

Upper Darby Township Strategic Management Planning Program

Five-Year Plan Summary (As of June 2023)

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What is STMP?

In 2022, Upper Darby Township Mayor Barbarann Keffer and her Administration applied to the **Pennsylvania Department of Community and Economic Development (DCED)** for technical assistance through the Strategic Management Planning Program (STMP).

STMP provides Commonwealth-grant funding for multi-year financial plans so government leaders can think about how best to align their resources with their needs over the next five years. Multi-year plans take the balanced budget concept (revenues = expenditures) and extend it over multiple years. The Plan should also tie financial performance to a strategic vision.

The Township had a Phase I STMP engagement that started under the prior administration, was focused on economic development in a specific area, and ended in the middle of the pandemic. By the time that process ended in 2021, much had happened – COVID, ARPA, work-from-home, etc.

So, the Keffer Administration asked DCED to restart this process. They recognized the Township’s weakening financial position and sought a deeper dive into the trends driving those results. DCED supported this approach and, in the Summer of 2022, the Township launched the engagement that culminated in the multi-year plan.

April 2022
Upper Darby applies for STMP
May 2022
Upper Darby engages PFM
Summer 2022 - January 2023
Financial condition assessment
Summer 2022 - January 2023
Management and mission review
January 2023 - Spring 2023
Research and action plan
Spring 2023 - September 2023
Plan assembly and release



Why does Upper Darby need a multi-year financial plan?

The Keffer Administration recognized the urgent need to address the Township's poor financial performance extending back to at least 2018. The Township's financial reserves were modest in 2017 (unassigned fund balance of 6.7 percent versus 16.7 percent recommendation), and by 2021 they were close to zero.

Township Financial Reserves, 2017 – 2021 Audits (\$ Millions)

	2017	2018	2019	2020	2021
Cash and cash equivalents	\$8.0	\$9.3	\$7.9	\$5.6	\$1.5
Unassigned fund balance	\$4.9	\$4.5	\$6.0	\$2.2	\$0.1
Total fund balance	\$8.2	\$7.0	\$6.1	\$2.3	\$0.2
Expenditures	\$72.4	\$76.4	\$77.9	\$76.8	\$81.0
Unassigned as % of expenditures	6.7%	5.9%	7.7%	2.8%	0.2%
Net change in fund balance	\$0.4	(\$1.3)	(\$0.9)	(\$3.8)	(\$2.1)



In July 2022, S&P Global Ratings downgraded the Township's credit rating on its general obligation debt from A+ to A with a negative outlook. The downgrade cited Upper Darby's "weak financial performance" including the string of deficits, low reserves, and reliance on federal stimulus funding to plug budget holes. The Township's credit rating has since been withdrawn, with application for reinstatement expected after the 2022 audit is released.



