787,373	819,761	913,221	953,320	1,003,224	5.8%
Police Overtime	283,926	343,423	295,539	357,588	374,411	344,284	3.9%
Workers' compensation	166,638	157,391	154,372	185,838	245,152	269,432	10.1%
Data and network expenses	42,139	62,679	105,042	183,051	239,054	297,177	47.8%
Capital outlay - vehicles	108,392	165,951	104,287	212,343	213,374	137,304	4.8%
Vehicle fuel	66,322	70,268	53,872	80,308	110,669	100,719	8.7%
Subtotal	7,031,963	7,165,202	7,408,650	8,009,251	8,469,429	8,595,593	4.8%

Public safety is not the only area where the Township's expenditures rose over this period. Spending on items categorized in the audit as *General Government* increased by 3.1 percent per year and total operating expenditures (excluding debt and capital outlay) increased by 2.7 percent per year. None of these growth rates are excessive compared to external benchmarks. For example, the chained consumer price index for all urban consumers (C-CPI-U) – a common measure for inflation – grew by 3.8 percent per year from 2018 to 2023.

But expenditures grew faster than the revenues used to pay for those expenditures, and that contributes to the Township's weaker financial performance.

Shifting stormwater responsibilities reduced support for the General Fund

In 2018, the Township implemented a new stormwater fee to help cover the cost of treating stormwater runoff. Pennsylvania governments and local authorities have treated the stormwater runoff that carries pollutants into the sewer system for decades, but stormwater fees are a relatively new approach to paying for that service.

Municipalities can levy stormwater fees on all property owners, even those whose property is exempt from real estate taxes, distributing the cost of stormwater management across a broader base of rate payers.

⁷ The expenditures shown here are final (audited) for 2018 through 2022 and preliminary for 2023.

Swatara charges property owners a monthly fee based on the amount of impervious surface area on their property.⁸ Even the Township itself pays stormwater fees for its property.

When the Township launched this program, it had a management agreement with the Swatara Township Authority. The Authority billed property owners on behalf of the Township, collected the stormwater fee revenue, and then remitted it to the Township. The Township received the stormwater fee revenue in its General Fund and used it to cover program costs including employee compensation, engineering, and storm sewer repairs.

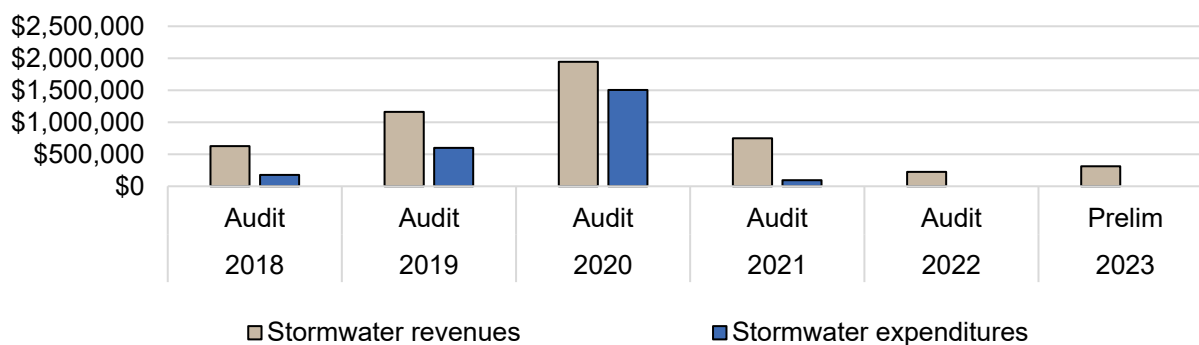
In the first year, the Township received \$627,000 in stormwater fees⁹ and spent \$178,000 on the program. Since the Township recorded the program revenues and expenditures in its General Fund¹⁰, the \$449,000 net difference between revenues and expenditures helped improve the General Fund's 2018 year-end results.

As the stormwater management program developed, its expenditures rose. The Township added employees for Geographic Information Systems (GIS) mapping, clerical support, and frontline sewer maintenance. The Township increased its spending on contracted services (primarily engineering) and equipment purchases. Program spending rose from \$178,000 in 2018 to \$600,000 in 2019 and then \$1.5 million in 2020.

Stormwater fee revenue also increased as the program matured. In 2020, the Township collected \$1.9 million in stormwater fees, which was \$441,000 higher than program expenditures and \$465,000 more than budgeted. Stormwater fee revenues outpaced expenditures by at least \$400,000 in the program's first three years.

