



Swatara Township Financial Review findings

**Presented by:
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Introduction

In Spring 2024, the Board of Commissioners requested a review of the Township's financial condition because of its concerns about declining financial performance in recent years. 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?**

We reviewed the Township's financial performance based on audits, budgets, and other financial documents from 2018 through 2023. We also interviewed elected and appointed staff to better understand the Township's financial performance over this six-year period.

This presentation summarizes our findings that are described in a longer memorandum provided to the Township.



#1 Has Township government performed worse financially in recent years?



Growing deficits 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 more than 10 percent of total expenditures** in 2021, 2022, and 2023.

General Fund Operating 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)

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.

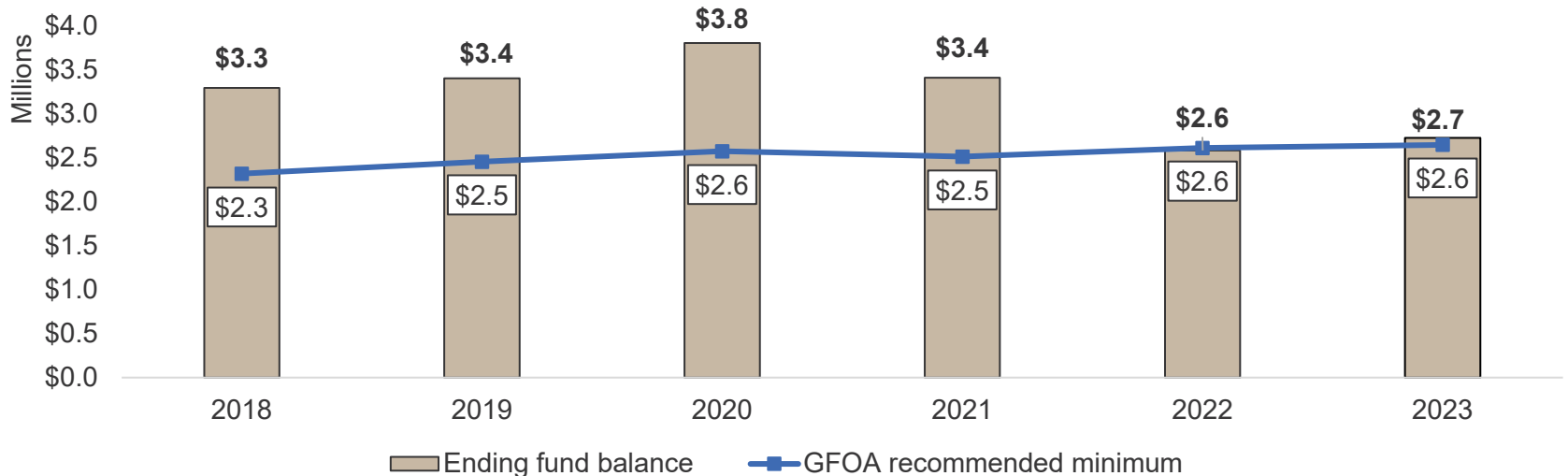
Source: 2018 – 2023 Annual Comprehensive Financial Reports



Falling reserves since 2020

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. Unrestricted fund measures a government's ability to withstand fluctuations in revenues and other risks. 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.

General Fund Balance and GFOA Recommended Minimum



Source: 2018 – 2023 Annual Comprehensive Financial Reports



History of structurally imbalanced budgets

The Township's annual budget opens with a statement how much money the Township has at the time of the budget's release and how much more it expects to add or subtract 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.

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)
Structurally balanced?	No	No	No	No	No	No

If the Township budgets conservatively (projects revenues lower and expenditures higher than is likely), that could explain some of these deficits. But the Township had substantial operating deficits in 2021 and 2022 that were covered by a portion of the federal stimulus funding and then another deficit in 2023 that was covered by the Capital Reserve.

