



Upper Providence Township, Pennsylvania Five-Year Financial Management Plan

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Executive Summary

In March 2021, Upper Providence Township engaged Public Financial Management (PFM) to develop a Five-Year Financial Plan.

Upper Providence has been one of the fastest growing communities in Pennsylvania. According to data from the Census Bureau, the Township's population grew by 1.9 percent annually, from 20,146 in 2010 to 23,920 in 2019.¹ In part because of the residential and economic growth the Township has been experiencing, total earned income tax revenues grew at an annual rate of 6.1 percent from 2015 to 2020.

Township government is led by an engaged, professional Board of Supervisors and experienced senior managers. Township leaders are creative and forward thinking, having taken meaningful actions to diversify revenues and control spending growth over the last several years. These measures include establishing a real estate tax in 2017, eliminating defined benefit pension plans for non-uniformed employees hired after 2016, and introducing a high deductible health insurance plan and a health insurance opt-out program for all full-time personnel beginning in 2017. The Township has also been dedicating one-time revenues from the real estate transfer tax toward capital projects.

In part because of these actions, the Township was able to afford building a new police facility (2016), making site upgrades to the Black Rock municipal campus (2017), and transitioning the Department of Fire and Emergency Services to provide full-time coverage during the day (2019), all while maintaining fiscal balance. In October 2020, Moody's assigned a Aaa rating (it's highest) to the Township's \$10 million General Obligation Bonds, citing its affluent tax base, strong financial position, sound reserves, and manageable pension liabilities.

The township's Aaa rating reflects a moderately-sized, affluent tax base with a moderate degree of taxpayer concentration. The rating further reflects the township's strong financial position, the result of conservative management and a willingness to raise revenues, material factors that have resulted in consistent operating surpluses; and ample reserves and liquidity help to offset risks associated with exposure to economically sensitive revenues. Finally, the rating also considers the township's minimal debt burden and manageable pension liabilities.

-- Moody's Rating Rationale, October 2020

This multi-year financial plan should help Upper Providence Township build from a position of strength.

Financial condition assessment

The first step in developing a multi-year financial plan is to understand Township government's current financial position and the critical underlying factors driving its performance, summarized in a Financial Condition Assessment and Trend Analysis presented to the Township in June 2021. As part of that analysis, PFM identified six key financial trends that drive Township government's financial performance. While those trends allowed the Township to experience tremendous growth in the last several years, there are also risks going forward as the Township becomes increasingly built-out and service demands continues to drive spending upwards.

¹ U.S. Census Bureau's American Community Survey, five-year estimates.

Six Key Financial Trends

Strengths	Risks
The earned income tax has seen robust growth in the last five years, averaging 6.1 percent in annual growth...	...but the growth rate has been declining in the last two years and there continues to be uncertainty as a result of the pandemic
The enactment of the real estate tax brought new revenues to the Township...	...but the Township's taxable assessed value only grows by one to two percent a year
One-time revenues (primarily from the real estate transfer tax and building permits) boosted the Township's revenues...	...but the Township cannot rely on one-time revenues to fund core municipal services
The Township has been able to keep health insurance spending growth below national trends over the last five years...	...but health benefits inflation will drive spending increases absent plan design changes or increased employee contribution moving forward
The elimination of the defined benefit pension plan for non-uniformed employees helped control growth in the minimum municipal obligation (MMO)...	...but Police MMO continues to rise and the Township now must make contributions to the fire pension plan as well
The Township has used a balanced approach to fund its capital needsbut capital investment needs will continue to rise as the Township will have to continue maintaining its infrastructure and meet service demands

To provide a sense of what the Township's financial picture will look like moving forward absent adjustments, we developed a baseline projection. There are two very important contextual points to understand the baseline projection:

- **The baseline projection presents a status quo scenario.**

Conceptually, the baseline projection represents a “carry forward” or “current services” set of projections – such that no reduction or enhancement in services, headcount or tax rates are generally assumed, except in cases where already adopted into current law or consistent with existing policy.

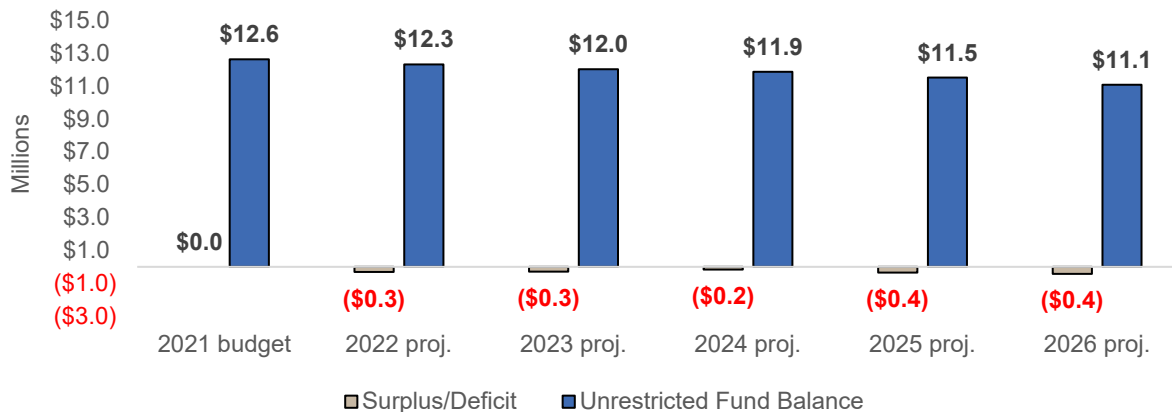
- **The baseline projection is not a prescription for the Township's financial policies, nor is it a prediction of future annual results.**

The baseline projection shows Upper Providence's finances absent changes. Practically speaking, the Township will have to make adjustments over time. The Township is statutorily required to pass a balanced budget each year and it could not absorb the projected deficits in the baseline without drawing down its reserves. However, it is critical to have a baseline projection in order to understand the magnitude and nature of budget challenges before developing appropriate corrective action.

The baseline projection starts with the adopted 2021 budget. Beginning in 2022, the baseline five-year projection accounts for known future changes, such as provisions in existing collective bargaining agreements and scheduled debt payments, and then applies growth rates calculated based on a combination of historical performance, socioeconomic trends, and other factors. It also includes allocation for all the capital projects included in the 2021 five-year capital plan that was published together with the adopted budget.

The baseline projection shows annual deficits ranging from \$0.2 to \$0.4 million annually. Absent adjustments, the Township would have to continue to draw down its reserves to fund its operational and capital needs.

General Fund Baseline Projection, 2021 - 2026²



The projected deficits are not unique to Upper Providence. Local governments with manageable debt burdens, adequately funded pension plans, and high credit ratings can still have structural deficits or project their arrival in a couple of years. Frequently the revenues that fund core government services do not grow as much or as consistently as the cost of providing those services. Given that these projected deficits are only one to two percent of the General Fund budget, Township government should be able to address them through the budget process, just as it has in the past. The bigger challenge Upper Providence faces is the need to create room in the budget for investments, as described in more detail below.

Please see the financial condition assessment chapter for assumptions underlying the baseline projection.

Investment needs

Over the last several years, in part because of the robust revenue growth driven by major developments, the Township was able to fund a number of investments and improvements such as building a new police facility, upgrading the municipal campus, and hiring additional career firefighters to provide full-time coverage during the day.

Moving forward, the Township continues to see significant investments needs as infrastructure continues to age and the Township becomes increasingly built-out. For example, as a suburban township that is home to many families with young children, there is a need to upgrade playgrounds and parks and improve trail connectivity. The Park Master Plan completed earlier this year details the problem with the Township's aging infrastructure and highlights several parks that require urgent attention.

The following tables summarizes the Township's potential investment needs going forward based on the 2021 capital plan and our discussion with department heads. Please note that this is not a comprehensive list of all the necessary investment needs. Rather, it provides a starting point for conversations about what the needs are and how to prioritize limited resources.

² The unrestricted fund balance figure is based on the Township's 2019 financial statement and 2020 preliminary actuals. It also assumes that the Township finishes 2021 without a surplus or deficit, consistent with the assumption in the 2021 budget. Even though the 2022 projection shows a deficit, because the Township is required to adopt a balanced budget, that deficit is eliminated as part of the 2022 budget process.

Potential Investment Needs Over the Next Five Years

Investment Needs Included in the 2021 Capital Plan		Investment Needs <u>Not</u> Included in the Capital Plan	
Projects/Needs	Est. Cost	Projects/Needs	Est. Cost
Stormwater improvements	\$3.4 million	Trail connectivity improvements	\$6.0 million
Road improvements	\$9.4 million	Additional parks improvements	\$7.5 million
Selected playground improvements	\$2.7 million	Public works building upgrade	\$2.0 million
Rivercrest trail improvements	\$0.3 million	Fuel station and compost site upgrade	TBD
Technology upgrades	\$0.1 million	New library	\$15 - \$17 million
Vehicle and equipment replacements	\$1.1 million	Increase career firefighter staffing level	TBD
Joyce properties repairs	\$0.3 million	Additional vehicle replacements ³	\$1.0 million

In addition to these investments that were identified by Township management and department directors, we also identified other investment needs from our operational review that we believe Upper Providence should make to improve service delivery. Those additional investments include:

- Reducing the investment assumption for employee pension plans to more accurately reflect plan experiences and expectations;
- Creating additional capacity in the Finance Department by outsourcing payroll functions and getting external assistance during the audit process so that the Department can focus on strategic priorities;
- Creating additional capacity in the Human Resources Department by reclassifying the part-time Human Resources Director position into a full-time position;
- Investing in non-lethal weapons as part of the implementation of the police study completed in 2020; and
- Accelerating efforts to move toward electronic processes and addressing software needs.

Please see the strategic investments chapter regarding the Township's overall investment needs.

Mission as the guiding framework

Given the many competing investment needs, the Township needs to adopt a more wholistic, multi-year view to make policy and budget allocation decisions. The budget planning process generally has a one-year focus when investments the Township requires generally span at least several years if not more. This Five-Year Financial Plan is the first step in adopting a multi-year planning process, but the Township needs to continue to adopt practices that have a more strategic focus. Unless the Township establishes the guiding framework it needs, it can easily slip into the pattern where it continues to increase its spending allocation every year without a critical review of whether the Township should be allocating resources differently to advance the priorities it has set.

For that reason, the first recommendation in this Five-Year Plan is to develop a mission statement.

A mission statement should be a clear, concise statement of purpose and should become a guiding principle for establishing the organization's goals and allocating resources. We recommend the following mission statement as a starting point and encourage Township leaders to review and make changes based on further discussion:

³ These additional vehicle needs are primarily for the Department of Public Works. The 2021 capital plan included in the 2021 budget does not include future vehicle replacement needs for that department.

To provide for the health, safety, and welfare of residents, businesses, and visitors in a responsible and cost-effective manner; and to provide for the responsible protection and development of the Township and its resources.

At first glance this mission statement sounds bland or generic. Local governments exist to provide for the health and safety for their constituents and it is hard to argue against being responsible stewards who provide services in a cost-effective manner. But it elevates a number of priorities and services that are reflected in Township government's budget:

- **Provide for health and safety:** The reason more than half of the Township's budget is dedicated to public safety is because residents and businesses require police patrol and fire protection services to keep them safe. Those who live and work in the Township also expect roads to be well-paved, streets to be well-lit, signages to be clear, and the stormwater system to be well-maintained so that families and businesses can thrive in a safe and healthy environment.
- **Provide for welfare:** Township government provides for the welfare of its citizens by providing plenty of parks and recreation opportunities. According to the 2019 community study conducted by the Township, 96 percent of the respondents noted that recreation is at least important to them and their families, with 72 percent of the respondents noting that recreation is very important or extremely important.
- **Provide services in a responsible and cost-effective manner:** The Township strives to be a responsible financial steward by continuously evaluating ways to deliver services more effectively and efficiently, as evident by the Township's growing reserves and Aaa bond rating. Moving forward, the Township needs to not only ensure that it manages its money well and lives within its means, but also has a realistic plan to repair, replace, and maintain its infrastructure.
- **Responsible protection and development of the Township:** The Township has a Planning and Zoning Department responsible for the permitting, zoning, and overall planning of the Township's space and resources. Responsibly protecting and developing the Township is particularly important given the developments Upper Providence has seen in the last few years and the continuous growth the Township may see in the future.

Subordinate sections of the mission statement – covering goals and objectives – can help set and articulate more detailed priorities under the larger mission.

Even though this draft mission statement will be further refined by Township leaders, it should already help the Township determine how well the current budget and future spending plans align with the mission. It will also shape the rest of this Five-Year Plan, as detailed below.

Please see the initiative BP01 in the best practices chapter regarding establishing a mission statement.

Plan strategy: The way forward

For Upper Providence to afford the investments it desires to make and continue achieving its mission, we recommend three overarching strategies.

Funding through the American Rescue Plan Act

The American Rescue Plan Act (ARPA) will provide \$2.4 million in local fiscal recovery funds to Upper Providence. This one-time funding will allow the Township to cover some of the identified one-time investments on a pay-as-you-go basis. It is important that the Township matches this one-time funding with one-time spending, just as it has in the past with real estate transfer tax revenues. Doing so will help prevent the Township from running over a fiscal cliff whenever this one-time windfall is used up.

Please see initiative SI01 in the strategic investments chapter for more information.

Workforce strategies

With personnel costs representing two-thirds of the Township's General Fund budget, strategies to manage workforce cost growth have to be part of the solution to maintain long-term budget stability and eliminate any budget gap. We provide recommendations in the workforce strategies chapter to control the growth in the compensation provided to each employee. We also recommend that Township leaders start evaluating investments in terms of value delivered and strategic priorities.

Upper Providence currently has open questions regarding whether and how to increase career firefighter staffing level so that the Township does not rely solely on volunteer firefighters to provide fire protection services at night from 6pm to 6am. There are also questions regarding whether the Police Department is able to follow the external consultant's recommendation and civilianize two police officer positions without affecting the service level or response time.

As Upper Providence moves forward in determining the right staffing level for each department, we recommend the Township use two questions for guidance:

- **Cost-benefit question:** *What is the cost of providing service at the different levels and how does that compare to the benefit of doing so?*
- **Prioritization question:** *Should the Township be allocating resources differently to advance the priorities it has set?*

These two questions are not a rhetorical device to suggest the Township should hire more or fewer staff for each department. Rather, these questions are intended to raise the question for Township leaders to have more meaningful discussions regarding staffing. Those leaders can make more informed decisions if they know, for example, that the impact of hiring X instead of Y number of staff is that response time will increase by Z percent than if they just rely on generalizations like "response time will be faster with more staff" or "we need more firefighters because our call volume is increasing."

Township leaders can also make better resource allocation decisions if they have intentional discussions about what kind of resource allocation would best advance the stated goals in the mission statement. The answer to that question is not a purely financial one, nor is it one that we can answer based solely on the information we have collected. But it is one that is important enough that Township officials and leaders should first answer on its own and then collaboratively.

Please see initiative WS02 in the workforce strategies chapter for more information.

Revenue opportunities

The third overarching strategy is to enhance the Township's non-tax revenues. If the Township is able to identify dedicated non-tax funding sources to pay for services that it already provides, then it can free up current tax revenues to fund other priorities. We therefore provide suggested next steps for the Township to establish a stormwater fee and streetlight assessment. We also recommend the Township prioritize implementing a stormwater fee in 2022 given the estimated revenues it would generate to enhance environmental protection in Upper Providence.

Please see initiative RV01 and RV02 in the revenue opportunities chapter for more information.

In addition to finding new revenue resources, the Township also needs to ensure that current non-tax revenues grow at a rate commensurate with the cost of providing services. If non-tax revenues do not grow and the cost of providing the associated service does, then the Township will become even more dependent on the real estate and earned income tax to provide the same services. The Township should therefore think about non-tax revenues in terms of diversity because every lost dollar in non-tax revenue will have to come from taxes or expenditure reductions.

Please see initiative RV03 in the revenue opportunities chapter for more information.

Bringing it all together

Upper Providence needs a well-rounded plan to continue delivering quality services and meeting service demands, and the three overarching strategies are meant to help the Township achieve that goal. Where possible, we provide savings or revenue estimates for the recommended initiatives. Based on our estimates, if the Township implements the initiatives as outlined, it should have some room in the budget (\$1.3 million to \$1.5 million between 2023 and 2026) to make investments including:

- Capital projects included in the 2021 capital plan (incorporated in the baseline projection);
- Certain capital projects not included in the 2021 capital plan but critical for day-to-day operations, such as public works building upgrade and vehicle replacements;
- Updating the pension plan investment assumptions (initiative SI03);
- Creating additional capacity in the Finance Department (initiative SI05); and
- Accelerating efforts toward electronic processes (initiative SI06).

Revenue Initiatives

	2022	2023	2024	2025	2026
Baseline deficits	\$312,000	\$289,000	\$163,000	\$351,000	\$433,000
Enforce the false alarm ordinance (initiative BP03)	10,000	15,000	20,000	20,000	20,000
Revenues provided by ARPA (initiative SI01) ⁴	400,000	500,000	500,000	500,000	500,000
Enact a stormwater fee (initiative RV01)	0	1,095,000	1,117,000	1,154,000	1,175,000
Enact a streetlight assessment (initiative RV02)	TBD	TBD	TBD	TBD	TBD
Regularly revise fees (initiative RV03)	37,000	38,000	39,000	40,000	40,000
Total Available for Investments	\$135,000	\$1,359,000	\$1,513,000	\$1,363,000	\$1,302,000

The strategies outlined above should provide some resources for additional spending, but they are still not enough for the Township to make all its desired investments. For example, if Upper Providence desires to build and operate a new library, it would have to use a library levy to pay for the construction cost and the recurring cost of operations. If the Township desires to use career firefighters to provide 24-hour daily fire protection coverage, it would have to increase the public safety levy to pay for higher level of services.

Increasing the real estate tax – whether it comes in the form of a library tax or a public safety levy – can be a difficult decision in part because it results in a larger burden for home and business owners. For that reason, the Township may want to consider two “game-changing” options – evaluating the sale of the sewer system and adopting a Home Rule charter.

Two potential game changers

The Township cannot rely solely on expenditure control and non-tax revenue enhancement options to fund all its investment needs. If the Township wants to make all the aforementioned capital investments and at the same time provide services at a higher level (such as increasing its career firefighter staffing level and operating a new library), it needs to find additional funding sources.

One of the potential options is to sell the sewer system. Upper Providence has already taken the first step to value the sewer system, and preliminary figures show that the estimated fair market range of values for

⁴ The Township is set to receive \$2.4 million in one-time local relief funds. The Township will likely be able to use the entire allocation toward the revenue loss replacement category, but should also have a contingency plan in place in the event revenue performs better than anticipated. For more information, please see initiative SI01.

the sewer system would be between \$35.0 million and \$42.5 million. In addition, the remaining fund balance in the sewer funds would also be returned to Township.

At the same time, there is value to the current arrangement and reasons for keeping the system as a public utility go beyond the potential size of an upfront payment. To help the Township make the best decision for its residents and businesses, we outline the benefits and drawbacks of selling the system and recommend next steps so that Township leaders have what they need for further evaluation.

Please see initiative RV04 in the revenue opportunities chapter for more information.

The second potential option is to adopt a Home Rule charter. Upper Providence is a Second Class Township and its revenue sources and tax rates are governed by the Second Class Township Code. The Second Class Township Code also establishes the structure of Township government and requires that the Township maintains certain positions, including an elected tax collector and a board of auditors.

If Upper Providence adopts a Home Rule charter, it would be able to gain the flexibility to increase the resident EIT rate beyond the current 1.0 percent. Right now, the real estate tax is the only locally controlled revenue option that could generate enough money to meet the investment needs described above. Adopting a Home Rule charter may also allow the Township to eliminate row officer positions otherwise required under the Second Class Township Code, depending on how the Home Rule charter is written.

We describe the process to adopt a Home Rule charter and note that we provide this option not because Upper Providence is at a point where gaining the flexibility to set the resident EIT rate is crucial to its future financial sustainability. Rather, we provide this analysis for Township officials to consider as it evaluates its investment needs and future revenue options.

Please see initiative RV05 in the revenue opportunities chapter for more information.

Best practice policies

One of the goals this Five-Year Plan is to help the Township adopt the financial management tools it needs to guide the decision-making of current and future leaders on fiscal issues to ensure budgetary stability. PFM therefore recommends Upper Providence establish three best practice policies that will help the Township continue to pave the path to long-term sustainability.

- **Sewer transfer policy:** Upper Providence currently makes an annual transfer from the Sewer Fund to the General Fund to reimburse the salaries and benefits for the two public works employees whose primary responsibility is to maintain the sewer lines and pump stations. It is not unusual for a municipality to rely on these types of transfers from the sewer system to the General Fund, but the transfers should ideally be calculated using a methodology that is transparent and consistently applied from year to year. Adopting a sewer transfer policy should provide some level of predictability to the Township as a whole and the sewer system, which is useful for planning purposes.

Please see initiative BP02 for more details regarding the sewer transfer policy.

- **Capital planning and prioritization policy:** To create a robust framework for capital management, the Township should establish a capital planning policy that defines which projects are eligible for funding in the capital budget and lays out the process for developing the Capital Improvement Plan. The capital planning policy should also set the criteria and process for evaluating and prioritizing capital projects for funding to ensure that the Township sequences capital projects in a way that provides the most return on investment.

Please see initiative BP05 for more details regarding adopting a more robust capital management framework.

- **One-time windfall policy:** To provide the Township with the parameters on how one-time proceeds should be used, Upper Providence should establish a windfall policy governing the use of those proceeds, which can include a contribution to the employee pension plans, an additional debt service payment, and a capital infrastructure investment. Using one-time proceeds in this manner will ensure the Township matches a non-recurring cost with a non-recurring expense.

Please see initiative RV04 for more details regarding adopting a policy governing one-time windfalls.

While the Township is already following some of these financial management principles, codifying them will help make current practices a permanent part of Township government and make funding decisions more transparent.

Implementation strategy and timeline

This Five-Year Financial Plan has a total of 20 recommendations. It is not realistic for the Township to try to implement all of them immediately, but timing does matter for certain initiatives, particular for those related to the budgeting and auditing process. The timeline below provides direction on how to prioritize the key initiatives outlined in this Plan, though circumstances, needs, and opportunities will change over time, and the Township's strategy should adapt accordingly.

Plan Initiatives Implementation Timeline

2021 Priorities	Initiatives for Ongoing Review
<ul style="list-style-type: none"> • Develop a mission statement (initiative BP01) • Create capacity in the Finance Department (initiative SI05) • Evaluate pension funds' investment assumptions (initiative SI03) • Take steps toward enacting a stormwater fee (initiative RV01) • Take steps toward adopting a capital prioritization process (initiative BP05) 	<ul style="list-style-type: none"> • Develop a mission statement (initiative BP01) • Engage an external consultant to evaluate fire staffing (initiative WF02) • Develop a strategic approach to use ARPA funds (initiative SI01)
2022 Priorities	
<ul style="list-style-type: none"> • Adopt a policy on sewer fund transfer (initiative BP02) • Enforce the false alarm ordinance (initiative BP03) • Update the five-year projection (initiative BP06) • Develop a plan to Implement police study recommendations (initiative SI04) • Accelerate efforts to move toward electronic processes (initiative SI06) • Evaluate the pros and cons of the sewer sale (initiative RV04) 	<ul style="list-style-type: none"> • Evaluate the pros and cons of building a new library (initiative SI02) • Create a strategy that controls overall compensation cost growth (initiative WF01) • Evaluate the size of workforce in terms of value delivered and strategic priorities (initiative WF02)
2023 Priorities	
<ul style="list-style-type: none"> • Take steps toward enacting a streetlight assessment (initiative RV02) • Evaluate pension funds' investment assumptions (initiative SI03) • Consider adopting a property maintenance code (initiative BP04) 	<ul style="list-style-type: none"> • Regularly revise fees (initiative RV03) • Evaluate the potential of adopting a Home Rule charter (initiative RV05)

Upper Providence is in the process of adopting the 2022 budget and the Township will need to prioritize its resources as it determines the type of investments to fund next year. In addition to taking our initiatives and implementing it during the budget process, we also recommend the Township update the multi-year projection using the software it already purchased. Doing so will encourage Township leaders to evaluate any changes through the lens of ensuring the long-term fiscal sustainability of Township government.

Overall Upper Providence Township is positioned to do more than survive. We hope that the Township – including its leaders, department staff, residents, and businesses – will be able to build on its commitment and creativity and work together to build from a position of strength and continue making the Township a great place to live, work, and play. This Plan and the strategic process it outlines will help Upper Providence do so.