Then, entering 2021, the Township created the Swatara Township *Stormwater* Authority and changed the program. This new authority assumed responsibility for the program, with all its associated operating costs, and started to receive the stormwater fee revenue. The changeover from a Township-operated program to the Authority-operated program did not happen immediately. In 2021, the Township received \$751,000 in stormwater fee revenue against \$95,194 in net expenditures¹¹, which translated to \$656,000 in net revenue for the General Fund. The program still generated a net benefit for the General Fund in 2022 and 2023, but those benefits were smaller.

Stormwater System Revenues and Expenditures in General Fund



⁸ Single family residential property owners pay \$4 to \$6 per month while other property owners pay a multiple of that monthly rate depending on the amount impervious surface area on their properties. Please see Stormwater Management Frequently Asked Questions. <https://swataratwp.com/stormwater-management-faq/>

⁹ The Township's 2018 year-end audit notes that the Authority owed the Township an additional \$292,000 for outstanding stormwater fee in the form of accounts receivable.

¹⁰ Stormwater revenues were counted as departmental earnings in the Township's audit while stormwater expenditures were counted under the Highways and Street category within the General Fund.

¹¹ The Township's accounting system records all expenditures related to the stormwater program with offsetting reimbursements from the Stormwater Authority. Total program expenditures were much higher than the \$95,000 noted here.

	2018 Audit	2019 Audit	2020 Audit	2021 Audit	2022 Audit	2023 Prelim
Stormwater revenues	627,083	1,162,157	1,944,883	750,894	225,837	312,908
Stormwater expenditures	177,717	599,879	1,504,220	95,194	0	0
Net result in General Fund	449,366	562,278	440,663	655,700	225,837	312,908

When assembling the 2023 budget, the Township could have anticipated that stormwater fee revenues collected in the General Fund¹² would continue to fall since the Stormwater Authority assumed responsibility for the program in 2021. Instead, the Township projected \$966,000 for General Fund stormwater fee revenue. Actual revenues were \$313,000, leaving a \$653,000 shortfall in this account last year. That shortfall was one of the primary contributors to the Township's 2023 General Fund deficit. Going forward, the Township has corrected this mistake – the 2024 budget only anticipates \$266,000 in stormwater fee revenues flowing into the General Fund.

From 2018 through 2021, the stormwater program generated \$0.5 million in net revenue for the General Fund. Net revenue dropped when the Stormwater Authority assumed responsibility for the program, and it should eventually drop close to \$0 unless the Township uses an indirect cost reimbursement¹³. Any positive difference between program revenues and expenditures should stay in the separate enterprise fund where that money can be used to create a contingency to fund emergency repairs, stabilize stormwater rates, or partially offset the cost of large capital projects.

Question #3: Are the recent corrective actions that the Board of Commissioners has taken or plans to take a reasonable, effective response to the declining performance?

In January 2024, the Board of Commissioners reopened and amended the 2024 budget, cutting expenditures from \$18.1 million to \$15.9 million.¹⁴ Revenues were also reduced from \$17.6 million to \$15.4 million. While the 2024 budget has a deficit – as has each adopted budget since 2018 – the \$0.5 million deficit is smaller than the seven-figure deficits in the 2021, 2022, and 2023 budgets.

The two largest changes by dollar value had no net impact on the budget. The Township removed the \$1.5 million Rupp Hill Road improvement project from the budget and removed the associated bond proceeds that would have paid for that project. Similarly, the Township removed \$350,000 for compost facility equipment and the associated grant funding.

Other changes should have a more meaningful impact on financial performance.

More conservative revenue projections

The Township lowered its revenue projection for several taxes, bringing the budget targets closer to 2023 preliminary results for real estate taxes, real estate transfer tax, and the local services tax (LST). The 2024 projection for current year real estate tax revenue is now a little lower than the 2023 preliminary year-end figure, while the current year EIT projection is 12.8 percent higher than last year's preliminary result¹⁵.

¹² The Township now has a separate enterprise fund that receives most of the stormwater fee revenue. The 2023 budget anticipated \$1.7 million from this source.

¹³ An indirect cost reimbursement occurs when a municipality charges its enterprise funds a portion of the cost of service provided by employees whose compensation is covered by the General Fund. For example, if Township employees in the General Fund provide financial management, IT or human resources support to the Stormwater Authority, then it is appropriate to charge the associated cost of those services to the Authority's enterprise fund.