Source: 2018 – 2023 Adopted Budgets



Performance relative to budget

Prior to 2023, the Township did perform better than projected in its annual budgets, 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 – 2023

	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

Source: 2018 – 2023 Adopted Budgets; 2018 – 2023 Annual Comprehensive Financial Reports



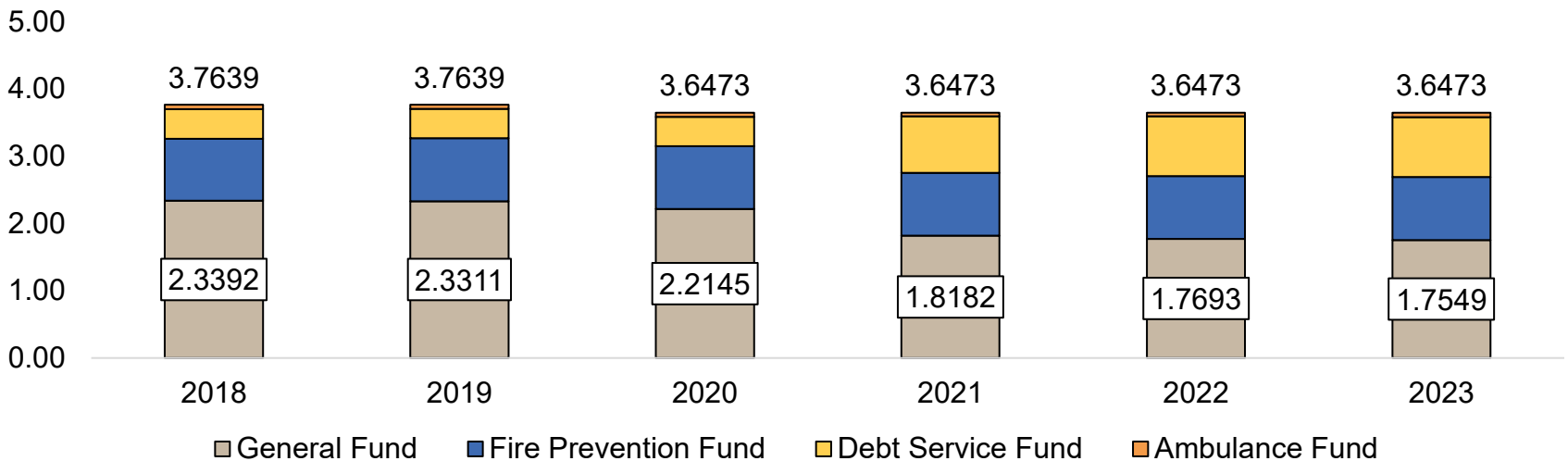
#2 What caused the weaker financial performance?



Real estate tax: Same rate, different allocation

The Township splits the real estate tax revenue between its General Fund where it supports daily operations and three other funds (see graph below). In 2020, the Township lowered the total tax rate by 3.1 percent from 3.7639 mills to 3.6473 mills. In recent years, the Township has kept the total tax rate the same while shifting small portions of the General Fund tax to the other funds. **While the total real estate tax levy has been basically flat over this period, the Township allocates less of that total to operations.**

Township Real Estate Tax Rate, 2018 - 2023



Source: 2023 Annual Comprehensive Financial Report



Cause #1: Flat General Fund tax revenues

General Fund real estate tax revenue has dropped by 6.4 percent per year since 2018 because the Township allocates a smaller portion of the total to that fund. The Township's Act 511 taxes – primarily the earned income tax (EIT) and business privilege tax (BPT)—generated more revenue over this period. 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 - 2023

	2018	2019	2020	2021	2022	2023 Prelim	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%

Source: Final (audited) results for 2018 – 2022; preliminary (unaudited) results for 2023



Cause #2: Spending growing faster than revenues

Public safety expenditures (mostly police) 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 some of the largest lines in the Police budget. Total operating expenditures increased by 2.7 percent per year, which is not excessive. **But any spending growth creates a deficit when paired with flat tax revenues.**

