

INDEX

2nd BUDGET HEARING

NOVEMBER 18th, 2020

Call of the Meeting	1
Roll Call	1
Rules for Meeting Decorum	1
Finance and Appropriations Committee Co-Chairs: Robert S. Gwin Jr. & Matt Silva Members: Danyelle Blackwell & Brian K. Burke	
2nd Public Hearing	1
Public Comments	1
Presentation by Gary Merron, Director of Finance	
Council Comments	1-2
Adjournment at 11:33 p.m.	2

MINUTES FOR 2nd BUDGET HEARING ON NOVEMBER 18, 2020

The video of this meeting can be viewed in its entirety on [youtube.com/upperdarby.org](https://www.youtube.com/upperdarby.org)

Opening of Meeting

Roll Call

Hafiz Tunis Jr. (HT), Michelle Billups (MB), Matt Silva (MS), Danyelle Blackwell (DB), Robert S. Gwin Jr. (RG) Brian K. Burke (BB), Sheikh Siddique (SS), Lisa Faraglia (LF), Donald P. Bonnet (DPB), Thomas P. Wagner (TW), Laura A. Wentz (LW)

Present at the Meeting

Barbarann Keffer, Mayor
Vincent A. Rongione Esq., CAO
Sean P. Kilkenny, Esquire
Courtney N. Richardson, Esquire
Alison Dobbins, Director of Special Projects
Alexis Cicchitti, Chief Municipal Clerk

Guests

Zach Williard, Director, PFM Financial Advisors LLC
W. Patrick Scott, Partner, Obermeyer Rebman Maxwell & Hippel LLP
David Payne, PNC (Township Underwriter)
David Haman, Treasurer
Gary Merron, Director of Finance

Rules for Meeting Decorum

“Upper Darby Township Council and Residents will maintain professional respect for each other. Council encourages free speech, however, civility is required which would prohibit threats, profanity, scandalous, impertinent and redundant comment or any comment the discernible purpose of which is to disrupt or prevent the conduct of the business of the meeting”

Council President LW convened a Public Hearing.

Public Comment

Peggy Bradin Wilson, 824 Drexel Avenue is looking for clarification of the Township’s A+ Bond Rating and its impact on our budget.

Gary Merron gave a brief presentation

***See attached**

In response to Ms. Bradin, Mr. Merron provided an attachment of the bond ratings from Moody’s S&P and Fitch shared an attachment from our Financial Advisor that addressed the rating S&P specifically gave Upper Darby Township. This document was from the “*Upper Darby Township Debt Book*” produced by Mr. Williard. Mr. Merron stated that the CAO and he had a conference call with the S&P Ratings *Folks* specific to the upcoming bond issue. He felt it went rather well. He is confident there will be an increased rating for the

Township. Mr. Williard added that Mr. Merron was referring to a document relating to the "2017" Rating and there has not been an update since then. He also reiterated the conference call with the S P went well and wanted to make Council aware that there is a lot of preparation that goes along with these bond issues. Overall, he was pleased with their interview. The new report will provide a *new* starting baseline to help improve the rating.

CAO Rongione stated the Township is being proactive to improve the rating by implementing the new property maintenance program or the new commercial fire inspections and that the increase of parking fines is one of the steps that have been taken.

LW stated that some of the action taken in the past year was not just to increase revenue, but also to cover expenses not being covered previously to make sure we were not incurring a loss, such as the sewer lateral inspections and certain code enforcement to cover some of our processing fee of our people going out.

She questioned how the rating affects the purchasing of the bond and the amount/cost of insurance.

Mr. Williard responded that the A+ credit rating is what is used to market bonds. It is a middle tier rating. When you are below the double A category, which the Township current is one notch below, they bid out bond insurance companies and purchase a bond insurance policy that brings Township's bond into the double A category. In return, for this bond purchase premium, you receive a higher credit rating and lower interest rates. You would take advantage of this only if it decreases the cost of borrowing or at least the cost of the insurance premium. During these times, this is the case.

Mr. Payne expounded on another attribute for bond insurance. It opens up to a lot more investors to give credit to your bonds and purchase them for their portfolio. Furthermore, he agrees with the CAO, Mr. Merron and Mr. Williard. The best course at this time is to maintain the A+ Rating as the first consideration while working on improvement for the next series of bonds.

Mr. Williard reiterates the first goal is to hold onto the current rating while developing a strategy to improve the rating over a few years. The rating agencies favor a pattern of trending a higher rating.

RG wanted to confirm that the reassessment from the county would not affect this. Mr. Payne claims the reassessment is a *healthy* exercise in the eyes of the rating agencies, showing effort between the County and the Township ensuring equitability with their entire tax base.