¹⁴ January 10, 2024 Minutes, Board of Commissioners. https://swataratwp.com/wp-content/uploads/2024/02/2024_01_10-BOC-minutes.pdf

¹⁵ The projected growth in total EIT revenues (current and prior years) is 9.0 percent.

Overall, the revised tax revenue projections are now more conservative, assuming 4 percent growth over 2023 results instead of 10 percent.

Revised Tax Revenue Projections

	2023 Preliminary	2024 Original	2024 Amended
Real estate tax - current year	2,593,347	2,581,764	2,463,680
Real estate tax - prior & delinquent	89,429	124,442	86,471
Real estate transfer tax	698,877	791,674	752,506
Earned income tax - current year	2,837,363	3,355,594	3,200,000
Local service tax - current year	689,442	726,283	689,971
Subtotal	6,908,458	7,579,757	7,192,628
Growth relative to 2023 preliminary results		10%	4%

Adopting more conservative revenue projections is prudent considering recent large operating deficits. The assumed growth rate for current year EIT revenues is still high at 12.8 percent.

Personnel reductions

The amended budget allocates \$244,000 less for employee cash compensation (mostly salaries and wages) and \$156,000 less for employee benefits. The Township eliminated some positions and reduced the associated benefit costs as shown in the table below.

Personnel Expenditure Reductions – Original versus Revised Budget¹⁶

Department	Category	Original	Revised	Reduction	Description
Governing [Admin & Finance]	Cash compensation	\$312,098	\$211,778	\$100,320	Eliminate Assistant Finance Director and Assistant Manager positions
	Benefits	\$266,553	\$207,955	\$58,598	Savings associated with position reductions
Police	Cash compensation	\$419,055	\$297,487	\$121,568	Eliminate Director of Public Safety position and reduce payouts for unused sick and vacation leave
	Benefits	\$2,120,939	\$2,065,453	\$55,486	Savings associated with position reductions
Highways	Cash compensation	\$43,775	\$21,888	\$21,887	Eliminate Public Works Superintendent position (General Fund share)

¹⁶ This chart only shows the values for the budget lines impacted by the changes, not all budget lines within each department. For example, the Township allocates more than \$419,000 for police officer cash compensation in the 2024 budget, but the lines impacted by the budget amendments add up to \$419,000.

Department	Category	Original	Revised	Reduction	Description
	Benefits	\$574,544	\$532,529	\$42,015	Savings associated with position reductions
Subtotal		\$3,736,964	\$3,337,090	\$399,874	

Consolidating senior positions is an effective cost reduction mechanism that should yield long-term savings, provided the Township does not add new positions to replace those that were eliminated.

Other expenditure initiatives

The Township has also identified other cost reductions, some of which have already been executed and others which would have a future benefit.

- The Township has identified some personnel, software, and equipment costs that should be split between the Township’s General Fund and either the Stormwater Authority or the Swatara Township Authority that manages the sanitary sewers. Cost allocations reduce the draw on General Fund resources and appropriately charge costs to the fee-supported utilities.
- The Township now requires Finance approval for more purchase orders, improving expenditure control.
- The Township plans to do a competitive bid for its health insurance plans to seek better coverage at the same cost or the same coverage at a lower cost.
- The Township identified unused escrow funds that were previously set aside for vehicle leases that have since been paid off. The Township instead used those escrow funds to pay off other debt, reducing its General Fund debt expenditures by more than \$100,000 over the lives of the loans.