Financial Condition Assessment

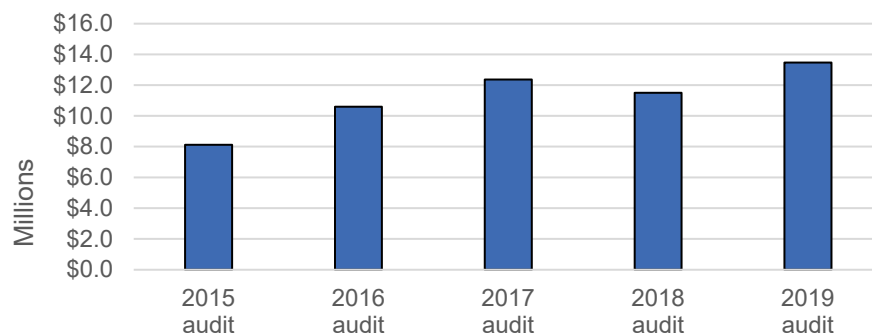
The first step in developing a multi-year financial plan is to understand Township government's financial position and the critical underlying factors driving its performance.

Over the last several years, the Township has taken meaningful actions to diversify its revenues and control its spending growth. These measures include levying a real estate tax, eliminating the defined benefit pension plans for non-uniformed employees hired after 2016, and introducing a high deductible health insurance plan and a health insurance opt-out program for all full-time personnel beginning in 2017. The Township has also been dedicating some of the one-time revenues from the real estate transfer tax toward capital projects.

In part because of these actions, the Township was able to afford building a new police facility (2016), making site upgrades to the Black Rock municipal campus (2017), and transitioning the Department of Fire and Emergency Services to provide full-time coverage during the day (2019) while maintaining fiscal balance. In October 2020, Moody's assigned a Aaa rating to the Township's \$10 million General Obligation Bonds, citing its affluent tax base, strong financial position, sound reserves, and manageable pension liabilities.

One way to measure Upper Providence's financial health is by looking at the level of reserves. Fund balance measures more than cash on hand. It includes investments and receivables, which in Upper Providence's case are mostly tax revenue that arrives early in the next fiscal year. It also accounts for unpaid obligations to vendors (accounts payable) and amounts due from and due to the other funds. The following table shows the Township's General Fund unrestricted fund balance from 2015 to 2019, which grew from \$8.1 million in 2015 to \$13.5 million in 2019 according to the Township's annual financial statements.

General Fund Unrestricted Fund Balance, 2015 - 2019



Despite the actions taken by the Township and the growth it experienced, Upper Providence is now at an inflection point. The Township is over 90 percent built-out⁵ and service demands will continue to drive spending growth. At the same time, the Township's current healthy financial condition, as evident by its Aaa bond rating, makes this a good time to adopt a strategic approach to prioritize, position, and plan effectively to ensure continued fiscal stability. **This multi-year financial plan should help the Township build from a position of strength.**

To provide a sense of what the Township's financial picture will look like moving forward absent corrective action, we developed a baseline projection. There are two very important contextual points to understand the baseline projection:

⁵ According to an analysis completed by the Department of Planning and Zoning in 2016, Upper Providence was at the time 91 percent built out.

- **The baseline projection presents a status quo scenario.**

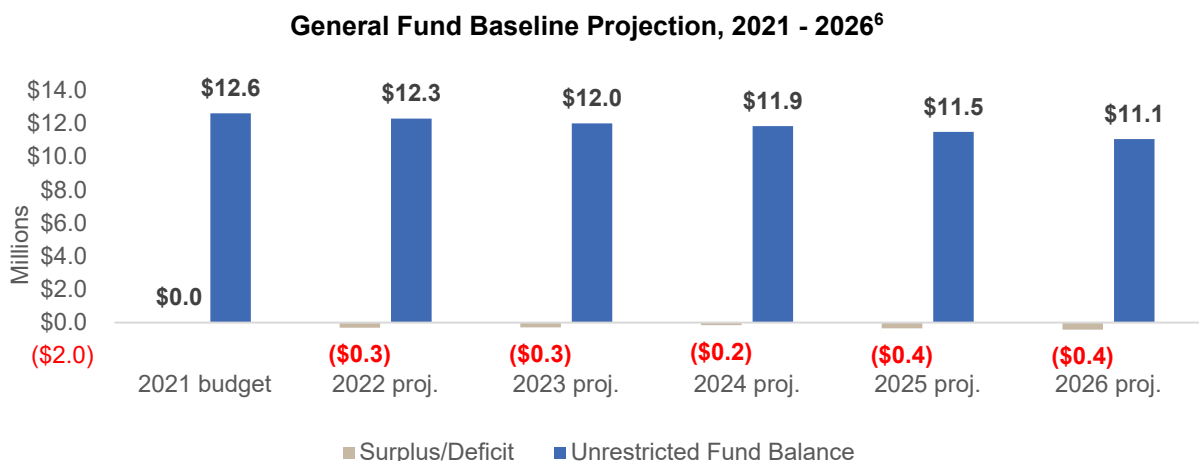
Conceptually, the baseline projection represents a “carry forward” or “current services” set of projections – such that no reduction or enhancement in services, headcount or tax rates are generally assumed, except in cases where already adopted into current law or consistent with existing policy.

- **The baseline projection is not a prescription for the Township’s financial policies, nor is it a prediction of future annual results.**

The baseline projection shows Upper Providence’s finances absent changes. Practically speaking, the Township will have to make adjustments over time. The Township is statutorily required to pass a balanced budget each year and it could not absorb the projected deficits in the baseline without drawing down its reserves. However, it is critical to have a baseline projection in order to understand the magnitude and nature of budget challenges before developing appropriate corrective action.

The baseline projection starts with the adopted 2021 budget. Beginning in 2022, the baseline five-year projection accounts for known future changes, such as provisions in existing collective bargaining agreements and scheduled debt payments, and then applies growth rates calculated based on a combination of historical performance, socioeconomic trends, and other factors.

The baseline projection shows annual deficits ranging from \$0.2 to \$0.4 million annually. Absent adjustments, the Township would have to continue to draw down its reserves to fund its operational and capital needs.



On the revenue side, the baseline projection assumes that revenues will begin to recover from the effects of the pandemic as a result of continued vaccine rollout efforts, but the recovery will be gradual and some revenues will not return to the pre-pandemic levels immediately. The baseline also assumes no adjustments to the tax rates or fee schedules.

On the expenditure side, the baseline assumes wage increases according to the provisions in the existing labor agreement. Once the labor agreement expires, the baseline assumes wage increases to continue at the historical rates (3.75% for police and 3.30% for non-uniformed employees). These wage increase patterns are not a recommendation, but rather reflective of the Township’s historical trends absent changes.

⁶ The unrestricted fund balance figure is based on the Township’s 2019 financial statement and 2020 preliminary actuals. It also assumes that the Township finishes 2021 without a deficit, consistent with the assumption in the 2021 budget. Even though the 2022 projection shows a deficit, because the Township is required to adopt a balanced budget, that deficit is eliminated as part of the 2022 budget process.

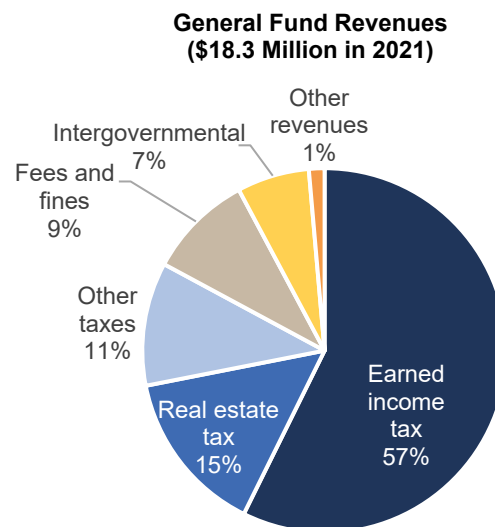
Finally, the baseline assumes that the Township will meet the capital needs identified in the 2021 capital plan primarily on a pay-as-you-go basis and does not assume any additional debt issuances beyond the most recent General Obligation debt issued in 2020.

The following section explains the key revenue and expenditure drivers, their underlying trends, and the assumptions that drive the baseline projection.

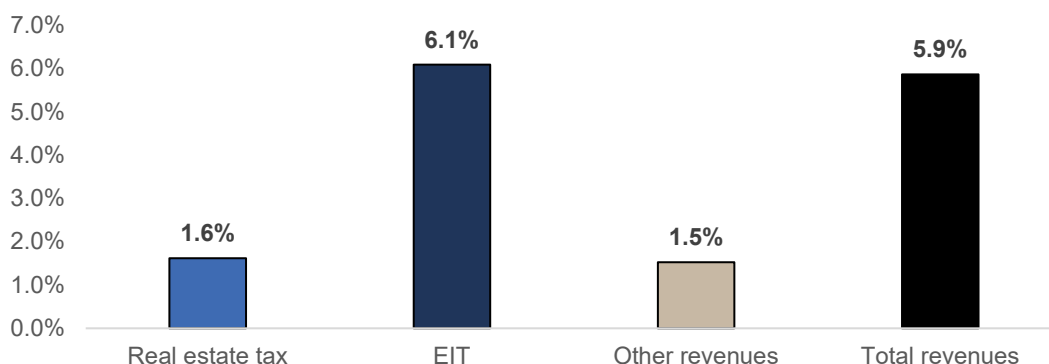
Revenues

According to the 2021 adopted budget, over 80 percent of the Township's revenues come from taxes. As shown in the chart to the right, the Township's largest funding source is the earned income tax, which accounts for more than half of the Township's total General Fund revenues. The second largest source is the real estate tax, which accounts for 15 percent of the Township's General Fund revenues. Prior to 2017, Upper Providence Township did not levy a real estate tax.

From 2015 to 2019, Township's revenues grew at an annual rate of 8.9 percent driven primarily by the robust growth in the earned income tax. Even with the COVID-19 pandemic in 2020, Upper Providence still saw a General Fund revenue growth of 2.0 percent since the impact of the pandemic was not reflected in the EIT until Q3 2020 as a result of the time lag between when income is earned and when the associated EIT is remitted to the Township.



Average Annual Revenue Growth, 2015 - 2020⁷



Earned Income Tax

Earned income tax is the Township's largest revenue source, accounting for more than half of the Township's General Fund revenues. Between 2015 and 2020, the earned income tax grew by 6.1 percent on an annual average basis. The Township levies both a resident EIT and a non-resident EIT.

Resident EIT

The Township levies a 1.0 percent earned income tax (EIT) on its residents, of which 0.5 percent goes to the Township and the remaining 0.5 percent goes to the School District. Like all Philadelphia suburbs, Upper Providence residents who work in Philadelphia do not pay the EIT to the Township due to the tax credit provided by the Sterling Act.

⁷ The growth for the real estate tax (1.6 percent) is from 2017 to 2020 since the Township did not levy a real estate tax until 2017.

As a result of the COVID-19 pandemic, many employees have started working from home and the new work from home environment results in a change in the resident tax base. For example, if an Upper Providence resident works for a Philadelphia employer and is required to work from home, then by law the employee no longer pays the EIT to Philadelphia but instead pays the 1.0 percent resident EIT to the Township. However, if the Philadelphia employer is not requiring the Upper Providence resident to work from home but has given the resident the option to do so, Philadelphia still considers the Upper Providence resident as employed in the city and subject to the Philadelphia non-resident wage tax.⁸ The chart below summarizes this dynamic.

Resident EIT Remittance by Place of Work

Place of Residence	Employer's Address	Place of Work	Pay EIT to Upper Providence?
Upper Providence	Upper Providence	Upper Providence	Yes
Upper Providence	Not Upper Providence or the City of Philadelphia		Yes
Upper Providence	City of Philadelphia	City of Philadelphia	No
Upper Providence	City of Philadelphia	Upper Providence	Depends on whether the employee is required to work from home

In 2020, the Township saw a small increase (\$30,000) in EIT paid by residents who worked for Philadelphia employers. The Township's EIT collector noted that the increase was likely because more residents were required to work from home during the pandemic. As vaccine rollout efforts continue and if employees eventually return to work in Philadelphia, it is possible that the Township would see a return to historical average in the amount of EIT paid by those with Philadelphia employers, but the decline should not have a major impact on total EIT revenues given the minimal increase in 2020.

Non-resident EIT

Upper Providence also levies a 1.0 percent non-resident EIT. For anyone who works in Upper Providence and lives in a municipality that levies a 1.0 percent resident EIT (e.g., Limerick Township), the entire 1.0 percent non-resident EIT is remitted back to the home municipality and Upper Providence does not collect any EIT revenue. However, if the home municipality has a resident EIT that is *lower* than 1.0 percent (e.g., Lower Merion Township), then the difference between the home municipality's tax rate and 1.0 percent is remitted to Upper Providence. The following table shows a few scenarios to illustrate this dynamic.

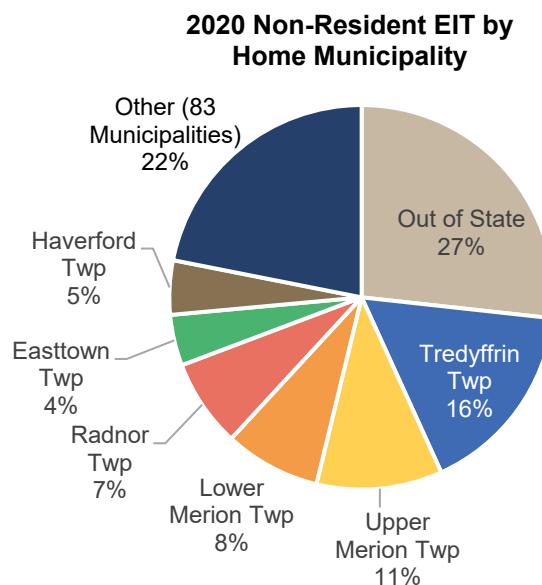
Place of Residence	Place of Work	Pay EIT to Upper Providence?
Limerick Township	Upper Providence	No (Limerick levies a 1.0% resident EIT so the entire 1.0% non-resident EIT levied by Upper Providence is remitted to the home municipality)
Lower Merion Township	Upper Providence	Yes (Lower Merion levies a 0% resident EIT so the entire 1.0% non-resident EIT levied by Upper Providence is remitted to the Township)
East Whiteland Township	Upper Providence	Yes (East Whiteland levies a 0.75% resident EIT so 0.25% in non-resident EIT is remitted to Upper Providence)

⁸ More information about the Philadelphia non-resident wage tax can be found here:
<https://www.phila.gov/media/20201217081650/Philadelphia-Wage-Tax-QA-2020-December.pdf>

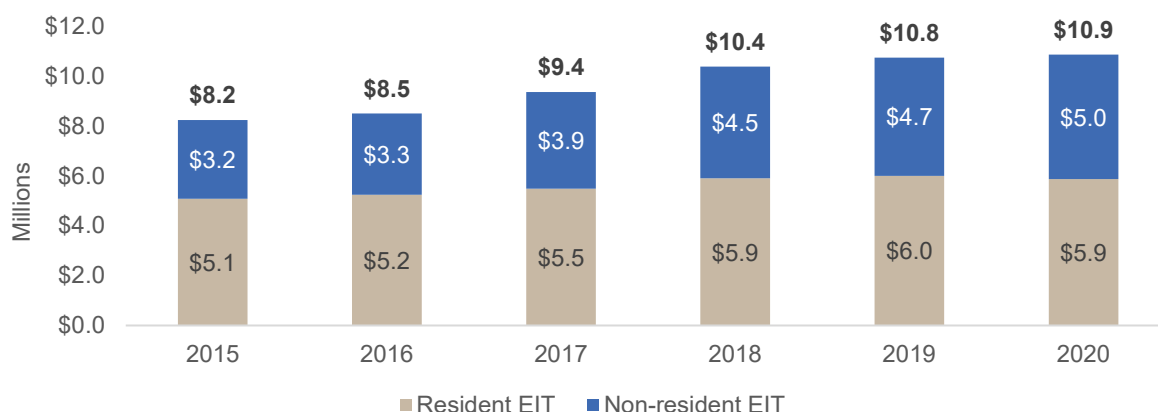
As shown in the chart to the right, in 2020, a little more than one quarter of the non-resident EIT revenues Upper Providence received were paid by commuters who lived outside Pennsylvania. Another 50 percent of the non-resident EIT were paid by commuters who lived in Tredyffrin, Upper Merion, Lower Merion, Radnor, Easttown, or Haverford Townships. None of these townships had a resident EIT in 2020.

EIT Growth Trends

The Township saw robust EIT revenue growth in the last five years with an average annual increase of 6.1 percent. The increase was the most apparent in 2017 and 2018 when the resident EIT grew by 4.6 and 7.6 percent respectively and the non-resident EIT had double-digit growth in both years. Beginning in 2019, however, the growth began to decline. In 2020, with the onset of the COVID-19 pandemic, the resident EIT revenue dropped for the first time in the last five years, likely the result of the stay-at-home restrictions. That said, both the non-resident EIT and the Township's total EIT revenues increased last year despite the impact of the pandemic.



Earned Income Tax Revenues, 2015 - 2020⁹



	2015	2016	2017	2018	2019	2020
Resident EIT	5,086,697	5,249,135	5,488,988	5,906,222	6,008,218	5,874,024
% Change	N/A	3.2%	4.6%	7.6%	1.7%	-2.2%
Non-resident EIT	3,159,194	3,259,297	3,882,520	4,486,207	4,745,032	5,001,964
% Change	N/A	3.2%	19.1%	15.5%	5.8%	5.4%

Key trend #1: The Township had robust revenue growth driven by the earned income tax (EIT), but EIT growth began to decline in 2019, before the COVID-19 pandemic.

⁹ The EIT figures on this page come from the Township's tax collector, Berkheimer Inc., and are reported on a cash basis. EIT in the Township's general ledger is reported on a modified accrual basis, which may be different from the figures reported by Berkheimer.

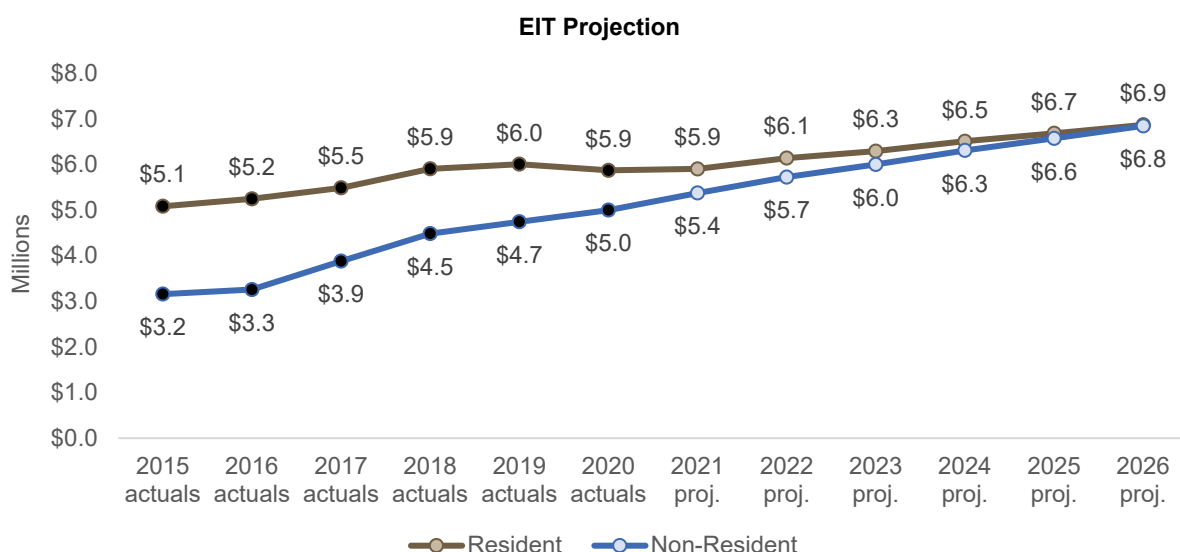
EIT Projection

Given that the earned income tax accounts for more than half of the Township's General Fund revenues and the continued economic uncertainty, we paid particular attention to this revenue in our projection. In developing the forecast, we partnered with PFM's internal economist who used a regression analysis to generate a projection based in part on the salary projection for the Philadelphia MSA by Moody's Analytics.

Below are a few additional considerations we included in the EIT forecast:

- **Strong projected economic growth:** Moody's Analytics projects a strong rebound in the growth of wages and salaries in the Philadelphia MSA (6.1 percent growth in 2021 and then gradually reducing to 4.5 percent growth by 2026) in part as a result of continued vaccine rollout efforts and federal stimulus provided by the American Rescue Plan Act (ARPA) and other federal legislation.
- **A new hybrid work-from-home (WFH) model:** A PricewaterhouseCoopers (PwC) survey conducted in January 2021¹⁰ found that more than 80 percent of the surveyed employers considered the shift to remote work to have been successful and the majority of them plan to shift to a hybrid workplace where a large number of office employees rotate in and out of offices configured for shared spaces.
- **Slowing growth in Upper Providence:** As noted previously, despite experiencing tremendous growth for several years, Upper Providence Township is approaching being built-out and EIT growth began to decline in 2019. The EIT forecast therefore accounts for the slowing growth in the Township given these trends.

Moving forward, the baseline projects non-resident EIT to grow at a faster rate (5.0 percent on an annual average basis) than the resident EIT (3.1 percent on an annual average basis) given the historical trends. The baseline also uses a more conservative forecast than what Moody's projects (4.8 percent on an annual average basis in the Philadelphia MSA) because of the slowing growth the Township has experienced in the last two years and the uncertainty regarding how a hybrid work-from-home model would change EIT payments for Upper Providence residents who work for Philadelphia employers.



¹⁰ PwC's US Remote Work Survey, It's time to reimagine where and how work will get done, January 12, 2021, can be access here: <https://www.pwc.com/us/en/library/covid-19/us-remote-work-survey.html>

EIT Historical Growth and Projection

	2015 – 2018 Average Growth	2019 Growth	2020 Growth	2021 – 2026 Average Growth
Resident	5.1%	1.7%	-2.2%	3.1%
Non-Resident	12.4%	5.8%	5.4%	5.0%
Total EIT	8.0%	3.5%	1.1%	4.0%

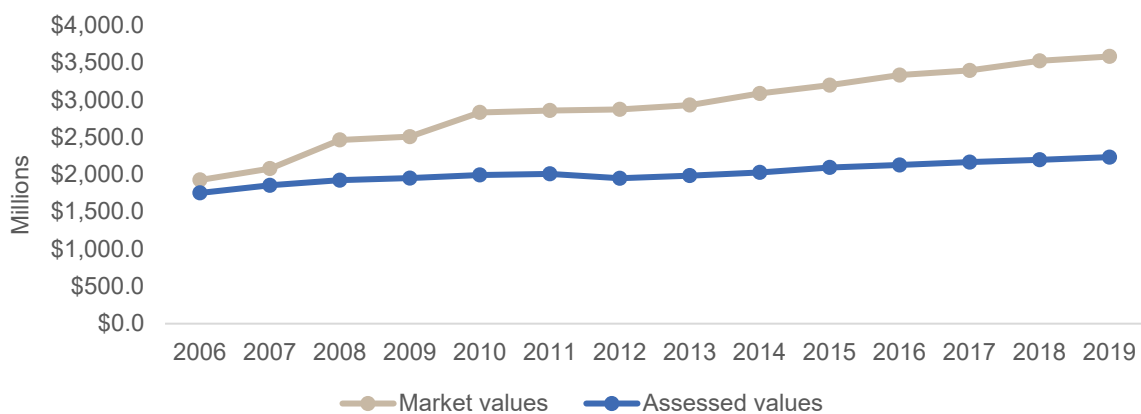
Please note that the EIT projection was developed in spring 2020 when COVID-19 vaccines just became available. Even though the Township's EIT collector reported that EIT revenues through July 2021 were 14.8 percent higher than through the same period in 2020, we maintained the EIT projection given that there continues to be some uncertainty regarding how the COVID-19 Delta and Delta-Plus variants would impact reopening efforts and how quickly commuters would return to their Philadelphia offices. If EIT results are better than projected, the Township should make additional strategic investments as highlighted throughout this Five-Year Plan.

Real Estate Tax

Upper Providence's real estate tax is the second-largest source of revenue for the township, accounting for 15 percent of general fund revenue in 2020. The Township started levying a real estate tax in 2017 that brings in approximately \$2.5 million in revenues each year. This was a prudent financial decision because it helped diversify the Township's revenue and reduced its reliance on the earned income tax (which is generally more economically sensitive) to fund core services.

The total amount that the Township bills (gross levy) is the product of the *assessed* value of taxable property and the tax millage rate. The total assessed value of taxable property has been growing by approximately two percent each year. Meanwhile, the market value of taxable property has grown from \$1.9 billion to \$3.6 billion (or 4.9 percent annually), but that growth doesn't carry over to tax revenues since the County's last reassessment was in 1996.