The Public Hearing was closed, as there have been no more public comments.

Motion to adjourn: HT/DB All in favor. Meeting adjourned at 7:20 p.m.

Respectfully submitted,

Alexis Cicchitti
Chief Municipal Clerk

AC/cmg

Summary:

Upper Darby Township, Pennsylvania; General Obligation

Credit Profile

US\$7.545 mil GO bnds ser 2017 due 05/01/2037

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' rating to Upper Darby Township, Pa.'s series 2017 general obligation (GO) bonds. At the same time, we affirmed our 'A+' underlying rating. The outlook on all the ratings is stable.

The township's full faith and credit and resources pledge and agreement to levy ad valorem property taxes without limitation on the rate or amount secure the bonds. The township will use bond proceeds to finance its remaining capital projects that include certain energy improvements and renovations.

The 'A+' rating reflects our assessment of the following credit factors, including the township's:

- Adequate economy, with projected per capita effective buying income (EBI) at 90.4% and market value per capita of \$41,190, that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with an operating surplus in the general fund and break-even operating results at the total governmental fund level;
- Adequate budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2015 level of 9.9% of operating expenditures;
- Very strong liquidity, with total government available cash at 11.8% of total governmental fund expenditures and 3.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 27.7% of total governmental fund revenue, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Adequate economy

We consider Upper Darby Township's economy adequate. The township, with an estimated population of 83,168, occupies 7.8 square miles in eastern Delaware County immediately west of Philadelphia. It is in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 91.8% of the national level and per capita market value of \$41,190. Overall, market value was stable over the past year at \$3.4 billion in 2015. The county unemployment rate was 4.7% in 2015.

Summary: Upper Darby Township, Pennsylvania; General Obligation

Residents benefit from its employment opportunities both in Philadelphia and throughout the MSA. The township has certain traits of an urban center as well as those of a residential suburb.

Market value has been declining since 2011 at an annual average of 0.5%. According to management, the aging housing market has resulted in consistent reductions in market value. However, management indicated that there have been recent investments in the downtown area that are expected to improve the economy and the tax base.

Adequate management

We view the township's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Management looks at historical trends when budgeting and also incorporates economic trends. There is frequent budget monitoring and officials provide the council with monthly budget-to-actual results. The township has a formal fund balance policy in place to maintain its unassigned fund balance at a minimum of 5% to 10% of revenues or one-to-two months of expenditures. It maintains a five-year capital improvement program that it updates and reprioritizes yearly. However, it does not engage in comprehensive multiyear financial planning, and aside from the limitations placed on it by state statutes, there are no debt management policies. The township's governmental fund investments are guided by state statute.

Adequate budgetary performance

Upper Darby Township's budgetary performance is adequate, in our opinion. The township had surplus operating results in the general fund of 2.7% of expenditures, and balanced results across all governmental funds of 0.4% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term. General fund operating results of the township have been stable over the last three years, with results of 1.8% in 2014 and 1.6% in 2013.

Consecutive operating surpluses have been achieved despite certain revenues coming in under budget, such as business taxes and grants and entitlements. However, real estate taxes, which are the largest source of revenues, have been increasing and management has been raising taxes annually and actively collecting delinquent taxes. Also, according to management, the budget is consistently monitored and both overtime costs and new hiring are kept low. The township had experienced prior years of structural imbalances due to its high fixed costs associated with salaries and benefits, pensions, and OPEB costs. However, management was able to achieve structural balance due to controlling expenses, including staff reductions from attrition, reduced overtime expenses, and the elimination of some discretionary programs.

Though in 2016, the general fund assumed an operating deficit of \$1.5 million, based on unaudited results, it will end with a drawdown of \$365,000. Management attributes this to overtime and higher costs due to employee injuries. In addition, management reported it has made efforts to keep the fund balance within its current policy limits.

The 2017 budget totals \$73.5 million, an increase of 3.3% year over year, and includes a \$2 million fund balance appropriation, higher than the amount appropriated in 2016. Two of the township's three labor contracts were settled early in the year. There is, however, one that is still under negotiation. However, we expect that with ongoing revenue stability and management's ability to make the necessary budgetary adjustments, that budgetary performance is likely

Summary: Upper Darby Township, Pennsylvania; General Obligation

to remain adequate.

Adequate budgetary flexibility

Upper Darby Township's budgetary flexibility is adequate, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2015 level of 9.9% of operating expenditures, or \$6.8 million.