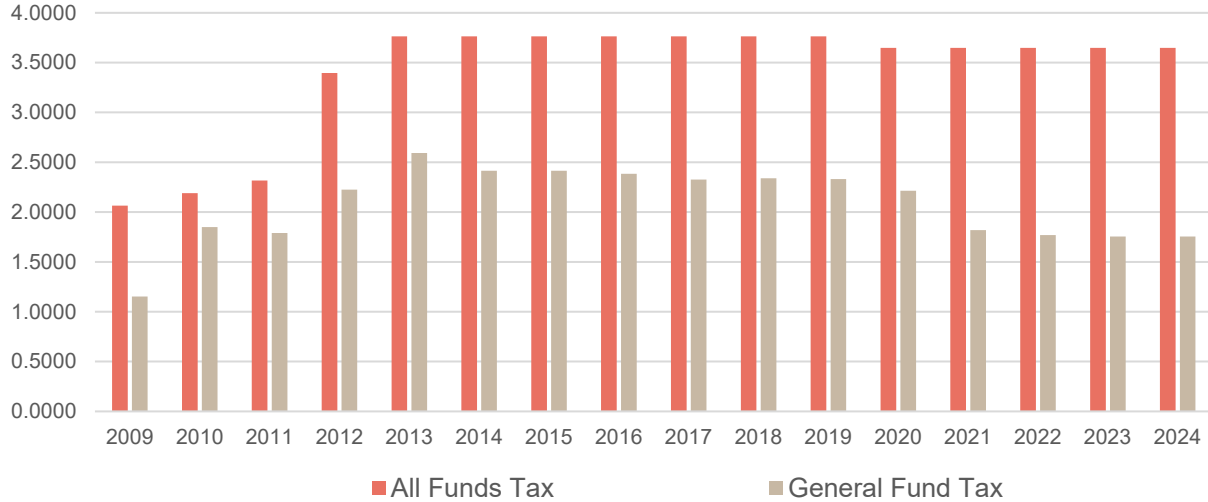
These are sound strategies for reducing General Fund expenditures, so the Township’s spending matches its available revenues in that Fund.

These initiatives involve expenditure controls, expenditure reductions, and more conservative revenue projections. We are not aware of any initiatives focused on increasing revenues, and the Township to date has not considered increasing the total real estate tax rate.

The last real estate tax rate increase was 2013 when the Township increased the total millage rate by 10.8 percent (or 0.37 mills). The 2013 increase followed a much larger increase on a percentage basis in 2012 when the real estate tax rate increased by 46.6 percent (or 1.08 mills). The total tax rate has remained mostly flat since 2014, except for the small reduction in 2020.

One official noted that this decision to hold tax rates flat for several years has been intentional. Holding the total tax rate flat for more than a decade smoothed the impact of the 2012 and 2013 percentage increases. From 2009 through 2024, the compound annual growth rate for real estate tax rates in Swatara Township was 3.9 percent – a more moderate rate of increase than the spikes in 2012 and 2013 or the recent freeze.

Tax Rates (Mills) – General Fund and All Funds, 2009 - 2024



Over the long term, the General Fund portion of the tax rate has a similar pattern. The compound annual growth rate for the General Fund millage from 2009 through 2024 is 2.8 percent. Like the total tax rate, the General Fund tax rate had double-digit percentage increases prior to 2014. However, while the total tax rate was *frozen* from 2014 through 2024, the General Fund millage **fell** by 3.1 percent over this period.

Many property owners will understandably focus on the Township’s total tax rate. The distinction between whether they are paying for debt service, ambulance services, fire protection, or other Township operations (i.e. the General Fund) matters less than the total amount they are paying.

But that distinction *is* important from a financial management perspective. The different segments of the real estate tax fund different types of services and, while the Township has recently offset any increase in one part of the millage with a decrease in the other, that does not match how the cost of these services changes. Just as a resident’s electric bill does not automatically decrease because the cable bill increased, the cost of providing police protection via the General Fund does not decrease because the cost of providing fire or ambulance services increased.

The Township may be able to close the recent deficits without increasing the real estate tax rate. That depends in part on how other revenues grow, especially the EIT which the budget anticipates will grow by 9.0 percent from \$2.8 million in 2023 to \$3.2 million in 2024. But if those other revenues do not grow enough to offset the negative real estate tax trend, then the Township will have to either further reduce its expenditures or increase real estate taxes to balance the budget.

Question #3: Are the corrective actions that the Board has taken an effective response to the declining performance?

During one of our interviews, a Township official observed that, until recently, Swatara’s financial performance had been predominantly discussed in terms of one number – how much money is in the Capital Reserve fund?

By that very simple measure, the Township’s financial performance was stable from 2018 through 2022. The year-end audits showed at least \$4.0 million in the Capital Reserve Fund each year. But the audits also showed several warning signs, like repeated and growing operating deficits in the General Fund.

Last year, the Township transferred \$2.5 million from the Capital Reserve Fund into the General Fund to help cover its \$2.9 million operating deficit. The recently released 2023 audit shows the Capital Reserve had \$2.0 million in cash at the end of last year, less than half of what it held 12 months earlier, without any money being invested in capital projects. That measure tells the same story as the others presented here – the Township’s financial performance has slipped in recent years.