Market versus Assessed Value, 2006 - 2019¹¹



Key trend #2: Market value increases (or decreases) do not carry over to real estate tax revenues.

¹¹ Based on data from the State Tax Equalization Board (STEB)

Even though market value increases do not carry over to real estate tax revenues, the Township saw small increases to its taxable assessed values largely due to new developments. From 2015 to 2020, total taxable assessed value grew at an annual rate of 1.4 percent.

Taxable Assessed Values, 2015 – 2020 (In \$ Millions)

	2015	2016	2017	2018	2019	2020
Taxable assessed value	\$2,128.0	\$2,166.5	\$2,165.4	\$2,232.8	\$2,267.1	\$2,286.4
Year-Over-Year Change	2.9%	1.8%	-0.1%	3.1%	1.5%	0.9%

Moving forward, the baseline projection assumes the real estate tax to grow by 1.5 percent annually, close to the average annual growth rate in the last five years. We use the five-year average growth instead of a three-year average growth because of the spike in the number of developments in 2017 and 2018. The projection also assumes no change to the Township's real estate tax rate or collection rate.

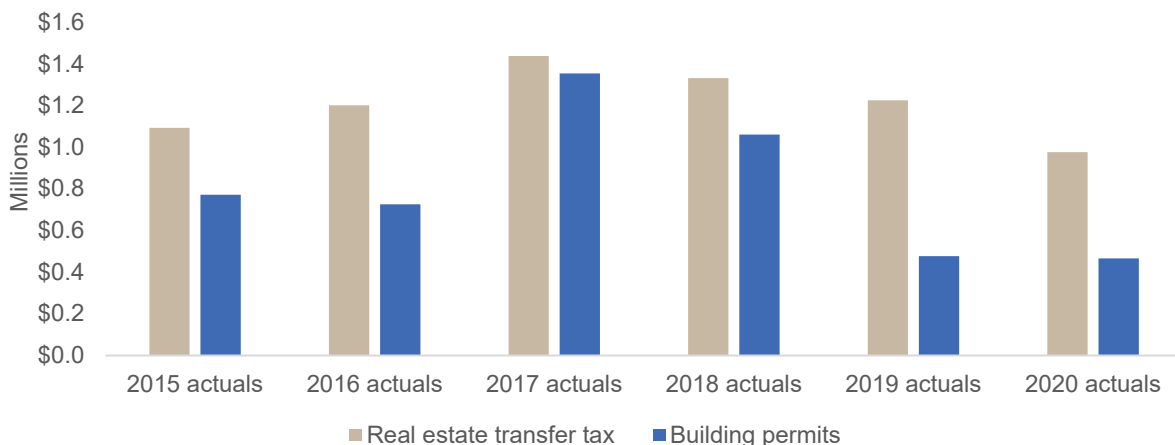
Sporadic Revenues: Real Estate Transfer Tax and Building Permits

The earned income and real estate taxes account for almost three-quarters of the Township's total General Fund revenues, which is why we paid particular attention to the projection for those two revenues. For other revenues, such as the local services tax, fees and fines, and intergovernmental revenues, the baseline projection assumes revenues are commensurate with the underlying trend and activity absent any rate or fee increases.

There are, however, two revenues that tend to have sporadic growth. Revenues from the real estate transfer tax and building permits tend to fluctuate from year to year. In 2017 and 2018, the Township saw increases in both the real estate transfer tax and building permit revenues driven by property transactions and major developments.

In 2017, the real estate transfer tax increased from \$1.2 million to \$1.4 million and building permits doubled as a result of major projects such as the Troutman Tract, the Shoppes at Upper Providence, and the GlaxoSmithKline (GSK) renovations. The Township used some of these one-time revenues for capital projects, which was a "best practice" decision since one-time revenues should only be used for one-time projects and should not be used to pay for recurring costs such as police or fire protection services.

Real Estate Transfer Tax and Building Permits



The Township is approaching being built-out and there are simply fewer large land tracts to develop. This means that, moving forward, it is less likely for the Township to see large one-time windfalls such as the ones in 2017 and 2018 that helped fund one-time capital projects. The 2021 budget projects \$1.0 million in real estate transfer tax and \$527,000 in building permits, and the baseline carries forward those projections without assuming any additional growth.

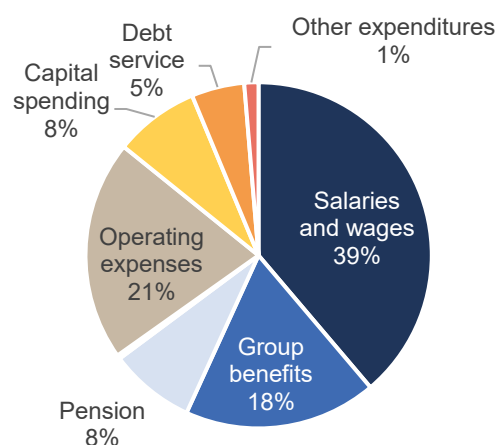
Key trend #3: One-time revenues such as the real estate transfer tax and building permits provided funding sources for Township capital projects.

Expenditures

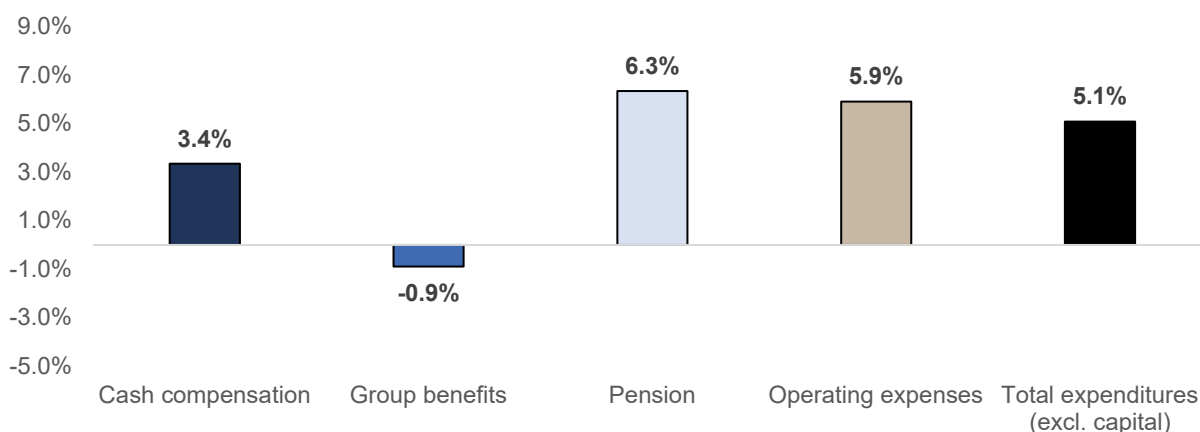
Municipal government is inherently labor intensive. As shown in the chart to the right, two-thirds of the Township's spending is on personnel costs – including salaries, overtime, health benefits, pension contribution, and workers' compensation. The next largest spending category is operating expenses, which include contracted services, maintenance, equipment, supplies, materials, utilities, and fees. The 2021 budget also includes \$1.5 million in pay-as-you-go capital spending and another \$0.9 million in debt service payment that is related to the construction of the new fire and emergency services center.

From 2015 to 2020, total expenditures (excluding pay-as-you-go capital spending) grew at an annual rate of 5.1 percent between 2015 and 2020 driven primarily by personnel expenses and the rising cost of operations.

**General Fund Expenditures
(\$18.3 Million in 2021)**



Average Annual Expenditure Growth, 2015 - 2020



Cash Compensation

Salaries and wages are the largest component of the Township's overall spending, comprising almost 40 percent of spending in the Township's 2021 budget. Spending on salaries is a product of headcount (#) and annual salary (\$), with changes in overall spending driven by fluctuations in one or both factors. From 2017 to 2021, the Township's spending on salaries was driven in part by across-the-board wage increases,

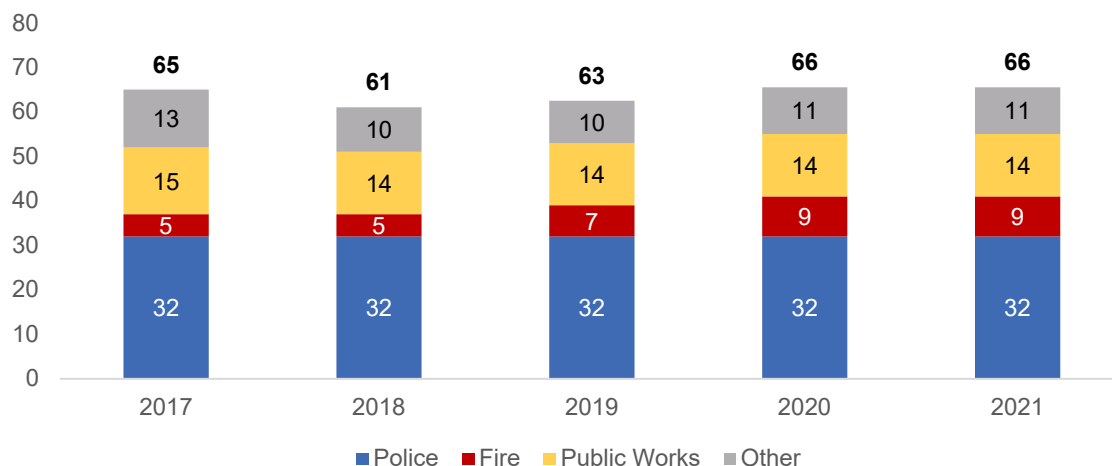
which averaged 3.6 percent for police officers and 3.3 percent for non-uniformed employees. These across-the-board wage increases do not include step increases for police officers. Average annual inflationary growth during the same period was 1.2 percent in the Philadelphia Metropolitan Statistical Area (MSA).¹²

Employees' Across-the-board Wage Increases, 2017 - 2021

	2017	2018	2019	2020	2021	CAGR
Police	3.50%	3.50%	3.25%	3.75%	3.75%	3.56%
Non-represented	3.00%	3.50%	3.36%	3.75%	2.50%	3.28%

Full-time headcount, on the other hand, has only increased from 65 to 66 despite the Township increasing its number of firefighters as it transitioned to provide fire protection coverage during the day using career firefighters. This was in part due to operational changes, such as the outsourcing of janitorial services in 2017 and the Parks and Recreation Department relying more heavily on part-time staff to provide services. As a result of these trends, almost two-thirds of the Township's headcount in 2021 was for public safety, so there are limited opportunities to reduce staffing even if that becomes necessary.

Budgeted Full-time Headcount, 2017 - 2021



The baseline projects police officers' salaries to continue growing at 3.75 percent annually after the collective bargaining agreement expires at the end of 2022. It also assumes non-uniformed employees will receive wage increases of 3.3 percent, which is the average five-year annual growth from 2015 to 2020. These wage patterns are not a recommendation, but rather reflective of the Township's historical trends absent changes. Other cash compensation that are indexed to salaries such as overtime and longevity are also projected to grow at the same rate.

In addition to projecting growth that is commensurate with historical trends, we also assumed vacancy savings in the baseline projection. From 2015 to 2019, the Township's salary spending was consistently 3.5 percent to 5.5 percent lower than budgeted spending because of vacancies (when a position remains unfilled) and attrition (when a retiring employee is replaced by a more junior employee with a lower salary). The vacancy savings increased to 8.4 percent in 2020 because the Township maintained a number of vacant positions unfilled in part as a result of the uncertainty caused by the COVID-19 pandemic.

¹² According to CPI for all urban consumers (CPI-U) for all items in the Philadelphia MSA published by the Bureau of Labor Statistics (BLS).

Moving forward, as the pandemic recedes, the Township will not be holding positions vacant like it did in 2020, but there will still be some vacancy and attrition savings as a result of employee turnover. The baseline projection assumes annual vacancy savings of 3.0 percent moving forward.

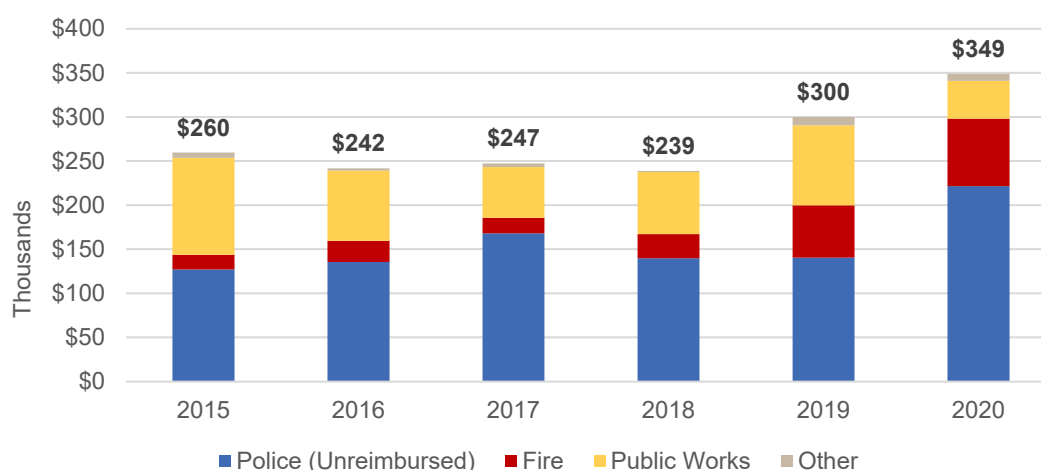
Budgeted and Actual Salaries and Wages, 2015 - 2020

	2015	2016	2017	2018	2019	2020
Budget	5,488,503	5,632,922	5,805,561	5,907,805	6,192,772	6,606,855
Actual	5,190,466	5,436,635	5,578,553	5,636,215	5,940,855	6,049,368
Vacancy (\$)	298,037	196,287	227,008	271,590	251,917	557,487
Vacancy (%)	5.4%	3.5%	3.9%	4.6%	4.1%	8.4%

Overtime, on the other hand, has consistently exceeded budget projections. From 2015 to 2020, overtime spending increased at an annual rate of 5.0 percent from \$338,000 to \$431,000 driven primarily by increases in police and fire overtime. This includes reimbursed overtime, which are reimbursements the Township receives when police officers are hired to cover the cost of security detail at special events. Excluding reimbursed overtime, total overtime spending grew at an even higher rate of 6.1 percent.

Overtime Spending, 2015 – 2020

Excludes Reimbursed Overtime



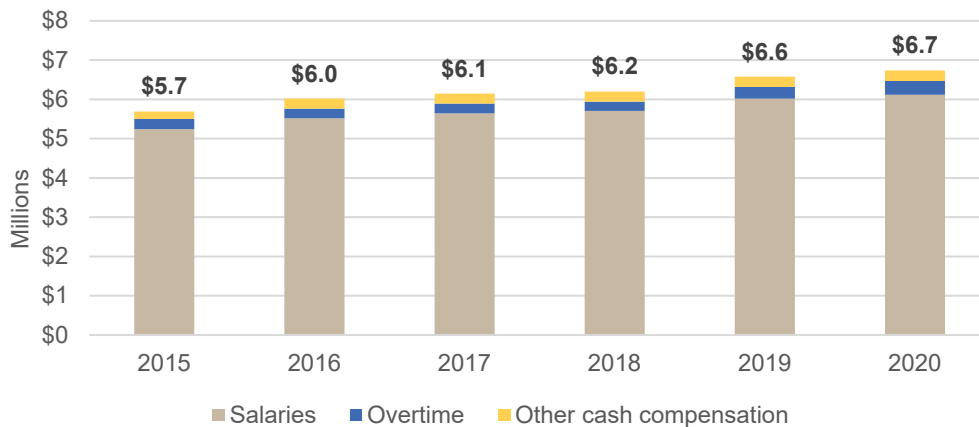
	2015	2016	2017	2018	2019	2020
Budgeted Overtime	244,500	235,750	222,750	218,250	240,750	246,500
Actual Overtime	259,584	241,678	247,350	238,727	299,865	349,006
Difference (\$)	15,084	5,928	24,600	20,477	59,115	102,506
Difference (%)	6.2%	2.5%	11.0%	9.4%	24.6%	41.6%

Given that the Township has historically exceeded its overtime budget, the baseline projection adjusted the overtime spending in 2022 to the average overtime spending over the last five years.

Total Cash Compensation

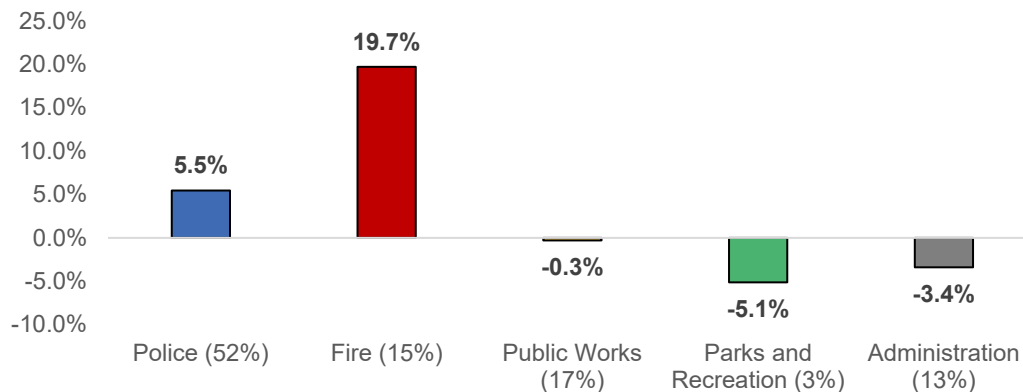
As a result of the growth in salaries, overtime, and other cash compensation including holiday pay, education incentive, and volunteer firefighters' stipends, the Township's total cash compensation grew at an annual rate of 3.4 percent from \$5.7 million to \$6.7 million, excluding reimbursed police overtime.

Cash Compensation, 2015 - 2020¹³



We have so far been focusing on the Township's aggregate cash compensation costs, but it is important to note the difference in trends among departments. From 2015 to 2019, cash compensation growth in public safety was significantly higher than cash compensation growth in other departments. This was in part due to the transition to provide fire protection coverage during the day using career firefighters. We excluded 2020 in this trend analysis given that the COVID-19 pandemic has affected staffing levels and operations.

Annual Average Cash Compensation Growth, 2015 - 2019



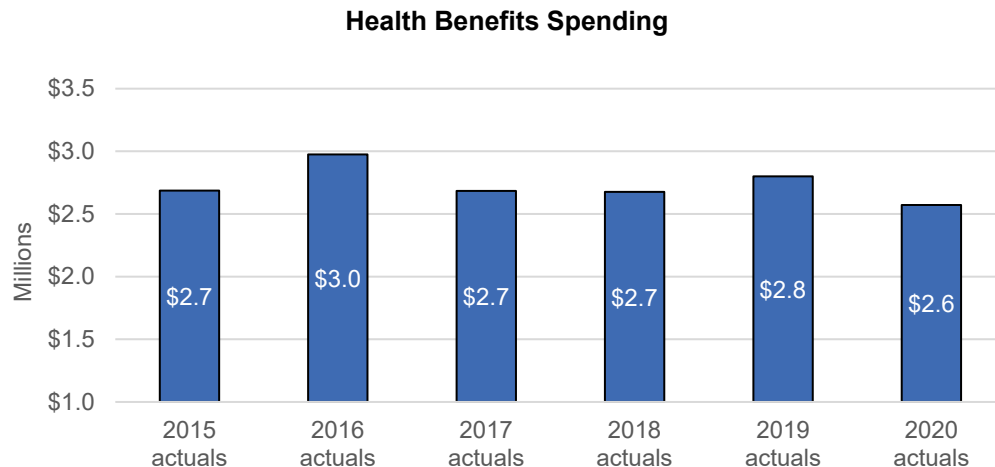
Health Benefits

Another major personnel cost driver is health benefits cost, accounting for 18 percent of the total budget. From 2015 to 2016, spending on active employees' health benefits grew by 10.7 percent from \$2.7 million to \$3.0 million. The Township then introduced a high deductible health insurance plan and a health insurance opt-out program for all full-time non-uniformed personnel in 2017, resulting in health benefits spending dropping back to \$2.7 million that year. A review of the health premiums shows that the plan design changes resulted in 4 to 5 percent in savings for uniformed employees and over 30 percent in savings for non-uniformed employees.¹⁴

¹³ This chart excludes any reimbursed overtime.

¹⁴ This was calculated by comparing the premiums for the PPO \$500/\$1,000 plan with the high deductible plan (PPO \$3,000/\$6,000) from 2017 to 2020.

Health benefits spending grew at an annual rate of 2.1 percent from 2017 to 2019,¹⁵ lower than the national average health premium growth. The Segal Health Plan Cost Trend Survey shows PPO and HMO health plans growing at an annual average rate of 6 to 7 percent and the Kaiser Health Benefits Survey shows health premiums growing by 4 to 5 percent annually through the same period. In 2020, Township health benefits spending dropped to \$2.6 million despite a 2.3 percent growth in health premiums because several positions were held vacant in response to the fiscal pressures driven by the pandemic.



Part of the reason the Township was able to achieve health benefits savings compared to national trends was because Upper Providence participates in the Delaware Valley Health Trust (DVIT) which has a Rate Stabilization Fund. Whenever premiums paid by the 160+ member public entities exceed the actual cost for claims and administration, the Trust dedicates those differences into the Stabilization Fund so that those amounts can be used to mitigate premium increases in subsequent years.

Moving forward, unless the Township continues to make changes to plan designs to lower premium cost growth or require employee contributions to offset a portion of the health premiums, spending on health benefits will continue to grow. According to the 2021 Health Plan Cost Trend Survey published by Segal Consulting, premiums are projected grow by 6 to 7 percent. Given the below-average premium growth the Township has experienced, the baseline projects health benefits to grow by 5.0 percent annually.

Key trend #5: The Township has been able to control its health benefits spending growth in part by introducing a high deductible plan, but healthcare inflation will continue to drive spending growth.

Pension Contributions

Upper Providence Township has three defined benefit (DB) pension plans: Police, Fire, and Non-Uniformed. All police employees are eligible to participate in the police plan and non-uniformed and fire employees hired before 2016 are eligible to participate in their respective plans. The Township's required contribution to the defined benefit plan is the sum of three items:

1. The cost of pension benefits accrued in the current year (normal cost);
2. The cost to pay off the pension plans' unfunded liability (amortization cost); and
3. The cost to administer the plans (administrative cost).

¹⁵ Health benefits spending includes the Township's contributions to employees' Health Savings Accounts (HSA), which is \$4,500 annually for family coverage and \$2,250 for single coverage.

The table below shows the normal cost, amortization cost, and Minimum Municipal Obligation (or “MMO”) for the three DB pension plans in 2021 that was based on the January 1, 2019 actuarial valuation report. The MMO shows the Township’s net responsibility after the employee contributions (2.0 percent of salary for police; no contributions required for fire and non-uniformed employees).

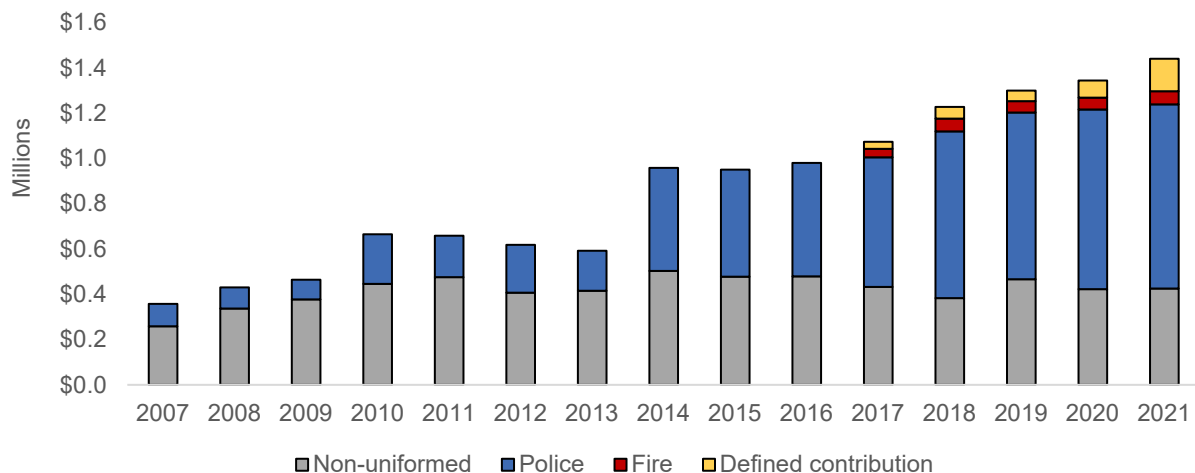
2021 Minimum Municipal Obligation (MMO)

	Non-uniformed	Police	Fire	Total
Normal Cost	167,210	537,486	52,153	756,849
Amortization Cost	233,391	310,289	1,475	545,155
Administrative Cost	24,752	38,626	4,230	67,608
Member contributions	0	(72,437)	0	(72,437)
Total MMO	\$425,353	\$813,964	\$57,858	\$1,297,175

Non-uniformed employees and firefighters hired after 2016 are not eligible to participate in the DB pension plan. Instead, they participate in the Township’s defined contribution (DC) plan. The Township currently makes contributions equivalent to 10 percent of the employees’ salaries with no requirement for employee matching contributions.