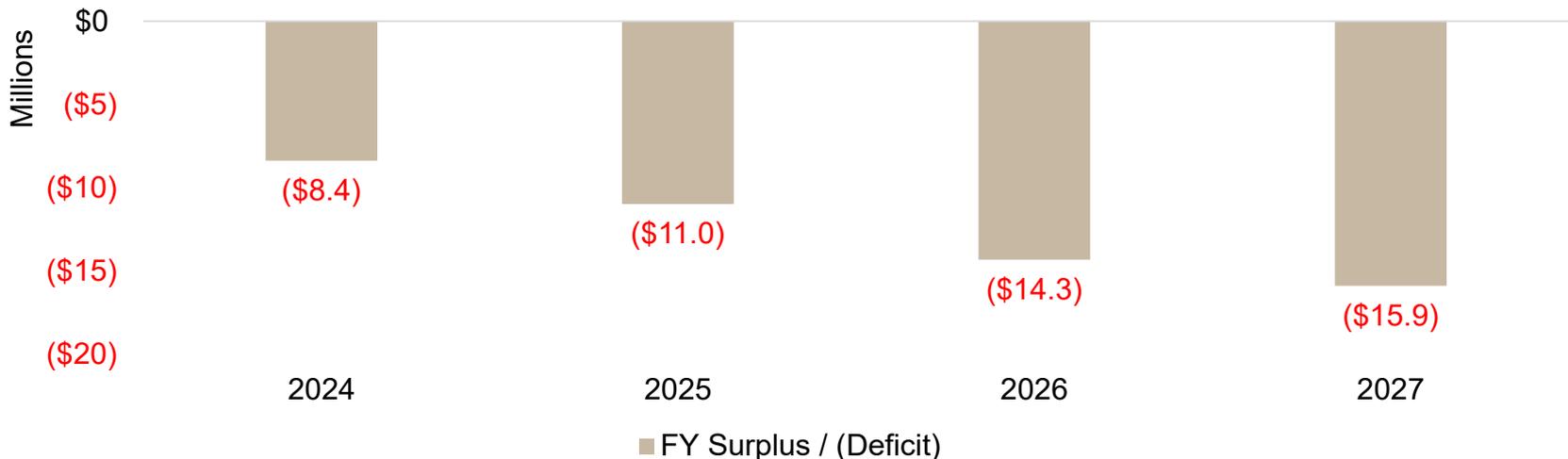
Financial condition assessment

All Phase I STMP plans start with a Financial Condition Assessment that reviews past performance and projects future results in a baseline scenario. That baseline is a diagnostic exercise where revenues and expenditures are projected in a status quo or carry forward scenario (no tax increases, no headcount changes). Our financial condition assessment answered two questions:

Q: Are the Township's recurring revenues sufficient to cover recurring expenses?

A: No, and they have not been sufficient since at least 2018.

Q: Are there any projected deficits in the baseline and, if so, how much would they grow absent corrective action?





Three key trends

Three trends explain much of Upper Darby's financial performance during the review period (2017 – 2021):

- Upper Darby relies heavily on its real estate tax revenues because, unlike most Pennsylvania municipalities, it does not levy an earned income tax (EIT). The Township is the only municipality of its size in the Commonwealth – and one of very few overall – that does not levy the EIT on residents or commuters.
- The costs of providing services naturally increase over time, but the revenues available to fund those services do not. This is true across Township government overall and within specific programs. For example, spending on the Township's residential refuse collection system grew by 8.3 percent from 2017 through 2021. Sanitation fee revenues only grow when the Township increases the rates.
- The Township benefited from modest growth in personnel costs during the review period because of flat spending on employee health insurance and temporary wage freezes during the collective bargaining process. The Township should expect more robust growth through 2027. The cost of other post-employment benefits (primarily retiree health insurance) is also already very high (\$7.2 million estimated in 2022) and will grow even more if not addressed.

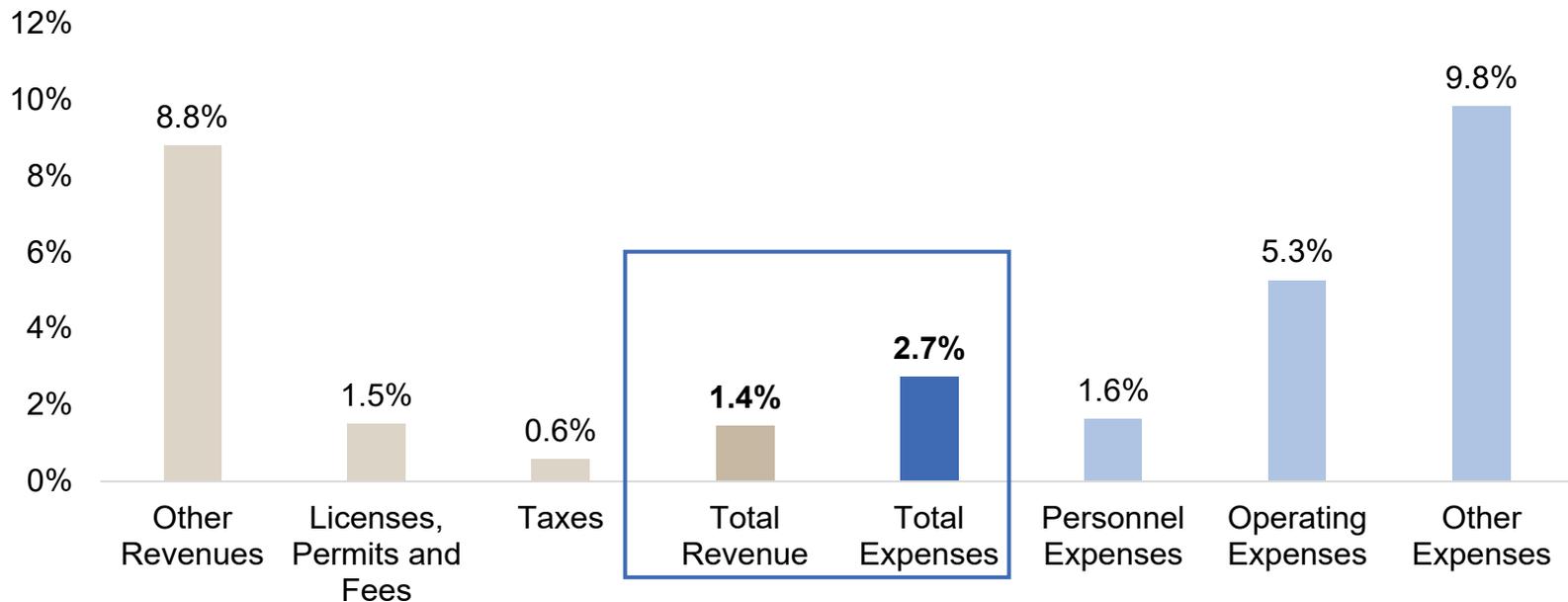
For more analysis of recent historical performance and a full description of the baseline projection, please see the Financial Condition Assessment chapter beginning on page 11.