The criteria we used to evaluate Township’s past financial performance can also provide a more holistic view of its future performance. Swatara’s elected officials and residents will know the Township’s financial performance is improving if:

- ❖ The General Fund has operating surpluses – annual revenues are higher than annual expenditures – without resorting to short-term fixes, drawing down reserves, or transferring money previously set aside for other purposes.
- ❖ The Township’s fund balance is growing or stays at the target level set by the Township policy.
- ❖ The Township’s annual results are better than the budget forecast, both overall and for its largest revenues and expenditures.
- ❖ Total tax revenues are growing each year at a high enough rate to cover the rising costs of daily operations.
- ❖ Operating expenditures do not grow faster than the revenues available to pay for them.
- ❖ The Township assigns a growing portion of its total resources to capital spending, infrastructure investments or other strategic priorities, without unduly increasing its debt burden.

As described earlier, context is critical. Individual metrics may trend in the right direction without showing the whole picture. So, it is important to look at multiple metrics and remember that *the explanation* behind the numbers is often as meaningful as the numbers themselves.

The Township also should not wait until the end of the year to assess its financial performance. Instead the Township should produce quarterly reports that use data and descriptive narrative to answer the following questions:

- Is the Township on pace to collect more/less revenue than it projected in the budget, both overall and from its largest sources?
- Is the Township on pace to spend more/less than it projected in the budget, both overall and in its largest expenditure categories?
- How do the Township’s revenues and expenditures to date compare to its performance through the same period last year?

The report should answer each of these questions fully, so Swatara’s leaders and residents understand **what is happening**, **why it is happening**, and **what that means** for management decisions.

Here is an example of this analysis applied to mid-year expenditures on cash compensation for “Governing” (Administration and Finance), which is one of the areas where the Township cut spending to close its deficit.

Mid-year Expenditures for Cash Compensation in Governing Division

	2023 Budget	2023 Midyear	% Spent	2024 Budget	2024 Midyear	% Spent	2023-24 \$ Change
001.400.030.0000.0000 SALARIES-MANAGER	\$56,000	\$28,664	51%	\$105,000	\$29,497	28%	\$833
001.400.054.0000.0000 ACCUMULATED TIME PAYOUT	\$0	\$0	N/A	\$0	\$35,637	N/A	\$35,637
001.400.040.0000.0000 SALARIES-ASST MANAGER	\$84,048	\$42,024	50%	\$21,643	\$24,245	112%	(\$17,779)
001.400.060.0000.0000 SALARIES-CLERICAL	\$65,422	\$32,711	50%	\$16,846	\$18,872	112%	(\$13,839)
001.400.063.0000.0000 FINANCE DIRECTOR	\$56,000	\$28,664	51%	\$68,289	\$33,858	50%	\$5,195
001.400.064.0000.0000 FINANCE-ASSISTANT	\$33,150	\$16,575	50%	\$0	\$0	N/A	(\$16,575)
001.400.065.0000.0000 SALARY-PAYROLL CLERK	\$56,143	\$28,072	50%	\$57,827	\$28,849	50%	\$777
001.400.067.0000.0000 SALARY-RECEPTIONIST	\$35,860	\$18,993	53%	\$36,936	\$22,001	60%	\$3,007
Total cash compensation - Governing	\$386,623	\$195,702	51%	\$306,541	\$192,958	63%	(\$2,744)

The color coding draws attention to the trends that are worth further review and discussion. In this case:

- The Township spent less than half of its budget for the Township manager salary midway through the year. This is positive in terms of savings to budget, but are there any operational implications of having this position vacant? Will the vacancy continue into the second half of the year?
- The Township spent \$36,000 on accumulated time payout, even though the budget did not allocate anything for this purpose. It is difficult to budget for time payouts because they are large and sporadic. Should the Township set aside part of its reserves (or build a new, small reserve) that it can access when these separations occur?
- The Township planned to eliminate the Assistant Finance Director position and is executing that gap closing strategy. Is that strategy working well operationally? Is there any risk that having fewer positions assigned to financial management results in lesser performance overall?

Unlike an audit or budget preparations, quarterly financial reports do not have to touch on every single account. The Township can focus on the largest revenues and expenditures, especially where there are large variances relative to budget or relative to last year; present the tables with brief written descriptions that provide important context; and then discuss the analysis.

We encourage the Township to use this strategy to evaluate the effectiveness of the 2024 budget closing measures, guide the upcoming 2025 budget discussions, and help improve future financial performance.