Over the last 15 years, the breakdown of the Township’s contributions across the different pension plans is very different. The Township’s contributions to the non-uniformed plan increased at an annual average rate of 10.0 percent from 2007 to 2014 and has been slowly declining since 2014. The contributions to the police plan, on the other hand, more than doubled in 2014, growing from \$176,000 to \$455,000, and have been growing at 8.7 percent annually since 2014. The Township did not make contributions to the fire pension plan and the defined contribution plan until 2017.

Required Pension Contributions



	2007 - 2014 Average	2014 - 2017 Average	2017 - 2021 Average
Defined Contribution	N/A	N/A	47.3%
Fire	N/A	N/A	11.0%
Police	24.4%	8.0%	9.2%
Non-uniformed	10.0%	-4.9%	-0.4%
Total	15.1%	2.9%	5.6%

There are a number of reasons why these pension plans have different growth patterns, including:

- **Pension plan changes:** The Township eliminated traditional pension benefits for non-uniformed and fire employees hired after 2016 and provides post-retirement benefits to those employees through a defined contribution plan. The Township currently makes contributions equivalent to 10 percent of the employees' salaries with no requirement for employee matching contributions. *The elimination of traditional pension benefits for those hired after 2016 gradually reduces the normal cost for the non-uniformed pension plan.*
- **Plan participants:** The number of plan members in the police pension plan increased from 27 in 2015 to 34 in 2019.¹⁶ *Holding all other factors constant, increasing the cost of pension benefits accrued in the current year results in higher contributions.*
- **Changes in investment return assumption:** The Township reduced the assumed investment return for the police pension plan from 8.0 percent to 7.5 percent in the 2015 valuation, which is a step in the right direction. Many local governments have started to make changes to the actuarial assumptions to more accurately reflect plan experiences and expectations, but those changes can result in a larger unfunded liability and trigger a higher legally required MMO contribution to the funds. *Part of the reason the Township saw increases in the Police MMO in recent years was because of the reduction in assumed investment return. The non-uniformed plan has been using the same investment return assumption since at least 2013.*
- **Actual investment experience:** The police plan currently assumes a 7.50 percent investment rate of return¹⁷ and both the fire and non-uniformed plans assume a 7.25 percent investment rate of return. As of 2013 the median interest earnings assumption for the 1,935 defined benefit plans audited by the Pennsylvania Auditor General was 7.0 percent.¹⁸

When a pension plan incurs an actuarial loss, the Township has a number of years to amortize that loss. Ideally, once the Township pays for an amortization loss, that portion of the MMO would drop out of the calculation and the total MMO contribution would stabilize, if not drop. However, if there is a continued negative gap between pension assumptions and actual experience in most years, then the Township will replace one set of experience loss payments with another. *Holding other factors constant, outdated assumptions can lead to experience losses, which then translates to higher contributions.*

Key trend #5: The elimination of the defined benefit pension plan for non-uniformed employees helped control growth in the MMO. Other factors, including investment assumptions and actual experience, can also impact the Township's MMO.

These are some of the factors that can lead to pension plans having different growth patterns. Moving forward, the Township's actuaries project Upper Providence's annual MMO (including contributions to the defined contribution plans) to drop from \$1.4 million this year to \$1.2 million in 2022 and gradually grow to \$1.3 million over the next four years. The projections for the defined benefits plans assume no additional actuarial gains or losses. Based on the pension plans' current assumptions, this means that the Township's plan assets will achieve a 7.25/7.5 percent investment return each year and the mortality assumption will be reflective of the Township's actual experience.¹⁹

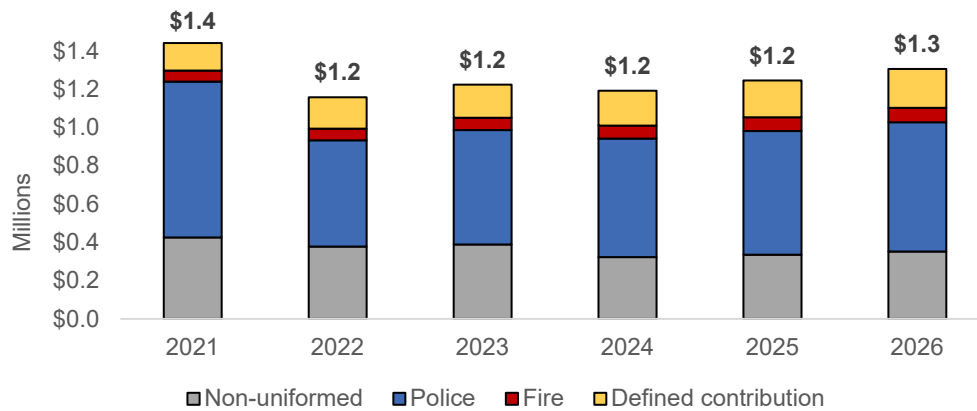
¹⁶ The total number of plan members include active employees, retirees and beneficiaries receiving benefits, and terminated employees entitled to benefits but not receiving them reported in the Township's annual financial statements.

¹⁷ The Township reduced the assumed investment return from 8.0 percent to 7.5 percent in the 2015 valuation

¹⁸ Department of Auditor General. Report on Municipal Pension Funds. January 2015.

¹⁹ Upper Providence's fire and non-uniformed pension plans currently use the RP-2014 mortality table assumption.

MMO Projection, 2021 - 2026



The actuary recommends the Township gradually reduce the police plan's investment return assumption to 6.75 percent over the next five years and estimates that those changes will cost the Township an additional \$882,000 over the next five years. If the Township does not make the change, there is a risk that funding levels will drop, which will also drive the MMO payments higher, holding other variables constant.

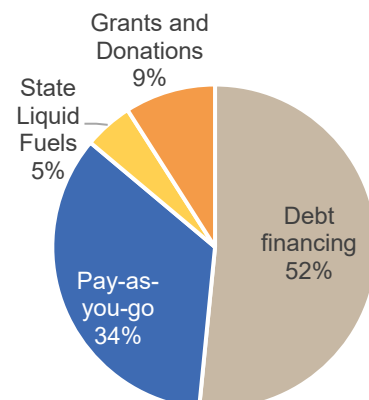
	Police MMO w/o assumption changes	Police MMO w/ assumption changes	Difference
2021	\$813,964	\$813,964	\$0
2022	\$554,870	\$637,240	\$82,370
2023	\$597,219	\$681,214	\$83,995
2024	\$619,156	\$810,163	\$191,007
2025	\$646,438	\$841,225	\$194,787
2026	\$675,083	\$1,005,129	\$330,046

Capital Spending

Upper Providence uses two primary methods to fund capital projects – “pay-as-you-go” and debt financed.²⁰ Over the last five years, more than half of the capital funding came from debt financing, another one-third of the capital funding came from General Fund sources (or “pay-as-you-go”), and the remaining funding primarily came from state and federal sources that typically can only be used to fund certain designated projects.

On the pay-as-you-go front, the Township used non-recurring revenues from property sales to fund one-time capital projects from 2017 to 2019. Each department also allocated an amount for small capital projects such as vehicle replacement and technology upgrades. Because pay-as-you-go funding is seldom enough to meet a community's needs, and current taxpayers should not bear the full burden of projects that will last decades, the Township uses debt financing to fund bigger projects such as the new police building (2017) and the new fire and emergency services center (2020). The table below highlights the general difference between the two methods.²¹

2017 - 2021 Capital Budget Funding Sources



²⁰ The Township did not begin using debt financing until 2017. Prior to that, the Township relied on cash financing.

²¹ Adapted from *Capital Improvement Programming: A Guide for Smaller Governments*, Patricia Tighe, GFOA

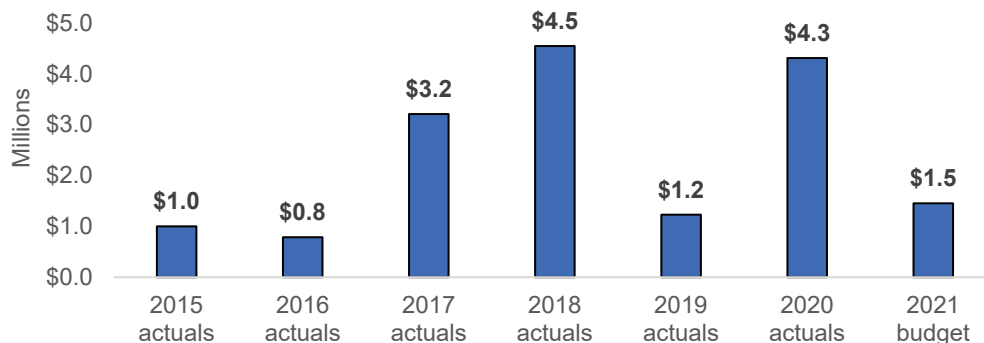
Pay-as-you-go versus Debt-Financed Capital Funding

	Pay-as-you-go (PAYGO)	Debt financed
Ideal for Funding:	<ul style="list-style-type: none"> • Small projects • Assets with shorter useful lives • Projects with a local match requirement 	<ul style="list-style-type: none"> • Large projects • Assets with longer useful lives • Projects with a predictable stream of future revenue
Pros	<ul style="list-style-type: none"> • Saves interest and issuance costs • Preserves flexibility and borrowing capacity 	<ul style="list-style-type: none"> • Provides more money upfront • Easier to distribute spending over time through scheduled debt repayments
Cons	<ul style="list-style-type: none"> • Insufficient to fund all needs • Uneven expenditures • Lack of "intergenerational equity" (i.e. today's taxpayers fund projects that will be used for years to come) 	<ul style="list-style-type: none"> • Adds interest and issuance costs • Limits financial flexibility and reduces borrowing capacity

The Township's practice of using pay-as-you-go funding for capital projects with a shorter useful life (e.g. vehicles, equipment) and debt financing for projects with a longer life (e.g. building constructions) is consistent with local government best practices.

However, the Township's balanced capital funding approach also means that it must set aside a portion of General Fund revenues each year to fund capital projects. From 2015 to 2020, the Township spent an average of \$2.5 million annually on pay-as-you-go capital projects such as road paving, stormwater improvements, vehicle replacements, and technology upgrades.

2015 -2021 General Fund PAYGO Spending



Moving forward, the Township will continue to have significant capital needs. As shown in the table to the right, in order to complete the projects for the next five years identified in the 2021 capital plan, the Township will have to allocate an average of \$3.2 million annually from the General Fund to fund those projects on a pay-as-you-go basis. This does not include the additional spending related to the new fire and emergency services center that is being financed by the 2020 General Obligation debt or additional capital needs not already identified in the 2021 capital plan such as the public works building upgrade (see initiative BP05) and a potential new library (see initiative SI02).

Department	Capital Needs
Police	\$0.4 million
Fire and EMS	TBD
Road projects	\$9.3 million
Stormwater projects	\$3.0 million
Floodplain mitigation	\$0.2 million
Parks	\$3.3 million
Total Five-Year Capital Needs	\$16.2 million
Average Annual	\$3.2 million

Key trend #6: The Township has been able to pay for some of its capital needs using one-time revenues but will have to continue to find resources to fund significant capital needs going forward.

Bringing it together: Upper Providence is at an inflection point

Upper Providence has experienced tremendous growth in the last decade and was able to invest some of the resultant revenue increases in its residents and employees. But the Township is now at an inflection point as the pandemic will continue to bring economic uncertainty and service demands will continue to drive spending growth. Although the Township has seen historically strong performance, it must continue to take steps to mitigate risk and maintain its position of strength.

Upper Providence is at an Inflection Point

Strengths	Risks
The earned income tax has seen robust growth in the last five years, averaging 6.1 percent in annual growth...	...but the growth rate has been declining in the last two years and there continues to be uncertainty as a result of the pandemic
The enactment of the real estate tax brought new revenues to the Township...	...but the Township's taxable assessed value only grows by one to two percent a year
One-time revenues (primarily from the real estate transfer tax and building permits) boosted the Township's revenues...	...but the Township cannot rely on one-time revenues to fund core municipal services
The Township has been able to keep health insurance spending growth below national trends over the last five years...	...but health benefits inflation will drive spending increases absent plan design changes or increased employee contribution moving forward
The elimination of the defined benefit pension plan for non-uniformed employees helped control growth in the MMO...	...but Police MMO continues to rise and the Township now has to make contributions to the fire pension plan as well
The Township has used a balanced approach to fund its capital needsbut capital investment needs will continue to rise as the Township will have to continue maintaining its infrastructure and meet service demands

Moving forward, the goal is not simply to balance annual budgets to zero. The Township needs to have an appropriate level of reserves to maintain its credit rating, supply working capital, and provide contingency funds for unexpected financial, operational, or physical events. The Township also needs to ensure it makes the necessary capital investment in the assets that people see, drive on, work in, and play on every day.

The remaining chapters give the Township a menu of options so that the Township can maintain structural balance, make investments that align with Township government's mission, and continue to make Upper Providence an attractive place to live, work, and play.

Best Practices

As mentioned in the Financial Condition Assessment, the Township's current healthy financial condition, as evident by its Aaa bond rating, makes this a good time to adopt a strategic approach to prioritize, position, and plan effectively to ensure continued fiscal stability. This multi-year financial plan should help the Township build from a position of strength.

This chapter focuses on developing a framework that will allow the Township to continue to thrive as a community. Unless the Township establishes the guiding framework it needs, it can easily slip into a pattern where it continues to increase its spending allocation every year without a critical review of whether the Township should be allocating resources differently to advance the priorities it has set.

Just as important, the Township needs to adopt a more wholistic, multi-year view to make policy and budget allocation decisions in order to make the desired investments. The budget planning process generally has a one-year focus when investments the Township requires generally span at least several years if not more. This Five-Year Plan is the first step in adopting a multi-year planning process, but the Township needs to continue to adopt practices that have a more strategic focus.

This chapter provides the necessary next steps for the Township to develop the guideposts it needs to make more informed resource allocation decisions. It also identifies ways in which the Township can better enforce its ordinances so that resources are directed to areas where it makes the most difference in promoting and improving quality of life.

BP01	Develop a mission statement and use it as a way to allocate resources
Goal(s)	Prioritize resources
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	N/A

This engagement did not begin solely with questions about what Township government could afford, but what it is trying to accomplish in the first place.

Township government does not currently have an official mission statement and should first and foremost develop one. A mission statement should be a clear, concise statement of purpose and should become a guiding principle for establishing the organization's goals and allocating resources. We recommend the following mission statement as a starting point and encourage Township leaders to review and make changes based on further discussion:

To provide for the health, safety, and welfare of residents, businesses, and visitors in a responsible and cost-effective manner; and to provide for the responsible protection and development of the Township and its resources.

At first glance this mission statement sounds bland or generic. Local governments exist to provide for the health and safety for their constituents and it is hard to argue against being responsible stewards who provide services in a cost-effective manner. But it elevates a number of priorities and services that are reflected in Township government's budget:

- **Provide for health and safety:** The reason more than half of the Township's budget is dedicated to public safety is because residents and businesses require police patrol and fire protection services to keep them safe. Those who live and work in the Township also expect roads to be well-

paved, streets to be well-lit, signages to be clear, and the stormwater system to be well-maintained so that families and businesses can thrive in a safe and healthy environment.

- **Provide for welfare:** Township government provides for the welfare of its citizens by providing plenty of parks and recreation opportunities. According to the 2019 community study conducted by the Township, 96 percent of the respondents noted that recreation is at least important to them and their families, with 72 percent of the respondents noting that recreation is very important or extremely important.
- **Provide services in a responsible and cost-effective manner:** The Township strives to be a responsible financial steward by continuously evaluating ways to deliver services more effectively and efficiently, as evident by the Township's growing reserves and Aaa bond rating. Moving forward, the Township needs to not only ensure that it manages its money well and lives within its means, but also has a realistic plan to repair, replace, and maintain its infrastructure.
- **Responsible protection and development of the Township:** The Township has a Planning and Zoning Department responsible for the permitting, zoning, and overall planning of the Township's space and resources. Responsibly protecting and developing the Township is particularly important given the developments Upper Providence has seen in the last few years and the continuous growth the Township may see in the future.

Subordinate sections of the mission statement – covering goals and objectives – can help set and articulate more detailed priorities under the larger mission.

Even though this draft mission statement will be further refined by Township leaders, it should already help the Township determine how well the current budget and future spending plans align with the mission. We provide some examples of how the Township can use the mission statement as a guidepost for budget allocations and policy decisions.

Property ownership

Upper Providence owns 66 property parcels including buildings, parks, sewer pump stations, trails, parking lots, and open space. It also owns two farmhouse properties – one on Lewis Road (Joyce property) that is currently occupied and the other on Linfield Trappe Road (Taylor property) that is currently unoccupied.

From our discussions with department heads, we learned that some open space was purchased to facilitate future park expansion. Others, like the Joyce property, were purchased in part because of their historical value.

When purchasing properties, the Township needs to consider how those purchases align with its mission and strategic goals. For example, the Township had intended to turn the Joyce property into a conference or event venue in the future, but tenant occupancy has prevented the Township from doing so. As a result, the Township currently has an agreement with the tenant at the Joyce property where the Township is responsible for any repairs over \$2,000 in exchange for a monthly rental income of \$2,000.

Even though the cost of maintaining a farmhouse and several open spaces is only a small portion of the Township's operating budget, it distracts the Township from its core mission. Furthermore, being in the real estate business is not financially beneficial for the Township. The Public Works Department noted that it has to spend over \$200,000 to repair the roof at the Joyce property when the Township only collects \$24,000 in annual rental income.²²

The Township should also be strategic about open space purchases. The Township currently maintains a number of parks and playgrounds, and the 2021 Park Master Plan shows that some playgrounds are in urgent need of repairs. The Master Plan also recommends a number of upgrades and improvements for

²² This repair, which was estimated at \$250,000, was also included in the 2021 capital plan.

existing parks that cost over \$10 million, not including other recreation priorities such as improving the trail connectivity throughout the Township, which would require additional investments.

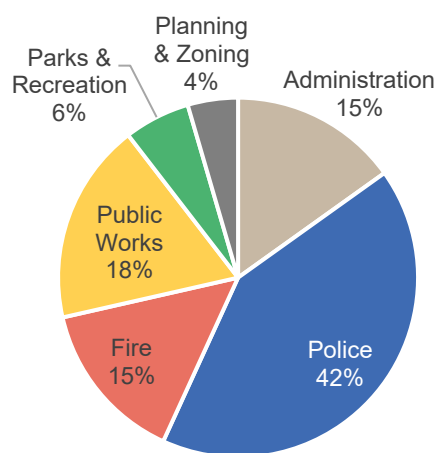
Instead of purchasing and maintaining open space for future park expansion plans, the Township should focus its resources to ensure that existing parks and playgrounds are well-maintained and accessible. This is also in line with the results from the 2019 parks and recreation community survey in which respondents prioritized improvements in existing park facilities over building new park facilities when resources are limited.

Moving forward, we recommend the Township review the properties and open spaces it currently owns and determine whether transferring properties that are not used for core municipal services would be beneficial. If the Township has concerns about certain open space or preserves being overdeveloped if they become privately-owned, there are other options such as zoning changes that would still allow the Township to be a responsible steward of its natural resources.

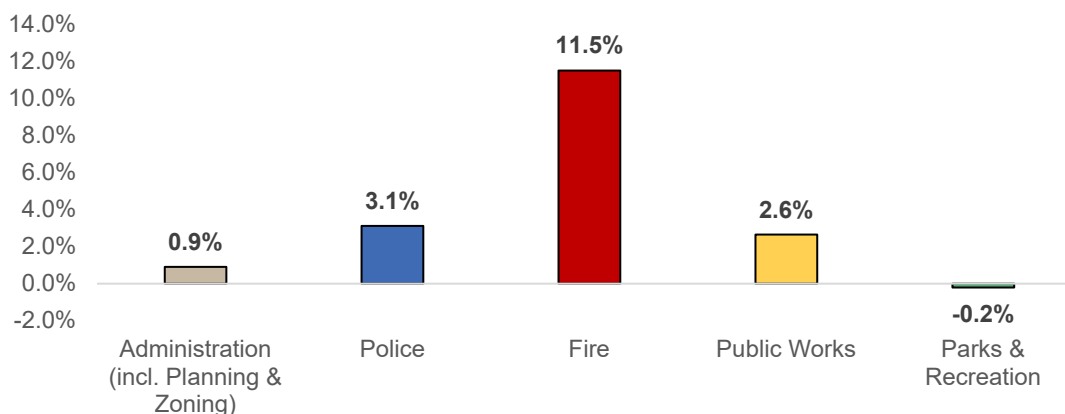
Department spending allocation

More than half of the 2021 budget was allocated to public safety while only six percent was allocated to parks and recreation. The current allocation is a result of several factors. Providing for the health and safety of residents, businesses, and visitors is one of the most important goals of the Township, so naturally the majority of the resources would go toward the Police and Fire Departments. Because the Township is required to pass a balanced budget each year, non-public safety departments – primarily the Public Works and Parks and Recreation Departments – are frequently the “go-to” departments when cuts are necessary to balance the budget. This dynamic was evident in the historical spending trends shown below.

2021 General Fund Departmental Budget



Average Annual Growth, 2016 - 2021²³



The chart above is not to indicate that the Township has been overinvesting in the public safety departments or underinvesting in the non-public safety departments. Rather, it is to highlight how resource allocation has changed over time and raise the question of whether the current resource allocation reflects the

²³ We excluded utilities spending in all calculations in this chart because historical spending was allocated across all departments, but the 2021 budget combines all projected utility spending into one line item. Please see initiative BP06 regarding our recommendation to allow for more uniform accounting practices.

Township's mission and goals. The answer to that question is not a purely financial one, nor is it one that can be answered based solely on the information we have collected. It is one that Township officials and leaders will need to first answer on their own and then collaboratively. We elaborate on this concept more in the workforce chapter where we discuss how to determine the right staffing levels in each department.

Service delivery

The mission statement is a guiding principle for establishing Upper Providence's goals and allocating resources. The focus is not *how* the Township achieves those goals but *whether* it does so effectively in a responsible and cost-effective manner.

For that reason, the Township should periodically evaluate all of its services where another provider is an option to ensure the current system is the best possible in terms of service quality, cost efficiency, and strategic alignment with leadership's goals. We identify two areas where such a review may be helpful.

- **Use of third-party entities** The Township already outsourced its janitorial services in 2017 and sewer fee billing in 2019 and those are examples of how changes in the way the Township delivers services can bring efficiencies. One area that may be a candidate for review is the way the Township currently operates its community center. Currently, the Township contracts with a third-party entity to run the community center and the Parks and Recreation Department Director allocates approximately 20 percent of her time managing the contract and supervising the facility. The Township collects all revenues related to the community center to offset a portion of the operating costs.

In an effort to focus on core responsibilities, some local governments have leased their recreation centers to a third-party entity. Under this arrangement, the third-party entity would collect the fees to offset the cost of operation. This structure would provide local government less control over the operation but would reduce the Township's pressure in recovering costs and allow Township staff to focus on other core responsibilities.

- **Opportunities for shared services:** Another area that warrants continuous evaluation is opportunity for shared services. In our discussions with the Fire Chief regarding service demands, we learned that there is a desire for Upper Providence to become the "public safety hub" of the region. Part of the reason regionalization is desirable is because it would distribute the cost of police and fire protection across a larger tax base and could improve service.

Developing a regional approach to deliver public safety services can be challenging because, in Pennsylvania, public safety services are generally provided on the municipal level and not on the county level. Municipalities in Montgomery County rely on the County's emergency communications center for dispatch services, but once calls are dispatched, local governments are responsible for providing public safety services. That said, the County's Department of Public Safety does provide a number of additional services, including emergency management as well as police, fire, and EMS training. Given that there is some overlap between municipal and county equipment and services, there might be additional opportunities for shared services.