The township's general fund balance has been increasing annually over the past three years. We have adjusted its fund balance to account for receivables for ash and rubbish that may not be received. We understand that management has been aggressively making efforts to collect these receivables. If they continue to rise, they could have a negative net effect on the available fund balance.

Based on unaudited results for 2016, the general fund will fall to \$6.5 million, net of receivables, or 9.3% of expenditures.

Should the general fund end with the budgeted drawdown of \$2 million, the general fund balance could decline below 8%.

Very strong liquidity

In our opinion, Upper Darby Township's liquidity is very strong, with total government available cash at 11.8% of total governmental fund expenditures and 3.1x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

We believe the township's strong access to external liquidity is supported by debt issuances, including GO notes within the past 10 years. Though the state allows for what we view as permissive investments, we believe the township does not currently have aggressive ones, with the majority of the general fund cash in Pennsylvania Local Government Investment Trust (PLIGIT). We have adjusted the township's governmental cash to net cash that is restricted capital projects.

The township's series 2006, 2008, and 2009 GO notes totaling \$5.8 million were purchased by Delaware Valley Regional Finance Authority (DeVal; 'A+/Stable') from the proceeds of the series 2002 local government revenue bonds. These bonds include an interest-rate swap agreement between the Bank of America (A/Positive) and DeVal. Based on the loan agreement between the township and the authority, the township may be obligated to pay any termination charge allocable to its loan amount if the swap agreement is terminated. Termination could be triggered if the authority or the bank rating falls below 'BBB'. Given the current ratings for the authority and the bank being two notches above the 'BBB' rating trigger, we believe any risk to the township's liquidity is remote. Furthermore, as of Jan. 31, 2017, the swap transactions related to the authority's notes have a positive market value of \$923,085 so the township would not be assessed a termination charge in the event of a termination.

The loan agreements also include certain events of default that we consider non-standard. However, given the cure period to remedy the events of default is 180 days, we view liquidity risk as being remote. Also, due to the specific nature of DeVal (for more information, please refer to the full analysis on DeVal, published July 3, 2014, on RatingsDirect), active management of the loans, and commonwealth laws preventing the township from violating certain covenants in the loan agreements, we believe these events are unlikely to occur.

Summary: Upper Darby Township, Pennsylvania; General Obligation

From 2013 through 2015, the township issued consecutive tax anticipation notes (TANs) to provide cash flow due to its weakened cash position in prior years. We expect that it is likely to maintain its very strong liquidity.

Adequate debt and contingent liability profile

In our view, Upper Darby Township's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 27.7% of total governmental fund revenue.

There are no major additional debt plans within the next three years, according to management.

In our opinion, a credit weakness is Upper Darby Township's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. The township's combined required pension and actual OPEB contributions totaled 12.8% of total governmental fund expenditures in 2015. Of that amount, 8.4% represented required contributions to pension obligations, and 4.4% represented OPEB payments. The township made its full annual required pension contribution in 2015.

The township provides pension benefits for its employees through three single-employer defined-benefit pension plans by the Municipal Pension Plan Funding Standard Recovery Act (Act 205 of 1984): the Police Pension Plan, the Municipal Employees Pension Plan, and the Firefighters Pension Plan.

As of Dec. 31, 2015, the police, firefighters, and municipal employees were underfunded with a net pension liability as a percentage of its plan fiduciary net position at 67.1%, 71.63% and 87%, respectively. The township finances its OPEBs on a pay-as-you-go basis. Based on the 2014 actuarial valuation, the most recent year available, the unfunded actuarial accrued liability is \$244 million. We believe that these costs could pressure future budgets.

Strong institutional framework

The institutional framework score for Pennsylvania home-rule cities, other than Philadelphia, is strong.

Outlook

The outlook reflects our view that the rating is unlikely to change within the two-year outlook period given the township's sizable OPEB liability and fixed costs that could pressure future budgets. Nevertheless, we expect management to continue to make the necessary budgetary adjustments to avoid potential structural imbalance. The outlook also reflects the township's very strong liquidity and adequate budgetary performance and budgetary flexibility.

Downside scenario

If the township can't manage its pension and OPEB costs and maintain structural balance, resulting in deterioration of its budgetary performance, budgetary flexibility and liquidity, we could lower the rating.

Upside scenario

We could raise the rating if the township's economic metrics, primarily its market value per capita, improve to levels that are in line with its higher rated peers, coupled with its ability to manage its fixed costs while maintaining or improving its budgetary performance, budgetary flexibility, and liquidity.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
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Ratings Detail (As Of February 23, 2017)

Upper Darby Twp GO (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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A+(SPUR)/Stable

Affirmed

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Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.