There's a structural deficit...

From 2017 to 2021, revenue grew at an average rate of 1.4 percent annually while expenditures grew by 2.7 percent. Almost two thirds of the Township's annual budget comes from tax revenue, which has been basically flat. Every major expenditure category grew faster than total revenue and, while personnel expenditures grew at a modest 1.6 percent per year**, that's still more than total revenues.

Historical Annual Growth Rates, 2017 - 2021



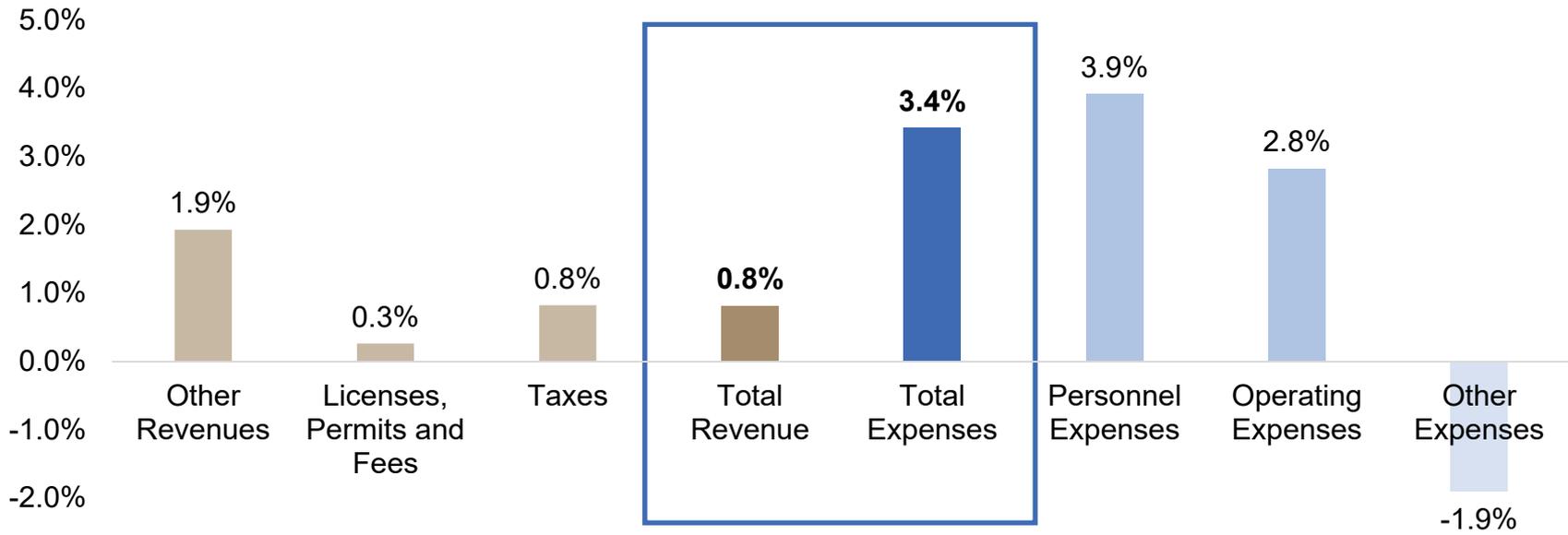
** Police officers did not receive their salary increases for 2021 until an arbitration award was released that provided retroactive wage increases for time worked during this period. If those wages had been paid during 2020, the personnel growth rate would have been higher.