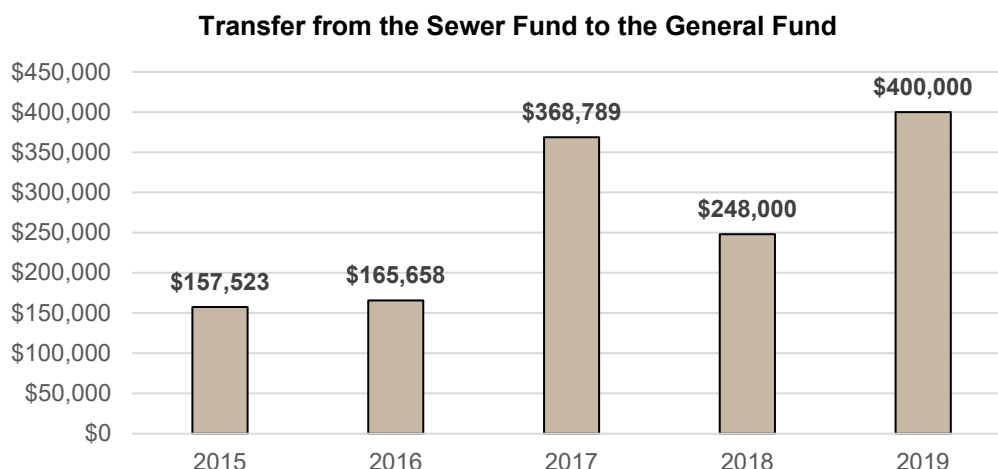
Upper Providence should continue engaging neighboring townships regarding opportunities for shared public safety services. It should also coordinate with County government to develop a regional approach. Coordinating with the County can be useful because it provides a platform for all stakeholders to work together. It also prevents Upper Providence from finding itself in a situation where it essentially subsidizes neighboring municipalities' public safety services simply because its full-time staffing level is higher than the surrounding townships.

These are examples where a mission statement can drive useful, meaningful discussions so that the Township can continue to meet service demands in a responsible, cost-effective manner. The rest of this

Five-Year Plan will continue identify ways the Township can use its mission statement to drive policy decisions.

BP02	Adopt a policy on sewer fund transfer
Goal(s)	Improve budget transparency
Responsible parties	Board of Supervisors; Township Manager; Finance Department
Fiscal Impact	N/A

Each year, the Township makes a transfer from the Sewer Fund to the General Fund to reimburse the salaries and benefits for the two public works employees whose primary responsibility is to maintain the sewer lines and pump stations. The size of the transfer has fluctuated from \$157,000 in 2015 to \$400,000 in 2019 and is based mostly on an informal determination of the amount of work General Fund employees provides to the Sewer Fund.



It is not unusual for a municipality to rely on these types of transfers from the sewer system to the General Fund, but the transfers should ideally be calculated using a methodology that is transparent and consistently applied from year to year.

The methodology could be as simple as starting with a base amount and explaining under what circumstances that amount will grow. Currently, two public works employees spend 75 percent of their time on maintaining the sewer system and the two public works directors spend another 15 to 20 percent of their time on administrative tasks related to managing the sewer system. The Township Manager, Assistant Township Manager, and the Finance Department also spend additional time overseeing the financial health of the Sewer Fund. The transfer amount to the General Fund should reflect all the personnel costs dedicated to managing the sewer system.

The policy should provide some level of predictability to the Township as a whole and the sewer system, which is useful for planning purposes. The policy will also make it easier to schedule future rate increases in support of the established transfer amount.²⁴

²⁴ Please see initiative RV04 in the revenue chapter for more information about regularly increasing sewer fees.

BP03	Enforce the false alarm ordinance to manage service demands
Goal(s)	Align resources to service demands; control expenditure growth
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	\$10,000 in 2022; growing to \$20,000 by 2026

According to the Township's ordinance, residents and businesses that repeatedly trigger false alarms would receive a fine. Properties that trigger a false fire and/or burglar alarm for the first time would receive a warning. After the first false alarm, property owners would be fined depending on the number of false alarm recurrence.

When we discussed how strictly the Township enforces its false alarm ordinance with the Fire and Police Chiefs and requested data related to the amount of fines the Township receives from false alarms, both Chiefs noted that the Township typically does not issue a fine until after the property triggers three false alarms.

According to data provided by the Fire Department, about a quarter of calls for service over the last three years were related to false alarm. During our interviews with the Police Department, the Police Chief estimated that approximately 95 percent of the burglar alarm calls were false alarms. Nationally, at least 90 percent of Police alarm calls are false alarms.²⁵

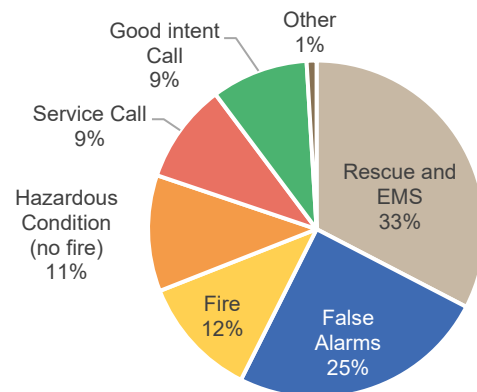
These trends are in part driven by Upper Providence's higher daytime population. According to the most recent data provided by the Census Bureau, the Township's daytime population is approximately 20 percent higher than its resident population. While resident population data only accounts for the number of people who reside in the Township, daytime population accounts for the number of people who work in the Township, including commuters who live elsewhere.

Daytime population has also been growing at a faster rate than resident population. From 2013 to 2019, the Township's resident population grew at an annual rate of 1.9 percent from 21,422 to 23,920 when daytime population grew at a faster rate of 2.5 percent from 25,206 to 29,270, as shown in the chart below.

Fine Schedule for Burglar and Fire Alarms

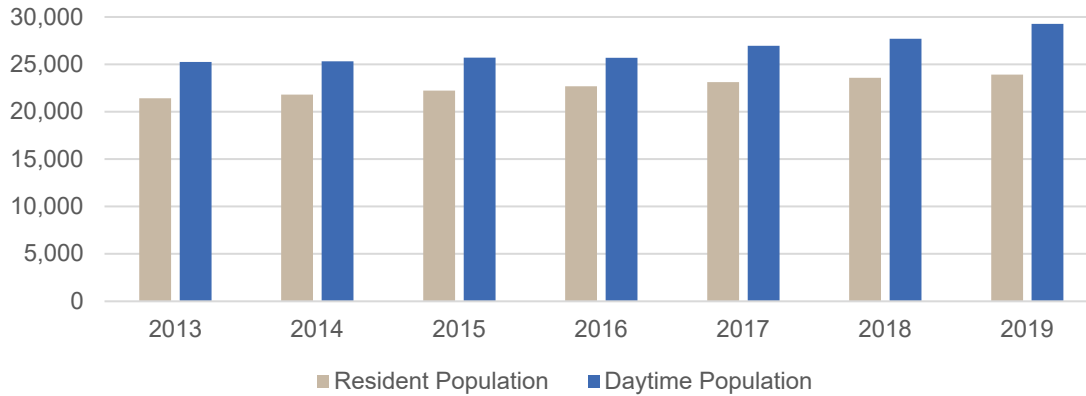
False Alarm	Fine
1st	Warning
2nd	\$100
3rd	\$300
4th	\$400
5th & any thereafter	\$500

Fire Department Calls for Service 2018 - 2020



²⁵ *Opportunity for Police Cost Savings without Sacrificing Service Quality*, Urban Institute, 2013.

Resident versus Daytime Population



	2013	2014	2015	2016	2017	2018	2019	Annual Growth
Resident Population	21,422	21,802	22,235	22,690	23,129	23,589	23,920	1.9%
Daytime Population	25,260	25,327	25,713	25,700	26,952	27,700	29,270	2.5%

This dynamic is also reflected in the Fire Department's call for service data. From 2018 to 2020, the Department of Fire and Emergency Services received 40 to 45 percent fewer calls at night (6pm to 6am) than during the day (6am to 6pm), as shown in the table below.

Number of Day and Night Calls, 2018 - 2020

	Fire (day)	Fire (night)	EMS (day)	EMS (night)	Total (day)	Total (night)	Difference
2018	334	186	151	78	485	264	-45.6%
2019	342	219	164	87	506	306	-39.5%
2020	370	205	145	85	515	290	-43.7%

Given that responding to false alarms represents a meaningful portion of the Township's public safety departments' workload, especially during the day when the population is higher, Upper Providence needs to at the very least start enforcing its false alarm ordinance and issuing fines to provide a deterrent for their occurrence. The following lists a few additional action items the Township can take to reduce the number of false alarms and recover more of the costs associated with responding to false alarms:

- **Establish an alarm registration program:** It is not uncommon among Pennsylvania townships to have an alarm registration program. In Upper Merion Township, residents and businesses are required to register alarm systems and pay a registration fee of \$35. Those who fail to register are subject to a fine of up to \$300. For those who register, there is no fine for the first three false alarms, but a penalty of an additional \$100 is imposed for each subsequent false alarm. In the 2021 budget, Upper Merion projects collecting \$8,000 in new alarm registration fees and \$60,000 in false alarm violation fines. Cheltenham Township requires a \$50 initial registration fee for each alarm system and an annual renewal fee of \$35. Those who trigger false alarms without a permit are subject to a fine of \$350 for fire alarms and \$600 for burglar alarms. Cheltenham collects approximately \$80,000 in alarm permit and fine revenues each year. West Whiteland Township, Tredyffrin Township, and Upper Dublin Township all have similar alarm registration programs.

Upper Providence should establish an alarm registration program to recover more of the costs associated with responding to false alarms. It should also regularly cross-check between the

addresses triggering the false alarm and the permit database and issue the fine across all households that fail to register the alarm. Doing so will help increase compliance and ensure equity amongst taxpayers.

- **Redesign fee structure:** The Township can establish a different fee structure for residential and commercial alarms as well as a separate fee for burglar and fire alarms to better track the type of false alarms incurred by different properties and customize a deterrent program accordingly. When redesigning the fee structure, the Township should maintain its current stratified fee system that charges higher amounts for more frequent violations.
- **Adopt a verified alarm ordinance:** As a standard practice, many alarm companies already call the property owner and secondary contacts verifying if the alarm is a false alarm before forwarding the call to the local enforcement agencies. Upper Providence Township can encourage that practice by adopting an ordinance requiring alarm companies to confirm an emergency is occurring before dispatching local enforcement to the site of the alarm.²⁶

BP04	Adopt a property maintenance code
Goal(s)	Improve neighborhood attractiveness
Responsible parties	Board of Supervisors; Township Manager; Planning and Zoning Department
Fiscal Impact	TBD

Code enforcement in Upper Providence is currently performed in a reactive manner. The Township responds to complaints as it receives them and officials describe this effort as fruitful, largely because there are very few dilapidated properties in the Township and there are several homeowners' associations that enforce their own code. That said, even when the Township receives complaints related to tall grass or dilapidated properties, it does not have the authority to enforce code standards because of the lack of a comprehensive property maintenance code.

Many Pennsylvania municipalities, including nearby Upper Merion, Upper Dublin, East Whiteland, and Horsham Townships, adopt the International Property Maintenance Code (IPMC) as the municipality's Property Maintenance Code for the control of buildings and structures. The IPMC is published by the international Code Council and is updated every three years. The most recent edition is from 2021.

Upper Providence should adopt a Property Maintenance Code to more formally enforce code standards. Doing so would allow the Township to enforce any code violations and provide for the health, safety, and welfare for its residents, which will be increasingly important as the Township's population continues to grow.

Taking this concept further, the Township could also consider establishing a rental registration and inspection program. Many Pennsylvania communities²⁷ have a rental registration and inspection program that requires landlords to regularly register and inspect their properties. This type of program usually allows municipalities to recover a portion of the cost of inspections and keeps landlords accountable for the condition of their properties.

²⁶ For more information related to managing false alarm calls, please see *False Burglar Alarms* published by the Office of Community Oriented Policing Services, U.S. Department of Justice here: <https://cops.usdoj.gov/RIC/Publications/cops-p014-pub.pdf>

²⁷ Upper Dublin Township requires property owners to register residential rental units, paying a biannual fee based on the number of dwelling units. Upper Merion and West Whiteland Townships both require registration for all rental units and inspect units before occupancy or re-occupancy.

To move forward, we recommend the Township adopt a Property Maintenance Code as soon as practical. The Township should also determine whether establishing a rental registration and inspection program would help advance its mission. Doing so may require additional resources but could be an important step in shaping Upper Providence into the community it desires to be in the long term.

BP05	Improve the capital planning and prioritization process
Goal(s)	Align resources to service demands; control expenditure growth
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	N/A

The Township should have a **capital improvement plan (CIP)** where it inventories and funds potential projects over several years and a **capital budget** that allocates money for specific projects in the next fiscal year. The CIP and capital budget should contain a mix of projects with some focused on repairing, renovating, and replacing existing infrastructure and others focused on more strategic investments in new assets. These documents should be released publicly each year during the annual budget process.

Prior to the 2021 budget, the Township only published a one-year capital budget that details capital projects and their funding sources for the upcoming fiscal year. In 2021, the Township started showing the projected five-year capital spending in the budget, which is a step in the right direction. That said, department directors acknowledged that the primary focus of the 2021 capital plan was still on the upcoming fiscal year with little consideration for what the needs were over a five-year horizon. As a result, the 2021 five-year capital plan likely underestimates the capital needs in 2022 and beyond.

2021 Five-Year Capital Plan

	2021	2022	2023	2024	2025	Total
Administration	45,250	0	0	0	0	45,250
Police Protection	101,500	106,000	149,000	64,000	67,000	487,500
Emergency Services	9,490,000	3,750,000	Depends on SAFER Grant			13,240,000
Public Works	1,733,000	4,945,000	2,660,000	1,735,000	1,725,000	12,798,000
Parks and Recreation	707,600	1,670,000	420,000	445,000	45,000	3,287,600
Total	12,077,350	10,471,000	3,229,000	2,244,000	1,837,000	29,858,350

One of the major capital needs not included in the 2021 capital plan is investments in the Public Works Department. From our discussion with the Department, we learned that the Public Works building was built in 1996 and has not been upgraded in years. Because of limited office space, the Assistant Public Works Director has been working out of the women's locker room in that building. The Public Works Department estimates that the building upgrade alone would cost \$2.0 million, not including additional necessary upgrades at the Township fuel station and compost site. The Department also has almost \$1.0 million in vehicle and equipment replacement needs not included in the 2021 capital plan.

The 2021 capital plan also only included a portion of the improvements needed for parks and playgrounds. The Black Rock Park and MacFarlan Park playgrounds are 18 years old and the Parks and Recreation Department noted that significant repairs are needed for health and safety reasons. The Park Master Plan adopted in April 2021 also identified a number of immediate priorities including making Americans with Disabilities Act (ADA) accessible upgrades. The following table summarizes the cost estimates provided in the Park Master Plan. The Township will not be able to address all of these needs in the short term given its other competing priorities but will likely have to fund a portion of these suggested improvements to

maintain and improve park and playground conditions.²⁸ The Township could also consider funding some of these needs through debt-financing and working with local sports clubs or community groups.

Cost Estimates of Upgrades and Improvements Identified in the Park Master Plan

	Site work	Paving	Amenities	Administration ²⁹	Total
Anderson Farm Park	155,000	605,400	1,000,400	704,320	\$2,465,120
Black Rock Park	22,500	540,000	1,387,500	780,000	\$2,730,000
Longford Park/Reynolds' Dog Park	11,500	18,000	245,000	109,800	\$384,300
MacFarlan Park	57,500	655,375	564,900	511,110	\$1,788,885
Port Providence Park	32,500	469,500	180,500	273,000	\$955,500
Taylor Farm Park	47,500	1,143,750	158,500	539,900	\$1,889,650
Total	\$326,500	\$3,432,025	\$3,536,800	\$2,918,130	\$10,213,455

Moving forward, we recommend some changes to the capital planning process so that the Township can create a more robust capital plan and make funding decisions more transparent.

Improve the process for capital project prioritization and planning

The ultimate goal is for the Township to have a CIP created through a collaborative process that involves Township management, the Finance Department, and the Department of Public Works.³⁰ The CIP should highlight the specific capital needs the Township will address over a five-year period, the scope and expected cost of each project, estimates of project funding by source, and projections of any operating and maintenance costs that will follow after completion.

As a first step, the Township should establish a **capital planning policy** that defines which projects are eligible for funding in the capital budget and lays out the process for developing the CIP. As straightforward as the definition point may seem, the Township will have to decide what the minimum dollar amount should be and whether to treat vehicles with a short life cycle (like police cruisers) differently than those with longer cycles (like fire engines). According to the best practice guidance provided by the Government Finance Officers Association (GFOA), capital projects should generally have an estimated useful life of at least two years following the date of acquisition and should be at least \$5,000 for any individual item. Having a capital policy that clearly defines capital eligibility will prevent the Township from spending its capital dollars on operating items. It will also allow the Township to better evaluate whether certain capital projects should be funded through debt financing instead of on a pay-as-you-go basis.

The Township should also use a process to evaluate and prioritize projects for funding. The capital planning policy should set the criteria and process for doing so. Here are some criteria commonly used by other governments:

- **Health, safety, and legal compliance:** Is the project required to meet the basic standards of residents' health and safety or legal compliance?
- **Strategic alignment:** To what extent does this project align with the Township's mission and vision statement?
- **Age and condition of the asset:** Will this project bring the asset onto a life cycle replacement plan? What are the associated costs of delaying this project?

²⁸ The 2022 proposed budget allocates a park/open space millage to fund some of these improvements.

²⁹ Includes survey design and permitting, construction inspection, and contingency.

³⁰ Other departments should also participate but these three have the most responsibility for funding capital projects, maintaining Township infrastructure and directing strategic investments.

- **Public benefit and demand:** Who specifically will benefit from this capital project?
- **Operating cost savings:** Will this project generate recurring savings in the operating budget as a result of lower maintenance costs? Will it create new operating costs that are not currently in the budget?

The Government Finance Officers Association (GFOA) recommends a quantified approach to ranking capital projects, even though some evaluation criteria are subjective. The decision matrix below is used by a community in Minnesota with an Aa2 credit rating.³¹

Capital Project Criteria Template Example

Exhibit 2: Criteria Template and Questions for the Deliberative Process		
Criteria	Description	Rating Scale (1-9)
Project Requirements	Is the project required to meet legal, compliance, or regulatory mandates?	1 = not required or mandated 5 = pending requirement 9 = required or mandated
Strategic Alignment	To what extent is the project aligned with the government's overall strategies?	1 = no alignment with strategies 5 = partial alignment with strategies 9 = full alignment with strategies
Value to Citizens	How much value will the outcome of this project bring to our citizens?	1 = minimal value 5 = partial value 9 = high value

Selection criteria can be weighted using a prioritization matrix as shown to the right. This tool can help the Township prioritize projects by mitigating the subjectivity in the decision-making process.³²

This sample decision matrix requires the Township to assign a score to each of the ranking criteria, which are then multiplied by the weighting factor. The aggregate score is then used to determine which projects will be funded. Note that impact on the operating budget is one of the criteria considered. If a capital project reduces ongoing operating costs, then it should be ranked higher than a project that creates new obligations and expenditures.

Next Steps

One of the reasons a thoughtful capital plan with a multi-year perspective is so important is because it allows the Township to prioritize its resources with a strategic vision. Without a capital planning process that helps prioritize projects in a structured and quantifiable manner, it is hard to sequence capital projects in a way that provides the most return on investment.

The recommended changes to the Township's capital planning process as described above can be overwhelming, which is why we included an initiative in the Strategic Investments chapter that allows the Finance Department to have more capacity to focus on strategic initiatives such as this one. It is also important to note that the responsibility of developing a robust capital plan should not fall on the Finance

Sample Criteria Weighting Matrix

Priority Ranking Criteria	Weighting Factor
Public Health and Safety	1.50
Employee Health and Safety	1.25
Regulatory Mandate	1.50
Frequent Problems	1.25
Availability of Funding	1.00
Cost of Project	1.00
Generates Revenue	1.20
Generates Cost Savings	1.20
Ongoing Operation Costs	1.00
Age or Condition of Existing	1.00
Public Benefit	1.10
Public Demand	1.25
Synergy with Other Projects	1.10
Strategic Goal	1.05
Comprehensive Plan Component	1.05
Total Score	

³¹ The template is used by White Bear Township, Minnesota and adapted from *Prioritizing Capital Improvement Planning*, Gary Donaldson, Government Finance Review, 2015.

³² Adapted from *Prioritizing Capital Improvement Planning*, GFOA

Department alone. Rather, it should be a collaborative process that is led by Township management but involves all department directors.

We recommend the Township use the concept of project prioritization described in this initiative to make capital allocation decisions during the 2022 budget process. Next year, once the Township has adopted the 2022 budget, it should focus on adopting a capital planning policy and formalizing a project prioritization process. It should also work to develop a more robust and comprehensive five-year capital plan beginning with this year's budget.

BP06	Use a multi-year view to drive policy decisions
Goal(s)	Align resources to service demands; control expenditure growth
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	N/A

This Five-Year Plan began with a baseline projection that represents a “carry forward” or “current services” set of projections – such that no reduction or enhancement in services, headcount or tax rates are generally assumed, except in cases where already adopted into current law or consistent with existing policy. Practically speaking, the Township will have to make adjustments over time. The Township is statutorily required to pass a balanced budget each year and it could not absorb the projected deficits in the baseline without drawing down its reserves. However, it is critical to have a baseline projection in order to understand the magnitude and nature of budget challenges before developing appropriate corrective action.

Moving forward, the Township should continue to update the five-year projection. The recommended initiatives outlined in this report will impact the Township's finances in ways not incorporated in the *status quo* baseline projection described in the last chapter, which is why having a multi-year projection will allow the Township to track how recent decisions and financial performance change the longer-term trajectory. Multi-year projections also provide an organized way to conduct sensitivity analysis and address issues related to long-term financial sustainability, like the appropriate size of financial reserves (i.e. “how does our financial picture change over the next five years if X changes?”)

Multi-year financial planning should be an ongoing effort and not a static product. Upper Providence should begin using the software it already purchased to facilitate the multi-year projection process and update it at least once each year when it develops and adopts its annual operating budget so that any changes made through the budget process are evaluated through the lens of ensuring the long-term fiscal sustainability of Township government.

Multi-Year Planning as a Best Practice

“Multi-year fiscal plans perform two important functions: one, they walk the reader through the “what if” questions with quantified, hard answers; and, two, they provide a road map that shows where the government's management team intends to go over the next several years.”

– *The Six Critical Components of Strong Municipal Management*, Moody's Investor Services

“Multi-year planning is a critical exercise. These plans will often have out-year gaps projected which allow governments to work out, in advance, the optimal way to restore fiscal balance.”

– *The Top 10 Management Characteristics of Highly Rated US Public Finance Issuers*, Standard & Poor's

“The multiyear plan's value is to anticipate future challenges that may be encountered due to projected revenue and expenditure imbalances. This allows executives and legislators to ‘get in front of’ potential budget stress, and take corrective action long before budgetary gaps develop into crises.”

– *12 Habits of Highly Successful Finance Officers*, Fitch Ratings

We also provide three best practices to help the Township develop meaningful forecasts and use the projection to drive policy decisions, as detailed below.

Estimate changes to operating costs as a result of capital investment

As noted in initiative BP05, impact on the operating budget should be one of the criteria considered when evaluating and prioritizing capital projects. If a capital project reduces ongoing operating costs, then it should be ranked higher than a project that creates new obligations and expenditures. For example, if the Township makes an investment in changing all streetlights to light emitting diode (LED) lights,³³ it should understand the amount of recurring energy cost savings it would generate and include those savings in the projection. Having a grasp of the magnitude of the savings will also help the Township evaluate capital investments from a return on investment (ROI) perspective.

Similarly, the Township should understand the recurring costs as a result of capital investments. For example, with the construction of the new fire building, the Department of Public Works estimates that there will be a meaningful increase in janitorial and maintenance work. Because the Township currently contracts out janitorial services, it should include any increase in the contracted services costs related to the new fire building and evaluate how potential investment such as a new library would impact public works maintenance workload and staffing needs.

Change accounting practices to facilitate financial assessments

Currently, the Township's accounting practices provide limited insight into the spending trends, which makes it difficult to evaluate initiatives that would improve cost efficiency.

For example, while the Township budget shows the amount for each type of contracted service, historical actual data only shows contracted services on an aggregate level by department. As an example, while the accounting system shows that Public Works contracted services grew from \$179,000 in 2015 to \$374,000 in 2019 and dropping to \$287,000 in 2020, there is no way to determine what drove the trend apart from relying on the Public Works Department Director's recollection or going through individual invoices manually.