Select Police Department Expenditures, 2018 - 2013

	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%

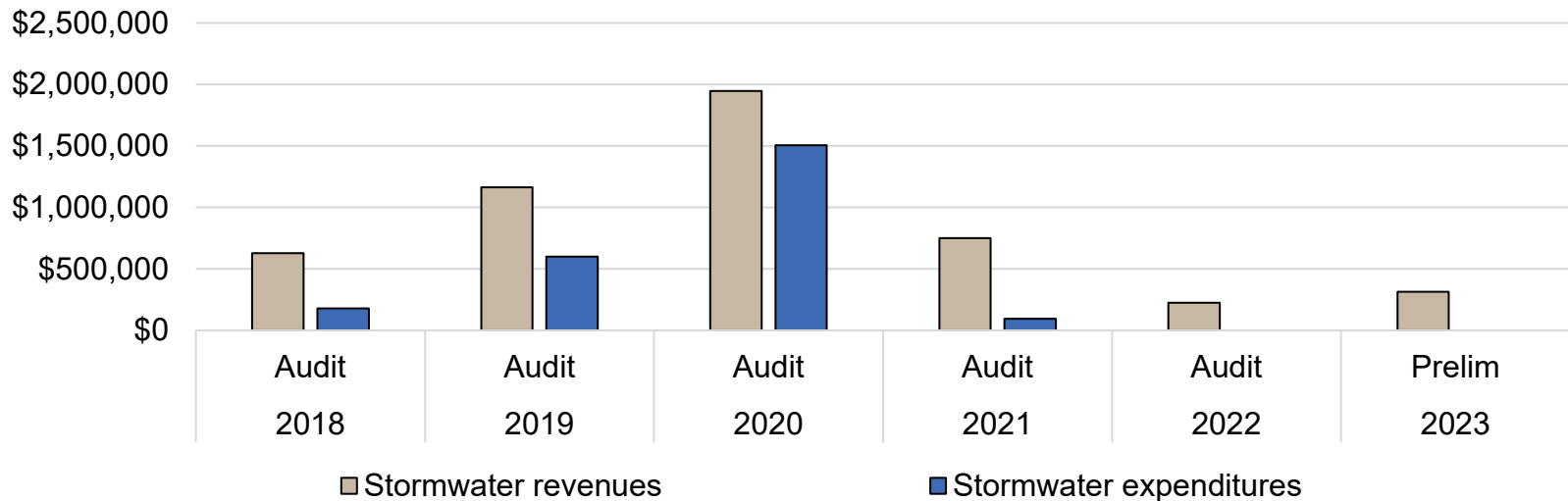
Source: Expenditure detail provided by Township



Cause #3: Shifting stormwater responsibilities

Prior to 2022, the Township collected stormwater fee revenues and made program expenditures from its General Fund. Revenues outpaced expenditures each year, and the General Fund netted about \$0.5 million per year. When the Stormwater Authority took over the program in 2022, most of the revenues and all expenditures shifted to a different fund. So, the General Fund will not receive as large a net benefit from the program.

Stormwater System Revenues and Expenditures in the General Fund



Source: Revenue and expenditure detail provided by Township



#3 Are the Board's corrective actions an effective response to this trend?



Response #1: More conservative revenue projections

The Township lowered its revenue projection for several taxes, bringing the new 2024 budget targets closer to 2023 preliminary results for delinquent real estate taxes, real estate transfer tax, and the local services tax (LST). Overall, the Township's revenue projections are now more conservative, assuming 4 percent growth over 2023 results instead of 10 percent. **Adopting more conservative revenue projections is prudent considering recent large operating deficits.**

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%

Source: 2023 preliminary year-end results, 2024 Adopted and Revised budgets



Response #2: Personnel cost 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. **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.**

Personnel Expenditure Reductions

Department	Category	Original	Revised	Reduction
Governing – Impacted lines [Admin & Finance]	Cash compensation	\$312,098	\$211,778	\$100,320
	Benefits	\$266,553	\$207,955	\$58,598
Police – Impacted lines	Cash compensation	\$419,055	\$297,487	\$121,568
	Benefits	\$2,120,939	\$2,065,453	\$55,486
Highways – Impacted lines	Cash compensation	\$43,775	\$21,888	\$21,887
	Benefits	\$574,544	\$532,529	\$42,015
Subtotal		\$3,736,964	\$3,337,090	\$399,874

Source: 2024 Adopted and Revised Budgets. The table above only shows the lines impacted by the reductions, not all lines within a particular department.



Response #3: Other cost reductions

The Township also identified other cost reductions, some of which have been incorporated in the budget 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. 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 a wider range purchase orders, which improves expenditure controls
- The Township plans to do a competitive bid for its health insurance plans to see if that process produces 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 are already paid off. The Township used those escrow funds to pay off other debt and that reduced its General Fund debt expenditures by more than \$100,000.



Financial monitoring: How to know you have done enough

The Township has taken reasonable steps to address its deficits, but we cannot tell whether these responses will go far enough to improve financial performance because that depends on the Township's revenues and expenditures during the second half of the year. It also depends on the Township's performance across all revenues and expenditures. The recent deficits have been over \$1 million so the Township will need to see significant improvement to reverse that trend.

The Township should review its overall performance throughout the year by **producing 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 for its largest revenues?
- 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 this year compare to 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.



Signs of success

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