...and, absent corrective action, it gets worse

The structural deficit gets worse in the baseline projection because it assumes no tax or fee increases, annual wage increases, and rising health insurance costs. **It would be extremely difficult to balance the Township's finances in any scenario if revenues remain this flat, especially in the current inflationary environment. The Township would have to continually cut spending (including personnel) to balance its budget.**

Projected Annual Growth Rates, 2024 - 2027





Money in support of a mission

While this Plan is primarily focused on improving Upper Darby Township government's financial performance, local government does not exist for solely financial reasons. It should use its monetary resources in support of its mission.

At the start of this engagement, we asked the Keffer Administration leadership to describe Township government's mission, and they provided the following:

To be a world class provider of municipal services and a destination community for residents and businesses, with welcoming neighborhoods, thriving business districts, and vibrant public spaces, by modernizing, reinvesting in and revitalizing our community.

The mission statement emphasizes Township government as a provider of services, emphasizing those that create welcoming neighborhoods, thriving business districts and vibrant public spaces.

As a world class service provider, the Township needs a workforce that is well-trained, customer-oriented, and reflective of Upper Darby's diversity. Those employees need effective technology, reliable vehicles, and well-maintained facilities to do their jobs. The Township needs to be financially stable enough to compensate its employees now, fund future retiree benefits, and make sufficient investments in the infrastructure (vehicles, roads, facilities) that employees and residents use every day.

And that only happens if Upper Darby Township regains its financial footing.



First four initiatives

In addition to diligent revenue collection and expenditure control for the rest of 2023, the most important step that Upper Darby’s leaders can take right now is developing a 2024 budget that closes the structural deficit.

No.	Initiative	Page No.
FM01	Set deficit reduction targets and monitor progress by updating the baseline projection	43
FM03	Budget on a position-by-position basis	46
RV01	Start levying an earned income tax (EIT)	51
CB01	Allocate the remaining federal stimulus funds toward a capital reserve	80

The projected deficits in the baseline projection are very large relative to the reported cash reserves. Even with the rebound in reserves expected in the 2022 audit, Upper Darby’s leaders need to act with urgency and specificity to close this deficit.

The first two initiatives are procedural tactics to ensure the decisions made in the 2024 budget help close the deficit on a recurring basis. The framing question is, ***“How does each action that we take to balance the 2024 budget help close the deficit in 2025?”***

Levying an EIT effective January 1, 2024 would help close the 2025 budget deficit. Using federal stimulus money as a short-term stop-gap would not.



Earned income tax

The Plan recommends that the Township start levying an earned income tax on its residents and commuters who work in Upper Darby effective January 1, 2024.

According to the Commonwealth's Taxation Manual, **about ninety-five percent of Pennsylvania's municipalities levied the EIT in 2013, along with hundreds of school districts. Upper Darby is the only municipality of its size in Pennsylvania that does not use these taxes.**

While it is a township, Upper Darby is one of the largest municipalities in the Commonwealth by population. It has one of the highest population densities in Pennsylvania and has more residents than most Pennsylvania cities.

We expect the EIT initiative to generate a lot of conversation, and we write a lot about this topic in the Plan. This initiative would also have the largest impact on the Township's financial performance, by a large margin. While a new resident EIT would increase taxes for some residents, it would just shift where others currently pay their taxes, without a change in the rate paid. It would also expand the tax base to include some commuters and renters who rely on Township services, like public safety.

The 2021 Phase I STMP assessment projected that levying a 1.0 percent EIT on residents and non-residents (the most common EIT rate) would generate at least \$9.4 million per year. While those projections could be updated using more recent data, that estimate gives a sense of magnitude for what this one initiative is potentially worth.



Using ARPA for capital projects

Upper Darby received \$41.7 million under the American Rescue Plan Act of 2021 (ARPA, or the federal stimulus bill) that can be used for the purposes described in the accompanying federal guidelines. As of May 2023, the Township leaders estimated there was approximately \$15 million in unassigned funding.