Public Works Contracted Services, 2015 - 2021

	2015 Actuals	2016 Actuals	2017 Actuals	2018 Actuals	2019 Actuals	2020 Actuals	2021 Budget
Contracted Services	179,110	208,090	239,559	316,797	374,231	287,267	0
CS - Elevator Contracts	0	0	0	0	0	0	4,500
CS - PA One Call	0	0	0	0	0	0	2,000
CS - Mowing Contract	0	0	0	0	0	0	55,000
CS - Drug Testing	0	0	0	0	0	0	750
CS - Snow Plowing	0	0	0	0	0	0	73,000
CS - Weed Control/Fertilizer Contract	0	0	0	0	0	0	28,000
CS - Lighting/Traffic Signal Mtse.	0	0	0	0	0	0	114,500
CS - IT Support Assessment	0	0	0	0	0	0	11,000
CS - Generator Service Contract	0	0	0	0	0	0	6,500
CS - Preventive Mtse. Contracts	0	0	0	0	0	0	6,500
CS - Street Sweeping	0	0	0	0	0	0	11,000
CS - Minor Vehicle Upgrades	0	0	0	0	0	0	2,500
CS - Undesignated	0	0	0	0	0	0	2,250
Public Works Contracted Services	179,110	208,090	239,559	316,797	374,231	287,267	317,500

³³ Please see initiative RV02 for more details.

Without historical data showing what drives overall contracted services growth, it is difficult to evaluate Townshipwide spending trends, such as IT support, and determine whether that is an area that warrants a more detailed review and whether an alternative way of providing the service would be beneficial.

Moving forward, the Township should start tracking spending data in more detail to facilitate trend analysis and discussions regarding potential cost savings options. Below are some specific recommendations regarding ways to improve data tracking:

- Track and budget contracted services by department and by type of contracted services
- Track and budget utilities (including electricity, telephone, water, and vehicle fuel) by department or building location and by type of utility
- Separate “group benefits” line items into Medicare, Social Security, health insurance, dental insurance, life insurance, and workers’ compensation so that it is clear how each benefit drives overall spending growth
- Track and budget auto and liability insurance spending by department and by type of insurance
- Limit the “miscellaneous expense” line item to spending under \$10,000

Use the multi-year projection to facilitate staffing level and other investment discussions

Township leaders should use the multi-year projection to drive policy discussions and decisions. For example, as the Township discusses increasing staffing levels to meet its service demands, it should not only determine whether the upcoming budget can accommodate those costs, but the actions the Township would need to take in order to afford new spending requirements on a multi-year basis.³⁴ We provide a simple fiscal impact checklist of questions that Township leaders should answer when proceeding with any projects or policy decisions.

Fiscal Impact Checklist

1. What is the net fiscal impact on the General Fund over a five-year period? (*Note: if the project is funded using bond proceeds, the fiscal impact should include any projected increase in debt service.*)
2. If the project results in net revenues or savings, what portion of the budget gap is it filling through this initiative? Will the benefits accrue to the bottom line (annual financial result, fund balance), or does the Township intend to redirect the benefit to other areas?
3. If the project results in net costs, how much does it increase the projected deficits by and what is the plan for addressing the increased deficits?

³⁴ Please see initiative WF02 for more detailed discussions related to staffing levels.

Strategic Investments

One of the goals of this Five-Year Financial Plan is to create a comprehensive and responsible approach for Upper Providence to make strategic investments.

The Township's 2021 capital plan already identifies more than \$16.0 million in infrastructure needs over the next five years, but those are not the only investments the Township hopes to consider through 2026. In addition to maintaining its existing infrastructure, the Township also raises the question of whether it should build and operate a new library and how it should invest its proceeds from the local fiscal recovery allocations provided by the American Rescue Plan Act (ARPA).

This chapter provides next steps for ways to prioritize these needs so that investments are made prudently with careful consideration regarding funding alternatives. We also list additional projects identified in our interviews with department directors that may help the Township to better achieve its mission.

Finally, we note that the potential physical investments identified in this chapter are not the only spending the Township may wish to add. During our interviews with department directors, all of them identified additional staffing needs in light of growing service demands. We address those needs separately in the workforce strategies chapter.

SI01	Develop a strategic approach to use ARPA funds
Goal(s)	Invest ARPA funds strategically
Responsible parties	Administration; Finance Department
Fiscal Impact	\$2.4 million in total

The American Rescue Plan Act (ARPA) will provide \$2.4 million to Upper Providence that must be obligated by the end of 2024. The Township should develop a comprehensive strategy so that ARPA funds are used not only to meet immediate needs but also to create new opportunities for the Township to make long-term investments.

According to the U.S. Treasury guidance for the ARPA state and local fiscal recovery allocations issued on May 10, 2021, funds can be used to provide government services affected by a reduction in revenue. There are several guidelines regarding ways to calculate the amount of ARPA funds the Township can use for revenue loss replacement:

- The extent of revenue reduction is calculated by comparing the actual revenue to an alternative representing what could have been expected to occur in the absence of the pandemic (i.e., the counterfactual revenue). Analysis of this expected trend begins with the last full fiscal year prior to the public health emergency (FY2019) and projects forward at either (a) the average annual revenue growth over the three full fiscal years prior to the public health emergency or (b) 4.1 percent, the national average state and local revenue growth rate from 2015-18.
- Consistent with the Census Bureau's definition of "general revenue from own sources," the definition of general revenue would exclude refunds and other correcting transactions, proceeds from issuance of debt or the sale of investments, revenues generated by utilities and insurance trusts, and intergovernmental transfers from the Federal government.

- In calculating revenue loss, the Township should look at general revenue in the aggregate, rather than on a source-by-source basis, in order to provide a more accurate representation of the effect of the pandemic on overall revenues.
- Although revenue may decline for reasons unrelated to the COVID-19 public health emergency, to minimize the administrative burden on recipients and taking into consideration the devastating effects of the COVID-19 public health emergency, U.S. Treasury presumes any diminution in actual revenues relative to the counterfactual pre-pandemic trend to have been due to the COVID-19 public health emergency.

We paid particular attention to the amount the Township can use toward revenue loss replacement because this spending category has the fewest restrictions in terms of uses and can be used for a variety of spending categories including pay-as-you-go capital expenses as well as the provision of general government services. The other spending categories, on the other hand, have more spending restrictions.

ARPA Local Relief Fund Spending Categories

Flexible Dollars	Structured Dollars
Revenue loss replacement dollars can be used for the provision of government services, including maintenance or pay-go funded building of infrastructure, including roads; modernization of cybersecurity, including hardware, software, and protection of critical infrastructure; health services; environmental remediation; school or educational services; and the provision of police, fire, and other public safety services.	Respond to public health emergency
	Address negative economic impacts
	Premium pay for essential workers
	Water, sewer, and broadband infrastructure

To calculate the amount the Township can use toward revenue loss replacement, PFM first developed a counterfactual trend that projects what the revenue would have been absent the COVID-19 pandemic based on the U.S. Treasury guidance. Then we compare the projected baseline revenues against the counterfactual trend to estimate the amount of the Township can use toward revenue loss replacement.

The following table shows the counterfactual trend and the amount we estimate the Township would be able to use toward revenue loss replacement according to the baseline projection.

Estimated Revenue Replacement Reimbursement, 2020 – 2023 (Baseline Scenario)³⁵

	2020	2021	2022	2023	Total
4.1% Growth Based on 2019 Eligible Revenues	20,139,235	20,964,944	21,824,507	22,719,311	N/A
Baseline Projection of Eligible Revenues	19,736,401	19,100,362	19,977,070	20,527,301	N/A
Difference	\$402,834	\$1,864,582	\$1,847,437	\$2,192,010	N/A
Revenue Loss Replacement	\$402,834	\$1,864,582	\$142,584	\$0	\$2,410,000

Practically speaking, the precise amount the Township would be able to use to replace lost revenues would depend on the actual revenues collected in the projected years. If the Township's revenue performance is *better* than the baseline projection, the amount available to replace lost revenues would be *lower*, and vice

³⁵ The Interim Final Rule published by the U.S. Treasury indicates that recipients should calculate the extent of the reduction in revenue as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023.

versa. For example, if revenue rebounds quicker than anticipated or if the Township moves forward with the revenue enhancement recommendations included in this five-year plan, then the amount available to replace lost revenues would be lower. According to the Treasury guidance, the Township needs to calculate the extent of the reduction in revenue on December 31st of each year to determine the actual amount eligible for reimbursement.

Revenue Loss Replacement Scenarios

	Revenue Loss Replacement		Other Spending Categories		Total Allocation
Scenario 1: Baseline revenues	\$2.4 Million	+	N/A	=	\$2.4 Million
Scenario 2: Revenue performs better than expected	\$2.0 Million	+	\$0.4 million	=	\$2.4 Million

Because the ultimate amount the Township will be able to use toward revenue loss replacement is still unknown, the Township should develop a contingency plan in the event revenue performs better than anticipated and the Township is unable to dedicate as much money toward the revenue placement category as originally planned. If the Township follows the revenue recommendations outlined in this Five-Year Plan, its recurring revenues should also increase. Doing so may reduce the amount of one-time federal funds the Township would be able to use toward revenue loss replacement in the short term but would help the Township maintain a structurally balanced budget in the future even with the additional investments as outlined in the rest of this chapter.

Contingency plan to use the remaining funds

Even though the spending eligibility outside the revenue loss replacement category has more restrictions, within the categories of eligible uses the Township will still have broad flexibility to decide how best to use the funding to meet community needs.

One eligible use the Township can consider in the event it is unable to dedicate the full allocation toward replacing lost revenue is funding storm sewer infrastructure needs. The 2021 capital plan identified \$3.4 million in stormwater capital project needs over the next five years. As detailed in initiative RV01 in the revenue chapter, we recommend that Upper Providence enact a stormwater fee to cover those costs and spread them more equitably among all those who benefit from well-maintained stormwater infrastructure. Moving forward, if the Township establishes a stormwater fee, any operating and capital costs should be covered by that recurring source of revenue.

Even though the stormwater fee should cover any routine maintenance and outstanding capital needs, the Township could also explore whether there are one-time improvement projects that would help reduce stormwater runoff in the long term and improve environmental protection and public safety. According to the U.S. Treasury guidance, the Township may use ARPA funding to invest in wastewater infrastructure projects, including managing and treating stormwater or subsurface drainage water and facilitating water reuse. In addition, green infrastructure projects that support stormwater system resiliency such as rain gardens and green streets are considered eligible spending.³⁶ While pursuing these stormwater capital projects would not immediately reduce the Township's baseline maintenance needs, in the long term it should reduce the severity and frequency of emergency repairs. Furthermore, if the Township can improve the resiliency of the system by investing in green infrastructure, it would also help reduce long-term repair and maintenance needs.

To help develop a plan to use ARPA funds outside of the revenue replacement category, we provided the Township with a planning module (see below) as it continues to identify projects to be funded through

³⁶ Coronavirus State and Local Fiscal Recovery Funds, Interim Final Rule, p. 68

ARPA Planning Module

Finally, the Township should continue matching this one-time funding with one-time benefits, just as it has with one-time building permit and real estate transfer tax revenues. To formalize this practice, the Township should adopt a policy governing the use of one-time proceeds, as detailed in initiative RV04 in the revenue chapter.

The Township is currently evaluating the possibility of building a new library dedicated to Upper Providence Township residents. As part of this evaluation, the Township is working with an external library consultant to estimate the capital and operating costs of building a new library and develop a planning strategy.

- **Royersford Public Library:** The Royersford library is located right outside the Northwest corner of the Township and is only three miles away from the Township building. For Upper Providence residents who live in the southern part of the Township and are furthest away from the library, it is an eight-mile (or 15-minute) drive to the Royersford library.

- **Montgomery County – Norristown Public Library:** The Norristown branch is located on the east side of Montgomery County and is approximately 10 miles (a 25-minute drive) from Upper Providence.
- **Bookmobile:** The Bookmobile makes scheduled stops in Montgomery County municipalities that do not have their own public library locations. It serves as an additional library branch and stops at the Township Building on Mondays from 1:30pm to 4:30pm.



There are certainly benefits in building a dedicated library for Upper Providence residents, including providing more accessible programs for current Township families and making Upper Providence more attractive to prospective residents. That said, the underlying question in reviewing any non-mandatory, discretionary service is not whether it is valuable, but whether it is valuable *enough* to support instead of funding something else. Township officials have that discussion within the context of the annual budget, and residents have it within the context of their own personal finances.

The first step in answering that question is to better understand the upfront and recurring costs of operating a library and how this investment would be funded.

How much does a new library cost?

We discuss each major cost component below to provide the Township a sense of the total cost of building and operating a new library. It is important, however, to note that these are preliminary estimates based on current data and the Township should update the cost estimates when new information becomes available.

Library construction

The Township is currently working with an engineering firm to develop cost estimates for the building a library. According to preliminary cost estimates, the construction would cost \$15 to \$17 million including all the capital costs necessary to upfit the facility. PFM Financial Advisors estimated that, as of August 6, 2021, issuing a \$17 million bond with 20-year amortization would almost double Upper Providence's annual debt service from 2024 to 2032. Beginning in 2033, total debt service would remain at \$1.7 million for ten more years even after the existing debt drops off.³⁷

New Debt Service from Issuing a \$17 Million GO Debt in 2022

	Existing Debt Service	New Debt Service	Total Debt Service
2022	\$893,125	\$126,600	\$1,019,725
2023	\$895,000	\$416,777	\$1,311,777
2024	\$890,250	\$785,065	\$1,675,315
2025	\$898,625	\$779,067	\$1,677,692
2026	\$895,000	\$782,717	\$1,677,717
2027	\$899,100	\$785,804	\$1,684,904
2028	\$896,725	\$783,358	\$1,680,083
2029	\$899,163	\$780,464	\$1,679,627
2030	\$896,413	\$782,063	\$1,678,476
2031	\$891,350	\$783,088	\$1,674,438
2032	\$893,850	\$788,508	\$1,682,358
2033	N/A	\$1,680,220	\$1,680,220

³⁷ This debt service schedule is provided for illustrative purposes. The Township should consult its Registered Municipal Advisor to assist in evaluating current and future conditions and providing debt advice and alternatives.

	Existing Debt Service	New Debt Service	Total Debt Service
2034	N/A	\$1,677,718	\$1,677,718
2035	N/A	\$1,678,577	\$1,678,577
2036	N/A	\$1,677,808	\$1,677,808
2037	N/A	\$1,680,344	\$1,680,344
2038	N/A	\$1,676,160	\$1,676,160
2039	N/A	\$1,680,152	\$1,680,152
2040	N/A	\$1,677,100	\$1,677,100
2041	N/A	\$1,676,931	\$1,676,931
2042	N/A	\$1,315,655	\$1,315,655

Source: PFM Financial Advisors, LLC

Library operating costs

In addition to paying for the construction of the building, the Township would also have to fund the daily operations of the library. According to a proposal by a third-party provider, the Township could enter into a ten-year agreement and the provider would operate the library and provide programming services. The provider would cover all personnel costs, utility costs, technology maintenance, internet services, and materials and supplies. The provider would also maintain the library website, periodically update the library strategic plan, and provide grant writing support as necessary. These operating costs would have a three-percent built-in annual escalation throughout the term of the agreement.

The Township would also incur a one-time upfront material cost of \$500,000 and a recurring cost of \$150,000 to renew library materials. We note that these estimates are based on one proposal provided to the Township and it is possible that other providers may propose a different cost structure or different amounts to operate the library. The Township may also be able to offset some of the costs with state aid. Upper Merion Township, for example, is projected to receive \$93,000 in library state aid in FY2022.

Sample Costs Under a Ten-Year Agreement with a Third-Party Provider

	Year 1	Year 2	Year 3	Year 10 ³⁸	Assumption
Operating cost	\$950,000	\$978,500	\$1,007,855	\$1,239,535	Grows by 3% annually
Library materials	\$650,000	\$150,000	\$150,000	\$150,000	Remains flat at \$150,000 throughout the ten-year period after the \$500,000 one-time purchase in the first year
Total costs paid to third-party operator	\$1,600,000	\$1,128,500	\$1,157,855	\$1,389,535	Based on a proposal provided by a third-party provider

Using a private contractor instead of government employees is not an inherently “good” or “bad” approach. It is a tool that should be used thoughtfully to advance financial or operational objectives.

The third-party provider indicated that it would provide a staffing complement of 16.7 full-time-equivalents including a mix of librarians, library assistant, technicians, and clerical staff. To determine whether contracting out library operations is the right approach, the Township should evaluate whether it would be able to deliver the same level of services in-house at a lower cost. The other factor that should be part of the determination is the projected cost growth. Even if the Township can provide the same level of services

³⁸ The operating cost in year 10 (\$1.2 million) is 23.0 percent higher than in year 3 (\$1.0 million) when the annual 3.0 percent increase is compounded: $(1+3\%^7)-1=23.0\%$

at a lower cost initially, if these costs grow annually at a higher rate than the 3.0 percent guaranteed by the external provider, in the long term it may not be a financially beneficial arrangement.

Library building and equipment maintenance costs

In addition to funding the daily operations of the library, the Township would incur additional costs such as janitorial services, building security, building maintenance, and equipment (e.g., computer) replacement. The Township would also need to designate a staff responsible for managing the third-party provider. For the purpose of this exercise, we estimate these costs to total 25 percent of the operating costs proposed by the external provider, although we note that this is only a rough estimate. The Township should create a more detailed costing analysis if it moves forward with building the new library.

The following table shows a rough estimate of the average annual cost to build and operate a new library from 2023 to 2032. Please note that the cost will significantly increase beginning in 2033 given the jump in the estimated annual debt service payment related to the library from \$789,000 to \$1.7 million according to the debt schedule presented previously.

Estimated Average Annual Cost to Build and Operate a New Library

	Average Annual Cost 2023 - 2032	Average Annual Cost 2033 - 2042
Debt service costs	\$747,000	\$1,642,000
Operating costs (based on one provider's proposal)	\$1,289,000	TBD
Building and equipment maintenance costs	\$272,000	TBD
Total	\$2,308,000	TBD

Identify a recurring funding stream for a new investment

Given the significant financial commitment in building and operating a library and other competing investment needs, the Township should identify a recurring funding source to pay for this potential new investment instead of trying to create room in the current operating budget to do so.

If residents or interest groups advocate in favor of building a new library, they should also consider whether they personally value it enough to pay more taxes to support it. Pennsylvania statutes allow municipalities to levy a library tax used solely to fund the operation and maintenance of a library system. To levy a dedicated library tax,³⁹ the Township would have to adopt an ordinance to put a library tax to referendum and submit that question to the County at least 60 days before the election. The ordinance would need to include the question put in front of the voters, including the library millage rate. Once approved, the tax could only be removed by another vote. The Borough of Hatboro passed a referendum in May 2019 to levy a dedicated library tax to operate and maintain its library building.

When establishing the library tax, it is critical that the Township ensures that the tax rate is set at a level that accounts for future cost growth. The following table shows the projected annual cost through 2032 and the corresponding tax rate the Township would need to levy in order offset those costs. Note that this is based on the assumptions outlined throughout this initiative and the estimated costs would differ depending on construction costs, how the Township ultimately operates the library and the amount of state aid and/or philanthropic contribution Upper Providence receives. Furthermore, the Township should also be prepared

³⁹ Pennsylvania's library code allows a tax referendum to appear on the ballot through one of two ways. Municipal officers may submit to the qualified voters the question of the library tax at any time, or residents can petition to the municipal officers to submit the question of the library tax as long as they have qualified signatures equivalent to 3 percent of the votes cast in the last general or municipal election. Pennsylvania Consolidated Statutes, Title 24, Chapter 93. Pennsylvania's Library Code can also be accessed here: <https://www.legis.state.pa.us/cfdocs/legis/LI/consCheck.cfm?txtType=HTM&ttl=24&div=0&chpt=93>

to adjust the library millage accordingly when the annual debt service payment jumps from \$789,000 to \$1.7 million in 2033 based on the debt schedule discussed previously.

Estimated Library Levy to Offset Annual Debt Service and Operating Costs through 2032	
Average Annual Cost	\$2.3 million
2021 Taxable Assessed Value	\$2,285 million
Estimated Library Tax Levy	1.037 mills

Next steps

There is not an objectively “right answer” to the question of whether the Upper Providence should build and operate a library dedicated to Township residents, and the people who should participate in the deliberations extend beyond the relatively small list of people interviewed during our process.

We provided a rough estimate of how much building and operating a new library would cost and the corresponding library tax the Township would need to levy in order to offset those costs. Even though the precise cost estimate and the resultant tax rate would depend on a number of factors such as whether it provides library services through its own employees or a third-party provider, the Township should first determine whether it is willing to levy a library tax to fund the operation of a new library.⁴⁰ If residents and stakeholders determine that the amenity is valuable enough to pay more taxes to support it, then the Township can proceed down the path to determine the way it wants to deliver the service.

SI03	Evaluate pension funds’ investment assumptions
Goal(s)	Control future expenditure growth; improve pension funding levels
Responsible parties	Board of Supervisors; Township Manager; Pension Board
Fiscal Impact	Additional cost of \$82,000 in 2022; growing to \$330,000

Upper Providence currently has three defined benefit pension plans – the police pension plan, the fire pension plan, and the non-uniformed employees’ pension plan. The fire pension plan was established in 2016 as a spin-off from the non-uniformed plan.

The police pension plan currently assumes an investment return of 7.5 percent, down from the 8.0 percent assumption prior to the January 1, 2015 actuarial valuation. The Township’s non-uniformed and fire pension plans have been assuming a 7.25 percent rate of return since at least the January 1, 2013 valuation.

Police and Non-Uniformed Pension Plan Return Assumptions

Plan	Plan Participants	1/1/2013 Valuation	1/1/2015 Valuation	1/1/2017 Valuation	1/1/2019 Valuation
Police	Full-time sworn police officers	8.0%	7.5%	7.5%	7.5%
Fire	Full-time firefighters hired before 2016	7.25%	7.25%	7.25%	7.25%
Non-Uniformed	Full-time non-uniformed employees hired before 2016	7.25%	7.25%	7.25%	7.25%

The following table shows the difference between projected and actual investment earnings for each year

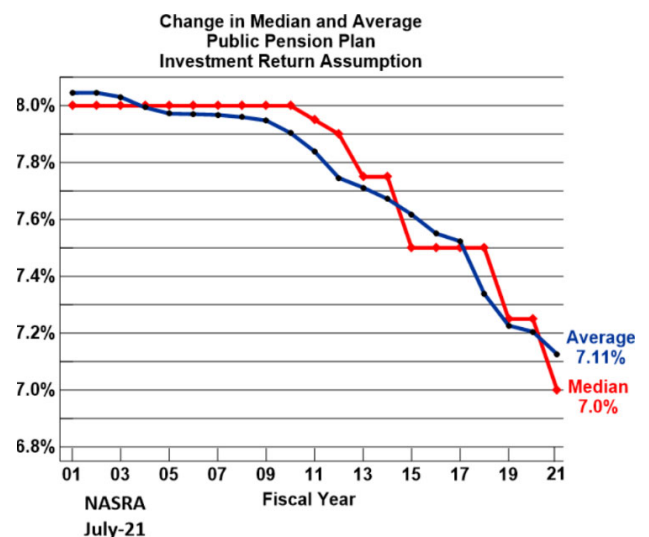
⁴⁰ As mentioned in initiative RV05, the Township can use sewer proceeds to pay for the construction of the library if it chooses to sell the sewer system, but it should still use a library tax to pay for the operation of the library given that it is a recurring cost.

from 2014 to 2018. While we did not include 2019 and 2020 actual investment earnings in this table because those figures were not publicly available at the time this report was written, the Township's actuaries noted that the investment returns were strong in both years. The police plan's actuary noted that the return for 2019 was 21.9 percent and 14.8 percent for 2020.

Annual Money-weighted Rate of Return, Net of Investment Expense

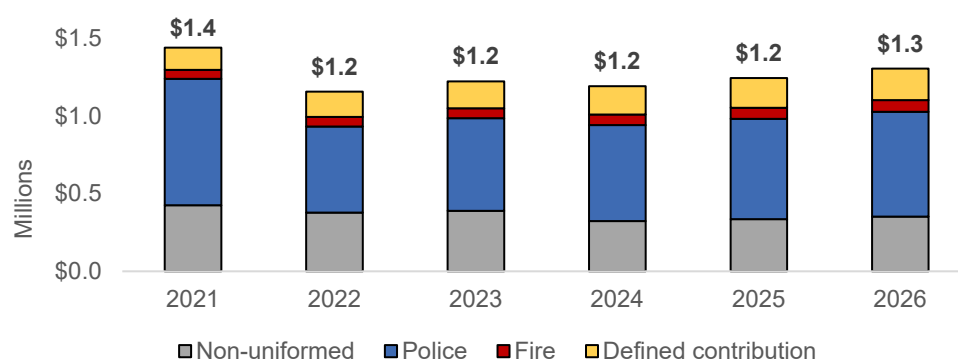
	2014	2015	2016	2017	2018
Police pension plan	1.22%	-1.75%	5.20%	15.04%	-6.41%
Non-uniformed pension plan	6.14%	-0.82%	5.20%	16.09%	-8.36%
Fire pension plan	N/A	N/A	N/A	16.20%	-7.64%

Despite the strong returns in 2019 and 2020, in the long term it is still unrealistic to expect an annual investment return of 7.0 to 8.0 percent. The sustained period of low interest rates since 2009, combined with lower projected returns for most asset classes, has caused many public pension plans to reduce their long-term expected investment returns (see chart to the right). The national median investment return assumption is 7.0 percent⁴¹ according to the latest data as of July 2021. In Pennsylvania, the median interest earnings assumption for the 1,935 defined benefit plans audited by the Pennsylvania Auditor General was 7.0 percent as of 2013.⁴²



Absent any changes, the Township's actuaries project Upper Providence's annual minimum municipal obligation, or MMO, to drop from \$1.4 million this year to \$1.2 million in 2022 and gradually grow to \$1.3 million over the next four years. The projections for the defined benefits plans assume no additional actuarial gains or losses. Based on the pension plans' current assumptions, this means that the Township's plan assets will achieve a 7.25/7.5 percent investment return each year and the mortality assumption will be reflective of the Township's actual experience.⁴³ Each year that the plans fall short of the 7.25/7.5 percent return rate, the actuary calculates an "experience loss" that the Township must repay over several years.

MMO Projection, 2021 - 2026



⁴¹ NASRA: Latest Investment Return Assumptions, July 2021

⁴² Department of Auditor General. Report on Municipal Pension Funds. January 2015.

⁴³ Upper Providence's fire and non-uniformed pension plans currently use the RP-2014 mortality table assumption.

The Township's MMO is projected to drop next year largely because of the strong investment returns in 2019 and 2020. Given this drop in the projected MMO, the Township's actuary recommended that the Township gradually reduce the police pension investment return assumption to 6.75 percent over the next five years and estimates that those changes would cost the Township an additional \$882,000 over that period.

Impact of Return Assumption Adjustments 2021-2026

Actuarial Valuation as of:	1/1/2019	1/1/2021	1/1/2023	1/1/2025
Without changes	7.5%	7.5%	7.5%	7.5%
With changes	7.5%	7.25%	7.0%	6.75%

	2021	2022	2023	2024	2025	2026
Police MMO without assumption changes	\$813,964	\$554,870	\$597,219	\$619,156	\$646,438	\$675,083
Police MMO with assumption changes	\$813,964	\$637,240	\$681,214	\$810,163	\$841,225	\$1,005,129
Difference	\$0	\$82,370	\$83,995	\$191,007	\$194,787	\$330,046

The Township should follow the police actuary's recommendation and make use of the upcoming opportunity in 2022 to reduce its investment return assumption. Even after reducing the investment return assumption from 7.5 percent to 7.0 percent, next year's MMO would still be lower than in 2021. In addition, the Township should review the investment return assumption with its actuary for the fire and non-uniformed pension plans and determine if it should also update the assumption used in those plans as well.

SI04	Develop a plan to implement recommendations from the police study
Goal(s)	Control expenditure growth; align staffing with service demands; improve public safety outcomes
Responsible parties	Board of Supervisors; Township Manager; Police Department
Fiscal Impact	TBD

The Township engaged an external consultant in 2020 to develop a study that reviews and analyzes the Police Department's operations. The report culminated in 97 recommendations, and the Department has already started implementing several initiatives, including removing the Chief and the lieutenant's access to the property and evidence room and changing the supplemental investigator's schedule from 12-hour to 8-hour shifts to provide weekend coverage and reduce overtime costs for weekend callouts.

Some recommendations in the report, such as civilianizing two police officer positions, should result in cost-savings while others, such as purchasing a new records management system, would require an upfront investment. There are also a number of best practice recommendations, such as updating the organization chart and reviewing policies regularly, that should not have any fiscal impact.

As the Department moves forward in developing a plan to implement the recommendations, we want to highlight several areas that should be reviewed and discussed with Township management given their broad impact and need for coordination:⁴⁴

- **Remove patrol schedule from the contract (recommendation 6):** The police study found that the current 12-hours shift schedule (also called "3/12 schedule") results in a spike in deployment at

⁴⁴ The recommendation numbers in parentheses are in reference to the police study.

around 6pm followed by a lower peak at around 6am when two shifts overlap.⁴⁵ Because call volume generally peaks during the day instead of in the early morning hours, the study recommended an adjustment to the shift start times to smooth out the spikes in staffing and provide a more balanced level of personnel throughout the day. However, because the shift schedule is governed by the collective bargaining agreement, the Department cannot change the patrol schedule to better align with service demands unless changes are made to the agreement. We recommend the Township focus particularly on removing the patrol schedule from the bargaining agreement in the upcoming labor negotiation. Doing so would not only provide management more flexibility in staff deployment, it may also help improve the Department's response time during the hours when workload is generally higher and reduce safety risks due to fatigue.⁴⁶

- **Civilianize two police officer positions (recommendations 14 and 30):** As mentioned in initiative WF02 in the workforce chapter, the Township should explore how investing in speech-to-text recognition software and a field-based reporting application and allowing civilians to take on some of the traffic-related and administrative tasks would impact police officers' workload and overall staffing needs. If these changes ultimately allow the Department to civilianize two police officer positions, the Township can consider dedicating the resultant fiscal savings toward other police investments such as a new records management system and additional non-lethal weapons in order to create a better outcome for the Department and for the Township as a whole.
- **Capture all activities in the Computer-Aided Dispatch (CAD) system (recommendation 9):** The police study found that there were a variety of activities ("out-of-service activities") that were not captured in the CAD system. These activities totaled 12,244 hours (or 33.5 hours per day) in 2019 and the consultant was only able to capture them by manually going through officers' log data. As a result of these activities not being captured in the CAD system, police managers are unable to fully analyze opportunities for organization efficiencies. The police consultant recommends implementing a process to capture non-call activities through CAD and noted that the County communications center was working with the Chief to facilitate this change at the time the report was published. Given that call data is crucial for the understanding of police officers' workload demand, the Township should prioritize implementing this initiative.

2019 Out-of-Service Activities⁴⁷

	Hours	% of Total
Hearing/Court	505	4.1%
Misc. Activity	4,611	37.7%
Special Assignment	1,722	14.1%
Supervisory Duties	871	7.1%
Training	1,440	11.8%
Total Administrative	9,149	74.7%
Personal/Breaks	3,095	25.3%
Total Non-Call Activities	12,244	100.0%

- **Fleet management (recommendations 20, 80, 85 to 93):** The police study provides several recommendations related to fleet management, including purchasing a fleet management software

⁴⁵ Even though the shift schedule generally begins at 6am for the day shift and 6pm for the night shift, one police officer on each squad as the option to start (and end) their shift one hour earlier. This results in the spike in deployment. The police report noted that the number of personnel available throughout the day varies from as few as three officers in the early morning hours, to as many as five officers at 5:50 p.m.

⁴⁶ There are several studies that indicate that shorter shifts, such as the ten-hour shift schedule (sometimes known as the "4/10" schedule) have advantages over 12-hour shifts. According the *Shift Length Experiment*, an experimental field study conducted by the Police Foundation, those assigned to 12-hour shifts had significantly lower average levels of alertness at work.

⁴⁷ Please see *Police operations and data analysis report* by International City/County Management Association, p. 141.

program and creating a fleet replacement fund. While these are generally best practice initiatives, the Township should evaluate these recommendations in the context of the Township's overall fleet management efforts and resources. For example, the Department of Public Works already uses a fleet software program and it is possible that the way to improve fleet record management is not to purchase a new software but rather to ensure that all departments record vehicle information in the same software that is already used by Public Works. Taking this interim step to ensure that all data is recorded electronically within the same program would also help facilitate the migration of data even if a more sophisticated software is needed in the future.⁴⁸ Similarly, instead of creating a vehicle reserve fund only to replace police vehicles, the Township should evaluate its vehicle lifecycle needs across all departments to balance resource allocation across all Township functions and plan for life cycle replacements.

- **Use of force (recommendations 43 to 49):** Given the recent police use of force incidents across the nation and the current law enforcement environment, the Township should focus on these recommendations and prioritize implementing recommendations related to use of force. If additional investments such as purchasing non-lethal weapons are needed as part of implementing use of force recommendations, the Department should review and prioritize those needs in the context of the Township's overall equipment spending and capital planning process, as detailed in initiative BP05.

The Police Department should review the recommendations provided by the police study and determine which recommendations would generate savings and which would require investments. Then it should work with the Administration to determine the amount of net investment required. In developing an implementation plan, the Township should also consider how it might coordinate with the County to maximize its resources, as detailed in initiative BP01.

SI05	Create capacity in the Finance Department
Goal(s)	Improve operational outcome; facilitate multi-year planning
Responsible parties	Board of Supervisors; Township Manager; Finance Department
Fiscal Impact	TBD

The Finance Department is the agency that records and manages any financial transaction, including employee payroll, vendor payments, and tax and fee revenue receipts. It is also responsible for developing the annual budget and working with an external auditor to publish the annual financial statements. The Department currently has two full-time employees – the Finance Director and the Assistant Finance Director. The Department also has a vacant part-time accounting clerk position.

Prior to 2019, the Department had a full-time Accounts Receivable Administrator who was primarily responsible for sewer fee billing. The Township outsourced sewer billing to a third-party tax collector in 2019 and subsequently eliminated that position.

⁴⁸ Please see initiative SI06 for more details regarding our recommendation to move toward electronic processes.

Finance Department Budgeted Headcount, 2017 - 2021

	2017	2018	2019	2020	2021
Finance Director	1	1	1	1	1
Assistant Finance Director	1	1	1	1	1
Accounts Receivable Administrator	1	1	0	0	0
Part-time Clerk	1	1	1	1	1

During our discussions with the Finance Director, we learned that, because the Department only has two full-time employees, it has been functioning more as an Accounting Department than a Finance Department with a focus on duties such as invoicing, employee payroll, creating journal entries, and account reconciliations. During the budget process and audit season, the Department's workload increases significantly. As result, the Department has not focused on strategic priorities such as developing a multi-year financial projection,⁴⁹ creating a capital prioritization and planning process,⁵⁰ or performing fiscal analyses in specific operational areas.

Create capacity to provide strategic financial direction for the Township

The Department needs to create additional capacity so that it can perform as a Finance Department that provides strategic financial direction for the Township in addition to executing basic financial transactions. For example, the Department should begin using the multi-year planning software it already subscribes to and update the projection at least once each year when it develops its annual operating budget so that any changes made through the budget process are evaluated through the lens of ensuring the long-term fiscal sustainability of Township government. The Finance Department should also play an important role in creating a capital prioritization and planning process, as described in initiative BP05.

In order to create additional capacity, the Township can reclassify the current part-time position to a full-time Accounting Clerk position to assist with creating journal entries and reconciling accounts. The Township has not been able to successfully retain a part-time clerk to assist with these duties, so reclassifying the position to a full-time position may help attract more qualified candidates. Alternatively, the Department can outsource its payroll function to a third-party entity because that function is one of the most time-consuming tasks the Department has to complete. If the Township chooses the option of outsourcing its payroll function, it should work with the vendor to ensure that the service provided is compatible with the Township's accounting system for seamless transfer of data and records.

Create capacity to assist with the auditing process

The Township also needs to create additional capacity to assist with its annual auditing process. The 2019 financial statement was not released until June 10, 2021, almost 18 months after the fiscal year ended on December 31, 2019. The delay was partly because of the COVID-19 pandemic and partly because of the number of reconciliations that had to be completed as part of the auditing process.

While the delay in releasing the financial statements was most apparent this year, the auditing process has been getting lengthier over the years prior to the COVID-19 pandemic. In 2014 and 2015, the Township was able to release its audit within six months after the fiscal year ended, consistent with the recommendation provided by the Government Financial Officers Association (GFOA). The auditing process then increased to nine months for the 2016 audit and 10 months for the 2017 audit. By 2018, the auditing process took almost one year, and the 2018 audit was not released until December 2019.

⁴⁹ Please see initiative BP06 for more details.

⁵⁰ Please see initiative BP05 for more details.

Financial Statements Release Dates, 2014 - 2019

Fiscal Year	Release Date
2014 financial statements	June 9, 2015
2015 financial statements	June 28, 2016
2016 financial statements	September 11, 2017
2017 financial statements	October 8, 2018
2018 financial statements	December 10, 2019
2019 financial statements	June 10, 2021

The Finance Department noted that these trends were in part because of the turnover in the part-time clerk position, which resulted in the Finance Department being chronically understaffed. Even when the Township was able to successfully fill the position, Department staff had to spend time training the new hire, which resulted in less capacity to focus on core responsibilities.

The 2020 auditing process will begin very soon, and the process will be even more challenging because it will coincide with the 2022 budget process. Unless changes are made, the Township's 2020 financial statements will likely not be released until at least spring of 2022.

Based on our discussion with the Township's auditor, the Township should work with an external accounting firm to ensure that all account balances agree to final audited amounts for 2019 prior to the period being closed in the system and that balances rolling into the subsequent period are accurate. The external vendor can also assist with ensuring that the year-end closing process for 2020 was accurate. This will help the Township expedite the 2020 auditing process and prevent further delays in subsequent audits.⁵¹

Once the 2020 audit is completed, the Township can evaluate whether regularly using an external vendor to assist with the year-end closing process and provide an additional layer of quality control would be helpful moving forward. The external firm can also assist in recommending procedures to enhance the Department's ability to complete required processes accurately and on time.

Create capacity to assist with the human resources functions

Prior to 2019, Upper Providence's human resources (HR) functions were primarily managed by the Finance Department in collaboration with department heads. In 2019, the Township started engaging an HR Consultant to support the Township's HR functions such as recruitment and retention.

In February 2020, the Township hired a part-time Human Resources Director who is responsible for administering workers' compensation claims, coordinating recruitment processes, coordinating trainings and onboarding activities, and creating personnel policies, among other duties. In part because of limited capacity of the part-time HR Director, many traditional HR duties such as pension and health benefit administration are still carried out by the Finance Department.

Given the size of the Township government, Upper Providence should reclassify the Human Resources Director position into a full-time position. Doing so would create additional capacity in the Finance Department, help the Township improve its workforce management efforts, and achieve some of the strategic goals outlined in this Plan, including:

- Establishing formal health and wellness of disease management programs specifically tailored to reduce employee health insurance premiums (see initiative WF01);

⁵¹ The Township must retain a separate external auditor for this work because its annual audit provider must remain independent of these tasks.

- Working with the third-party administrator to evaluate potential benefits design changes (see initiative WF01); and
- Improving the Township's understanding of how different types of benefits (e.g., health insurance, dental insurance, life insurance, and workers' compensation) drive overall spending growth (see initiative BP06).

As the Township moves forward in hiring a full-time HR Director, it should also use this opportunity to refine its budget and financial reporting. For example, the Township should include budgeted headcount by position title and department in the annual operating budget document to increase transparency and help facilitate discussions regarding how vacancies and attritions drive overtime and total cash compensation growth, as detailed in initiative WF01.

Please note that the Township is implementing this recommendation as of August 2021, having engaged an external party to assist with the auditing process. The Township also developed a plan to outsource payroll.

SI06	Accelerate efforts to move toward electronic processes
Goal(s)	Improve operational efficiency; control expenditure growth
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	TBD

Currently, each Township department has its own data management system. For example, the Public Works Department uses a fleet management software to maintain and update vehicle records while the Police Department maintains an electronic folder that contains maintenance records and tracks vehicle information on an Excel spreadsheet. The Finance Department also separately maintains selected departments' vehicle information on an Excel spreadsheet.

In addition, some Township functions still rely on manual, paper-driven processes. The Planning and Zoning Department noted that many of its plans and permits are still only available in hard copy. Even though the part-time Zoning Clerk is working to digitize paper records and upload them onto a cloud-based shared folder, this process is taking a long time. The Public Works Department also noted that the software used for the fueling station is antiquated and has not been updated since 1996.

This section provides some guiding principles as the Township works to improve its electronic data management efforts to ensure that the transition toward electronic processes results in more streamlined workflow, improved service, and greater efficiency.

Evaluate existing software capabilities

Before making any software purchasing decision, the Township should evaluate its existing software capabilities and determine an implementation strategy across departments. For example, given that Public Works already uses a fleet management software and expressed satisfaction with the software's capabilities, the Township should evaluate whether the current software can be customized to meet Township-wide fleet management needs instead of purchasing a new software. Based on our interview with the Public Works Department, the existing software also has mapping capabilities and is also used by the Department of Planning and Zoning. Even if the Township decides that a more sophisticated software is needed in the future, taking this interim step to ensure that all data is recorded electronically within the same program would help facilitate the eventual migration of data.

Consider a more comprehensive digitization effort

The Department of Planning and Zoning is currently using its part-time Zoning Clerk to help digitize paper records, including scanning plans and entering data into the Township's shared website and GIS database. The Department has previously hired an intern to assist with this effort but noted that using temporary staff can be difficult because of the lack of consistency and knowledge of how records should be digitized.

It is possible that the Department of Planning and Zoning is not the only department that needs to digitize records. For example, based on our discussion with the HR Director, we learned that many personnel records are still in hard copies.

The Township should explore using a third-party entity to digitize records and store it on a shared server or platform. This one-time digitization effort would also incentivize staff to start tracking data more systematically and would allow the Township to use a data-driven approach in the future to identify trends and monitor the impact of implementing initiatives such as fleet replacement.

Limit or eliminate cash payments

As part of the Township's efforts to move toward electronic processes, it should also consider eliminating the cash payment option. One of the recommendations from the police study completed in 2020 is to eliminate cash transactions because they present an unnecessary risk and eliminating them would help streamline operations. Currently, when cash is received it is logged in the logbook and a receipt is issued by the employee. The cash is then secured until it is turned over to the Finance Manager once a week, when it is deposited in the bank.

Eliminating cash options would save staff time in having to transfer and deposit cash and eliminate any existing risk, but it is also important to acknowledge the digital divide that may exist for some residents. For example, some customers may be unbanked and/or not creditworthy and therefore may need to use cash or money orders to make payments. Sometimes older residents are less familiar with electronic payment options. Even for customers with bank accounts, they may not have regular access to electronic devices to submit applications or payments online.

One possible option to bridge the digital divide is to encourage the use of electronic benefit transfer (EBT) cards. Currently, Pennsylvania issues Temporary Assistance to Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP) cash benefits through EBT cards, also called ACCESS card, which functions similar to a debit card and can be used to make payments.⁵² In addition, under the Families First Coronavirus Response Act (FFCR), eligible children receive free and reduced-price meals in the form of Pandemic Electronic Benefits Transfer (P-EBT) cards. Pennsylvania unemployment benefits are also issued through a similar EBT card called UC Debit Card. The Township can provide guiding resources for opportunities to use these EBT cards to pay for services in order to encourage residents who may not have bank-issued debit cards to make payments electronically. Montgomery County and other townships may also have similar resources.

Continuously monitor cost savings

Improving overall data management efforts and digitizing paper records should help the Township become more efficient in its operations. While there may still be time spent on data entry, staff no longer has to go through folders or boxes of paper records for historical data and can more easily perform data analysis that should drive management decisions.

One of the recommendations provided in the police study is to obtain an e-citation module, an electronic ticketing system, to eliminate the need for data entry. The consultant noted that this would free up

⁵² Information about the use and restrictions of EBT cards can be found here:
<https://www.ncsl.org/research/human-services/ebt-electronic-benefit-transfer-card-restrictions-for-public-assistance.aspx>

approximately 20 hours a week of front office personnel's time that could be used for other purposes, such as assisting the training officer.⁵³

Upper Providence should continuously track and monitor any cost savings generated from the transition to electronic processes. While some changes would result in more streamlined operations and allow staff to better focus on their core tasks, other changes, like the e-citation initiative, should result in long-term cost savings if the front office staff is able to use the time to assist training, take fingerprints, and perform other duties typically performed by a sworn officer.⁵⁴

The Township should continue to monitor any cost savings generated from this initiative and reinvest those savings into other areas of operations to improve overall outcome. This concept is similar to a Productivity Bank, but on a modified basis. The City of Philadelphia established a Productivity Bank in 1992, an internal revolving loan program that allowed agencies to make otherwise unaffordable investments in return for cost savings, revenue gains, and service improvements. Savings and revenues achieved through Bank projects were reflected in adjusted operating budgets, as were the loan repayments so that the Bank's lending capacity was not depleted. Initial loan criteria required that projects generate cost savings or additional revenues in an amount sufficient to repay the loan plus interest within five years. A limited number of loans were later authorized for projects expected to generate substantial service improvements, even if financial benefits were not readily quantifiable.

Upper Providence does not need to establish a Productivity Bank given the size of Township government, but there is inherent value in regularly quantifying and monitoring savings or revenues achieved through upfront investments. From a purely financial standpoint, local governments make capital investments to reduce future costs or increase future revenues. Capital investments in vehicles are important, for example, because the cost of vehicle repairs often exceed the cost of purchasing a new vehicle once the vehicle exceeds its useful life. Economic development investments are important because they make the Township a more attractive place to live, work, and play, which in turn maintains and grows the tax base.

The actual beneficial impact of these investments often extends beyond the purely financial goals and often improve service reliability and neighborhood attractiveness, but the financial realities are just as important.

⁵³ Please see *Police operations and data analysis report* by International City/County Management Association, p. 102.

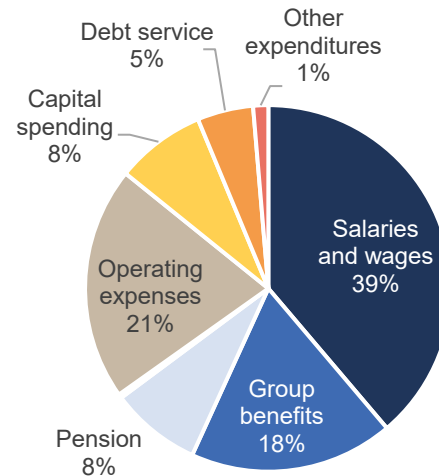
⁵⁴ Please see initiative WF02 for more details regarding civilianization.

Workforce Strategies

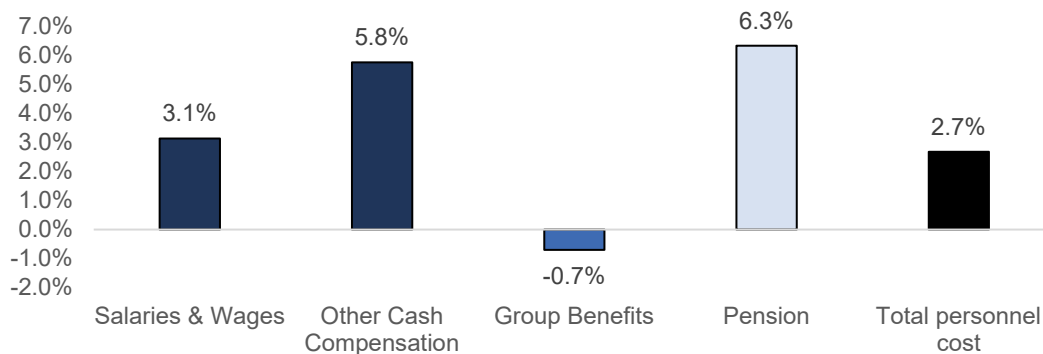
Upper Providence's General Fund expenditure budget, like that of most municipal governments, is primarily comprised of employee wages and benefits. Local government is labor-intensive, requiring workers to police the streets, maintain thoroughfares, deliver recreation programs, and provide other services. As a result, two-thirds of Upper Providence's spending is on personnel costs, which include salaries and other cash compensation, health benefits, employer pension contributions, and other benefits.

From 2015 to 2020, Upper Providence's personnel costs grew at an annual rate of 2.7 percent from \$9.7 million to \$11.0 million that was driven in part by headcount increases in the Fire Department.⁵⁵ As described in the financial condition assessment, the Township has been able to control growth in the health care portion of personnel costs by introducing a high deductible health plan and an employee opt-out program. In addition, the elimination of the defined benefit pension plan for non-uniformed employees hired after 2017 helped control growth in the minimum municipal obligation (MMO). Absent these measures, personnel costs would likely have grown at a much higher rate.

2021 General Fund Expenditure Budget



Average Annual Personnel Cost Growth, 2015 to 2020



Moving forward, the Township needs additional measures to keep personnel cost growth at a manageable level in order to ensure that there is room to invest in infrastructure and strategic priorities. With personnel costs representing two-thirds of the Township's General Fund budget and the revenue growth risks identified in the financial condition assessment, strategies to manage workforce cost growth must be part of the solution to maintain fiscal balance and reduce any budget gap. This chapter focuses on the two primary variables that determine how much Township government spends on the different forms of

⁵⁵ We excluded the contribution to the police other post-employment benefits (OPEB) plan in this trend analysis because the Township made those contributions sporadically.

employee compensation that account for most of the Township's budget – the amount of compensation provided to each employee and the number of employees.