The Township already used ARPA to temporarily cover its operating deficits in 2022 and 2023, and the federal guidelines allow the Township to do so one final time in 2024. This would just prolong the difficult decisions that the Township leaders will have to make to address the reality that recurring revenues are not high enough to cover recurring expenditures.

We instead strongly recommend that the Township put the remaining, unassigned ARPA funds in a Capital Improvement Account to fund badly needed infrastructure projects – facility system repairs, replacing playground equipment, road paving. This should reduce the pressure to issue new debt, which has a recurring cost.

We also recommend that the Township prioritize maintenance and repairs at existing facilities. This does not mean that the Township should not build any new facilities, like the Community Center. But those types of projects should be (1) limited in number; (2) part of a larger strategic plan; and (3) account for the full cost of operating that new facility.

Finally, we recommend that the Township focus on its own infrastructure needs, versus funding outside organizations, because those public assets are used by the entire community and those needs only grow if left unaddressed. Upper Darby needs to regain its own financial footing before it tries to subsidize operations for other organizations.



First Year: Focusing on fundamentals

No.	Initiative	Page No.
FM02	Rebuild reserves and adopt a fund balance policy	44
FM04	Upgrade financial systems and improve data management practices	47
FM05	Hire a full-time, in-house Finance Director	48
CB02	Conduct asset condition assessment	81
CB03	Develop a capital improvement plan document and process	81

Plans are good, but ***planning is better***, and the Township will need updated information to plan well. The multi-year plan has a handful of initiatives toward this end.

In the first full year of the next Administration, the Township should set a formal policy and targets for rebuilding its reserves (initiative FM02). That policy, coupled with a 2024 budget that does not rely on temporary fixes for structural problems and 2022 audited results, should help Upper Darby restore its credit rating.

We also recommend the Township hire a full-time Finance Director, separate from the Chief Administrative Officer, the Controller (which is a good but different position), or any additional help that external firms provide. The Township should expect to spend \$150,000 - \$200,000 to hire someone with relevant public sector experience to run a \$93,000,000 organization.



Expenditure control and collective bargaining

No.	Initiative	Page No.
WF01	Moderate across-the-board wage increases	65
WF02	Manage the total cost in all forms of cash compensation	66
WF03	Restructure sick leave payouts	68
WF04	Implement plan design changes for active employees	70
WF05	Change employee cost-sharing structure	72
WF06	Reduce long-term liability and cost growth for retiree health insurance	73

Upper Darby Township employees are critical to government's mission, but there are also practical limits to the government's ability to cover rising personnel costs. A public works department with an unreliable fleet of trash trucks, a police department with inadequate space to house its operations, and a fire department with old vehicles will struggle to provide services, no matter how numerous and well-compensated its employees are.

The Township needs to create room for capital investments and shouldn't do that solely by raising taxes or issuing debt. Personnel cost control needs to be part of the strategy. The Township and its unions should negotiate compensation packages that manage total costs (wages + active employee benefits + spending on retiree benefits). **The Township's spending on other post-employment benefits is a particularly ripe target for reducing costs.**



Looking beyond the next 18 months

No.	Initiative	Page No.
RV02	Regularly adjust service fees	57
RV03	Recreation revenue opportunities	61
CB04	Continue shifting personnel costs out of the Liquid Fuels fund to increase funding for road paving	83
FR01	Consider the challenges and opportunities related to fire staffing	88
ED01	Create data dashboard for key economic growth metrics	96
ED02	Conduct proactive code enforcement	97
ED03	Evaluate LERTA program	98
ED04	Continue engaging the Township's business community	100



Putting Upper Darby back on firm financial footing

This Plan projects the Township's financial performance for the next five years, and there are initiatives that the Township should pursue over the next two to three years.

Some of these initiatives can be advanced sooner if there is capacity to do so. Others would require the Township to first stabilize its finances. For example, if the Township wants to expand its full-time fire protection to the weekend – or add more police officers or build more playgrounds or enhance trash collection – it first needs to address the structural deficit.

But the conclusion that Upper Darby cannot afford to increase its spending *right now* does not need to be the final word on this matter. A multi-year financial plan intentionally looks at resources and needs over several years, so the Township can position itself to make this investment if it is a priority.

For the current administration and the next one, that should be the focus for the next 18 months – putting Township government back on firm financial footing with a restored credit rating, replenished reserves, and a structurally balanced budget. Then, Township government will be in a better position to fulfill its mission and help “modernize, reinvest in, and revitalize this community.”