WF01	Create a strategy that controls overall compensation cost growth
Goal(s)	Align spending with revenue growth and Township goals
Responsible parties	Board of Supervisors; Township Manager; Department Directors
Fiscal Impact	TBD

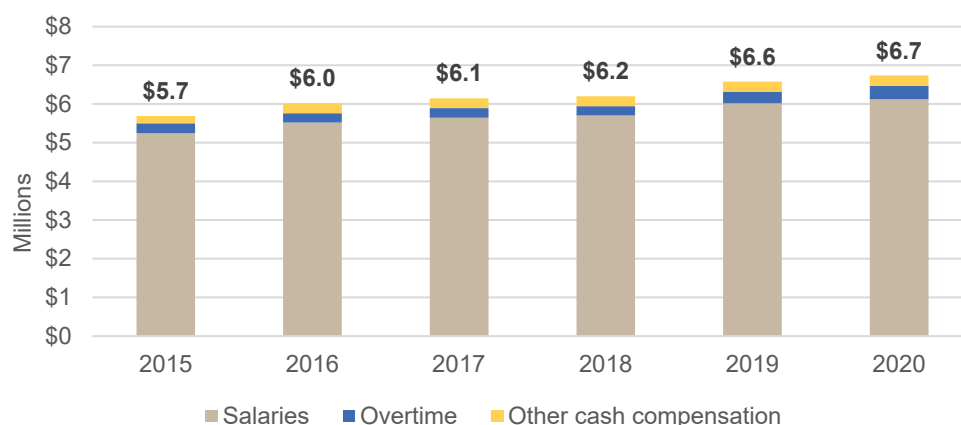
Given the investment needs as described throughout this Plan, the Township needs to achieve workforce savings relative to the baseline projection described in the financial condition assessment. Employee compensation accounts for too much of the General Fund budget and the implications for making major investments and maintaining fiscal balance solely through tax increases and other revenue growth are too negative for that to be a viable strategy.

Instead of focusing on one particular area of compensation such as across-the-board wage increases, the Township should create a strategy that controls overall personnel cost growth. The rest of this initiative focuses on the three main types of personnel costs (cash compensation, health benefits, and pension benefits) so that Township leaders understand their options in controlling overall workforce cost growth.

Cash compensation

The Township's cash compensation includes salaries, overtime, and other remuneration such as holiday pay, education incentive, and volunteer firefighters' stipends. From 2015 to 2020, total cash compensation grew at an annual rate of 3.4 percent from \$5.7 million to \$6.7 million.

Cash Compensation, 2015 - 2020



	2015	2016	2017	2018	2019	2020	Average Growth
Salaries	5,241,288	5,518,566	5,643,433	5,704,266	6,017,251	6,118,225	3.1%
Overtime ⁵⁶	259,584	241,678	247,350	238,727	299,865	349,006	6.1%
Other cash compensation	189,969	258,105	252,366	256,018	260,285	268,117	7.1%
Total cash compensation	5,690,842	6,018,349	6,143,149	6,199,010	6,577,401	6,735,348	3.4%

⁵⁶ Excludes reimbursed overtime.

The baseline projects police officers' salaries to continue growing at 3.75 percent annually after the collective bargaining agreement expires at the end of 2022. It also assumes non-uniformed employees will receive wage increases of 3.30 percent, which is the average five-year annual growth from 2015 to 2020. These wage patterns are not a recommendation, but rather reflective of the Township's historical trends absent changes.

The most straightforward strategy for achieving savings relative to the baseline is to provide (for non-uniformed employees) and negotiate (for police officers) wage increases that are less than the 3.75/3.30 percent annual growth in the baseline forecast. Other strategies to control cash compensation spending include restructuring step increases for police officers and evaluating other compensation provisions such as sick leave payout and uniform allowances. The Township should assess those options on an annual basis for non-uniformed employees and during the upcoming negotiation with the police union once the current collective bargaining agreement expires.

Beyond reviewing compensation provisions on a per-employee basis, the Township should also consider additional strategies to manage cash compensation growth. The rest of this section analyzes total cash compensation across salaries and overtime for each key department to illustrate how cash compensation has grown in the past and the options the Township has moving forward in controlling overall cash compensation growth.

Police Department

Every year, the Township sets a salary budget for each department based on the budgeted headcount, but it is not uncommon for departments to spend less than the budget target because of vacancy savings (when vacancies are not immediately filled) and attrition savings (when a retiring employee is replaced by a junior employee with a lower salary).

In the Police Department, budgeted salary grew by 3.8 percent annually from 2016 to 2019 when actual salary spending grew at a higher rate of 5.0 percent over the same period. That was because the Department generated vacancy and attrition savings of 2.8 to 5.9 percent from 2016 to 2018 but exceeded the budget target by \$25,000 in 2019. In 2020, the Department left two positions vacant, so actual salary spending dropped by 4.4 percent.

Police Department Budget versus Actual Salary Spending, 2016 - 2020

	2016	2017	2018	2019	2020	2016-2019 Average
Budget	2,925,591	3,079,736	3,262,609	3,272,489	3,399,959	3.8%
% Change	6.7%	5.3%	5.9%	0.3%	3.9%	N/A
Actuals	2,845,119	2,968,099	3,069,554	3,297,131	3,150,670	5.0%
% Change	5.5%	4.3%	3.4%	7.4%	-4.4%	N/A
Savings (\$)	80,472	111,637	193,055	-24,642	249,289	N/A
Savings (%)	2.8%	3.6%	5.9%	-0.8%	7.3%	N/A

In part because of the two vacancies in 2020, overtime increased by 57.8 percent from \$140,000 to \$222,000. Despite the big jump in overtime, total cash compensation still dropped by 1.9 percent that year because the increase in overtime was offset by salary savings from the two vacant positions.

Police Department Cash Compensation, 2015 - 2020

	2016	2017	2018	2019	2020
Salaries	2,845,119	2,968,099	3,069,554	3,297,131	3,150,670
% change	N/A	4.3%	3.4%	7.4%	-4.4%
Overtime⁵⁷	135,501	168,060	139,744	140,450	221,643
% change	N/A	24.0%	-16.8%	0.5%	57.8%
Total Salaries and Overtime	2,980,620	3,136,159	3,209,299	3,437,581	3,372,312
% change	N/A	5.2%	2.3%	7.1%	-1.9%
Across-the-board wage increase	3.0%	3.50%	3.50%	3.25%	3.75%
Actual headcount⁵⁸	29	29	29	29	27

If a government uses overtime to consistently fill vacant shifts, the increase in overtime may be offset by a reduction in salary. Similarly, if a government fills all the vacant positions, it can lead to a decrease in overtime since there are fewer vacant shifts to fill.⁵⁹

Apart from 2020, there was not a clear trend where an increase in salary was offset by a reduction in overtime or vice versa. For example, in 2019, salaries increased by 7.4 percent because the Department filled all the vacancies, but overtime remained flat, resulting in 7.1 percent total cash compensation growth that year when the across-the-board increase provided to police officers was only 3.25 percent. As shown in the table below, the Department still had 458 overtime hours that year to cover shifts despite salary spending increasing by 7.1 percent.

Police Unreimbursed Overtime Hours, 2016 to 2019⁶⁰

	2016	2017	2018	2019
Cover Shift	392	613	519	458
District Court	215	219	137	124
Investigations	356	325	320	359
Paperwork from late calls	150	148	121	112
Other	514	681	575	620
Total Unreimbursed Overtime	1,627	1,987	1,672	1,674

Recommendation: Given the trends identified above, the Township should work to identify opportunities to control total cash compensation growth across both salaries and overtime. For example, the Department should evaluate how sick leave correlates with overtime⁶¹ and determine what strategies would help control overtime spending used to cover shifts. The Department should also explore whether investments in technology such as speech-to-text recognition software and a Field Based Reporting (FBR) application would reduce the amount of paperwork officers have to complete, increase time on patrol, and reduce overtime hours related to paperwork from late calls.

Department of Fire and Emergency Services

The Fire Department's staffing has grown significantly in the last five years due to the transition from a volunteer department to a combination department that relies on both volunteers and career firefighters for fire protection services. As a result of these headcount changes, total compensation – including stipends provided to volunteer firefighters – increased from \$346,000 in 2015 to \$942,000 in 2020.

⁵⁷ Excludes reimbursed overtime but includes overtime as a result of court time.

⁵⁸ Includes the Police Chief and police officers and excludes the three administrative (civilian) staff.

⁵⁹ Please note that there may be countervailing affects on benefits as full-time work is replaced by overtime

⁶⁰ Please see *Police operations and data analysis report* by International City/County Management Association, p. 47.

⁶¹ The Township's *Police operations and data analysis report* by International City/County Management Association also suggests a further discussion of the impact of sick time on staffing coverage.

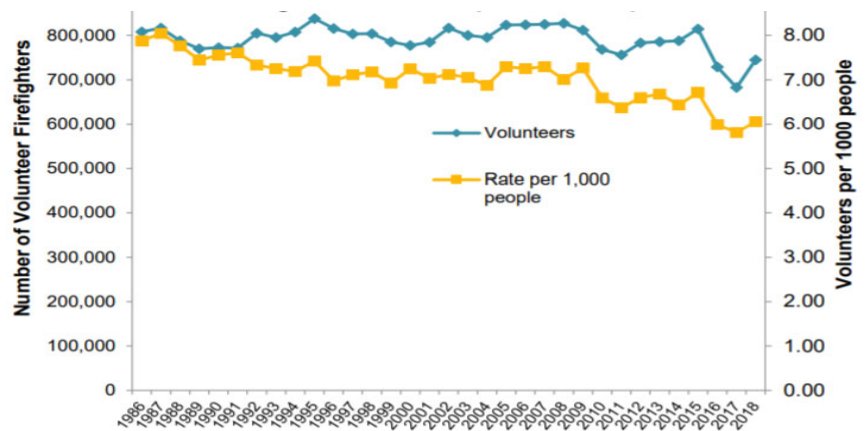
Fire Department Cash Compensation, 2015 - 2020

	2015	2016	2017	2018	2019	2020	Average Growth
Salaries	251,891	301,641	362,497	424,111	587,300	792,612	25.8%
Overtime	16,449	24,048	17,639	27,330	59,279	76,547	36.0%
Volunteer retention	77,764	87,380	65,682	67,245	64,480	73,190	-1.2%
Total cash compensation	346,104	413,069	445,818	518,686	711,059	942,349	22.2%
ATB Increase	3.00%	2.50%	3.00%	3.50%	3.36%	3.75%	3.2%
Headcount	2	3	5	5	7	9	35.1%

Currently, fire protection services during the day (6am to 6pm) are primarily provided by career firefighters. In the evening (6pm to 6am), when call volume is 40 to 45 percent lower, fire protection services are provided by volunteer firefighters from the Black Rock, Royersford, Trappe, and Collegeville fire companies. Given the national decline in the number of volunteer firefighters, as indicated in the chart below,⁶² the Fire Chief has proposed to hire additional career firefighters to provide nighttime coverage. This staffing proposal is discussed in more detail in the next initiative. As the Township determines what the right staffing level is for the Department, it also needs to be mindful of what drives fire overtime and how to control overtime spending in the future.

Fire overtime is typically driven by a minimum staffing level. Currently, the Department has been staffing one fire engine during the day (6am to 6pm) with at least three career firefighters, if not four. When a full-time firefighter calls in sick and the staffing level drops below the minimum, or if a part-time firefighter is not available, the Department calls back a full-time career firefighter on overtime in order to meet the minimum staffing level.

Number of Volunteer Firefighters and Rate per 1,000 People



In part because of this dynamic, over the last five years overtime spending grew at an even faster rate (36.0 percent) than base salary growth (25.8 percent). If the Township continues to increase staffing levels to provide full-time coverage during all hours of the day (instead of only from 6am to 6pm), it should expect overtime to continue increasing since the Township would have to staff the fire engine at the minimum staffing level at night (6pm to 6am) and would call full-time firefighters back on overtime if it does not meet that staffing level whenever volunteers are not available or a career firefighter is sick or injured.

Recommendation: As the Township evaluates the plans for the Fire Department, as described in the next initiative, it should not only consider the increases in salary and benefit costs, but the potential impact on overtime as well. Regardless of what the ultimate staffing structure looks like, Township leaders should have intentional discussions with the Department regarding what targeted overtime spending is achievable and evaluate overtime spending levels each year.

Public Works Department

From 2015 to 2020, the Public Works Department's total cash compensation has remained flat despite annual across-the-board salary increases. That was in part because the Department contracted out janitorial services in 2017 and reduced its headcount that year (the Department also continued to contract

⁶² U.S. Fire Department Profile 2018 report published by the National Fire Protection Association (NFPA).

out major vehicle and storm sewer system repairs). The Department also noted that overtime fluctuations are driven primarily by the amount of snowfall each year.

Public Works Cash Compensation, 2015 - 2020

	2015	2016	2017	2018	2019	2020	Average Growth
Salaries	1,062,522	1,107,667	1,076,544	1,080,853	1,068,290	1,084,501	0.4%
Overtime	110,207	79,639	57,457	70,496	90,746	42,679	-17.3%
Total cash compensation	1,172,729	1,187,306	1,134,001	1,151,349	1,159,036	1,127,180	-0.8%
ATB Increase	3.00%	2.50%	3.00%	3.50%	3.36%	3.75%	3.2%

From 2015 to 2020, the Public Works Department's total contracted services increased at an annual average rate of 16.7 percent from \$179,000 to \$388,000 due primarily to the addition of contract janitorial support beginning in September 2017. That increase was in part offset by reduced salary costs. Combining both cash compensation and contracted services, the Department's spending increased at an annual average rate of 2.3 percent, still lower than the across-the-board wage increases provided to non-uniformed employees. In other words, at least based on the data provided, contracting services out has generated savings for the Township.

Cash compensation and Contracted Services, 2015 - 2020

	2015	2016	2017	2018	2019	2020	Average Growth
Contracted Services	179,110	208,440	239,559	317,462	374,231	388,365	16.7%
Cash compensation and contracted services	1,351,839	1,395,746	1,373,560	1,468,811	1,533,267	1,515,545	2.3%

Recommendation: Moving forward, the Township should continue to identify opportunities where the Township could potentially contract with an external provider for a service that its workforce currently handles (outsourcing) and those where the Township could efficiently move functions from private contractors to its own workforce (insourcing).

Neither outsourcing nor insourcing are inherently "good" or "bad" approaches. They are tools that should be used thoughtfully to advance financial or operational objectives. While financial factors are often cited as the primary factor for shifting work from the public to the private sector, service quality and the cost of contract oversight are also important; there is not a guarantee that the private sector can deliver the same level of service at a lower price than government itself. Savings will depend in part on the availability of other capable providers in the local market. The cost of using a private contractor also depends on how well the Township manages the associated contract.

We did not identify areas that were obvious candidates for outsourcing or insourcing, but we encourage the Township to continue to regularly review the services it provides to identify possible opportunities.

Parks and Recreation Department

The Parks and Recreation Department's cash compensation spending declined at an annual rate of 5.1 percent from 2015 to 2019 largely because of a sharp reduction in 2019. The drop in salary spending was in part because the Department began relying more heavily on part-time staff to provide services. In 2020, salary spending dropped even further by 27.6 percent due to the COVID-19 pandemic as the Township did not hire any seasonal or part-time employees to run its summer programs.

Parks and Recreation Cash Compensation, 2015 - 2020

	2015	2016	2017	2018	2019	2020	Average Growth
Salaries	330,857	378,636	374,363	347,043	268,020	194,059	-10.1%
ATB Increase	3.00%	2.50%	3.00%	3.50%	3.36%	3.75%	3.2%

The Parks and Recreation Department is one of the few departments that offsets a portion of its costs through fee revenues. In part because of the reduction in cash compensation, the Department's cost recovery grew in 2019 to 57.3 percent.

Cost Recovery in the Department of Parks and Recreation

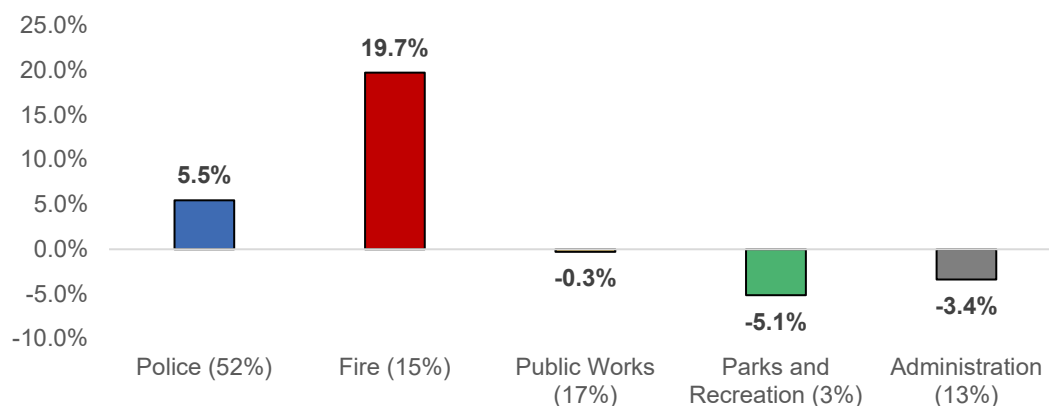
	2016	2017	2018	2019	Average Growth
Expenditures	1,019,405	976,695	1,022,144	890,721	-4.4%
Revenues	540,710	514,661	427,872	510,246	-1.9%
Cost recovery	53.0%	52.7%	41.9%	57.3%	N/A

Recommendation: The Department is already using part-time staff to assist with functions that are seasonal in nature and historical trends show the Department has been reducing its salary spending since 2016. We do not have recommendations related to controlling costs on per-employee basis for the Parks and Recreation Department, but recommend the Township explore opportunities for improved cost recovery (see initiative RV03) and to align its mission with its spending allocations (see initiative WF02).

Cash compensation growth by department

The analysis of cash compensation shows a large disparity between recent growth in public safety and other areas of cash compensation growth, illustrated in the chart below. The numbers in parentheses represent each department's budgeted cash compensation spending as a percentage of 2021 total budgeted cash compensation spending. We excluded 2020 in this trend analysis given the impact of COVID-19 pandemic on staffing levels and operations.

Annual Average Cash Compensation Growth, 2015 - 2019



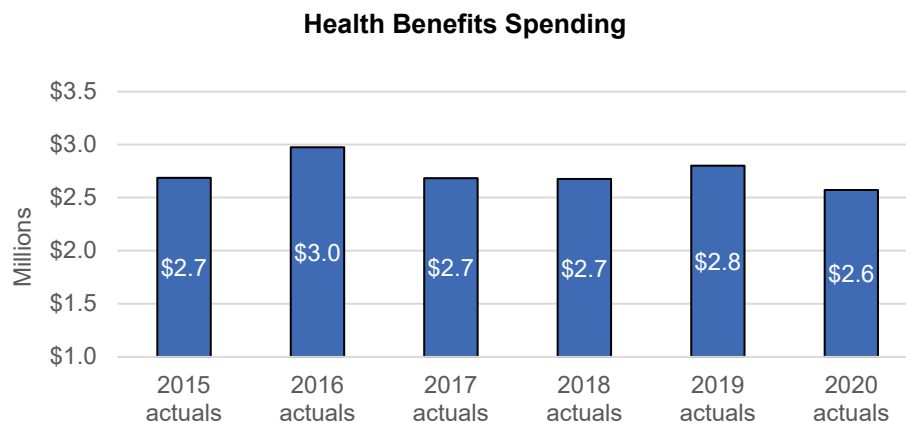
Controlling overtime and overall cash compensation growth is particularly important for the Police and Fire Departments given that they represent almost 70 percent of the Township's cash compensation spending. Township leaders should also evaluate the different cash compensation and headcount growth trends among different departments and determine whether these trends align with its mission and goals. This concept is further elaborated in the next initiative.

Health benefits

As mentioned in the financial condition assessment, the Township introduced a high deductible health insurance plan and a health insurance opt-out program for all full-time non-uniformed personnel in 2017, resulting in health benefits spending dropping from \$3.0 million to \$2.7 million that year. A review of the health premiums shows that the plan design changes resulted in 4 to 5 percent in savings for uniformed employees and over 30 percent in savings for non-uniformed employees.⁶³

Health benefits spending then grew at an annual rate of 2.1 percent from 2017 to 2019⁶⁴ and dropped to \$2.6 million in 2020 even though the Township saw a 2.3 percent growth in health premiums because several positions were held vacant in response to the fiscal pressures driven by the pandemic.⁶⁵

Moving forward, unless the Township continues to make changes to plan designs to lower premium cost growth or require employee contributions to offset a portion of the health premiums, spending on health benefits will continue to grow. According to the 2021 Health Plan Cost Trend Survey published by Segal Consulting, premiums are projected to grow by 6 to 7 percent in 2021. However, given the below-average premium growth the Township has experienced in recent years, the baseline projects health benefits to grow by 5.0 percent annually.



The Township can work with its third-party administrator to evaluate benefits design changes such as requiring the use of automatic order or home delivery for maintenance prescriptions, increasing primary and specialty co-pays, and establishing a health and wellness or disease management programs specifically tailored to reduce employee health insurance premiums. It is important that whatever changes are pursued, the Township is informed about the amount of savings each type of change would yield and how those changes help maintain fiscal balance, as well as the potential impact on employees and their families.

In addition, the Township should not take the option of establishing an employee contribution to health care off the table. Currently, Upper Providence makes the full contribution to health premiums and contributes annually to employees' Health Savings Accounts (HSA) to offset the majority of the deductible.⁶⁶ Nationally and regionally it is common for employees to make monthly premium contributions tied to the cost of the health insurance.

⁶³ This was calculated by comparing the premiums for the PPO \$500/\$1,000 plan with the high deductible plan (PPO \$3,000/\$6,000) from 2017 to 2020.

⁶⁴ Health benefits spending includes the Township's contributions to employees' Health Savings Accounts (HSA), which is \$4,500 annually for family coverage and \$2,250 for single coverage.

⁶⁵ This was calculated by comparing the premiums for the PPO \$500/\$1,000 plan with the high deductible plan (PPO \$3,000/\$6,000) from 2017 to 2020.

⁶⁶ Upper Providence Township makes a \$2,250 contribution for single plans when the annual deductible is \$3,000 and \$4,500 for family plans when the annual deductible is \$6,000.

- The national average for employee premium contributions, across all types of health plans and all types of employers, was 17 percent (or \$1,243) for single coverage and 27 percent (or \$5,588) for family coverage in 2020.⁶⁷
- Regionally, many Montgomery County municipalities' employees make healthcare contributions based on a percentage of the health plans' premiums (see table to the right).
- In Pennsylvania, the average percentage of premium contributed by private sector employees (establishments of 50+ employees) is 21.1% for single coverage and 23.5% for family coverage.⁶⁸

2020 Employee Contribution	
Lower Merion	Police: 4.0% of premium Civilians: 7.5% of premium
Lower Moreland	Police: 4.0% of premium Teamsters: 5.0% of premium
Upper Dublin	Police: 3.5% of premium Civilians: 8.0% of premium
Upper Moreland	Police and Civilians: 5.0% of premium

We encourage the Township to continue to strive to be a competitive and desirable employer in the region but also continue to find ways – including potentially establishing health premium employee contributions – to control health benefit cost growth.

Pension

As detailed in the baseline chapter, annual contributions to the employees' pension plans (also called the minimum municipal obligation, or MMO) make up almost 10 percent of Township government's General Fund spending. The MMO is the sum of three items:

1. The cost of pension benefits accrued in the current year (normal cost);
2. The cost to pay off the pension plans' unfunded liability (amortization cost); and
3. The cost to administer the plans (administrative cost).

The table below shows the normal cost, amortization cost, administrative cost, and MMO for the three defined benefit pension plans presented in the January 1, 2019 valuation. The MMO shows the Township's net responsibility after employee contributions (2.0 percent of salary for police, no contributions required for fire and non-uniformed employees).

MMO Provided in the 2019 Actuarial Valuation Report

	Non-uniformed	Police	Fire	Total
Normal Cost	167,210	537,486	52,153	756,849
Amortization Cost	233,391	310,289	1,475	545,155
Administrative Cost	24,752	38,626	4,230	67,608
Member contributions	0	(72,437)	0	(72,437)
Total MMO	\$425,353	\$813,964	\$57,858	\$1,297,175

The Township has already established defined contribution plans for firefighters and non-uniformed employees hired after 2016, which over time should help control the pension contribution related to those two employee groups.⁶⁹ For that reason, we focus this initiative on the police defined benefit pension plan.

Prior to 2017, police officers were not required to make contributions to their pensions. As a result of the arbitration award finalized in November 2016, police officers were required to contribute 1.0 percent of their

⁶⁷ 2019 Kaiser Employer Health Benefits Survey.

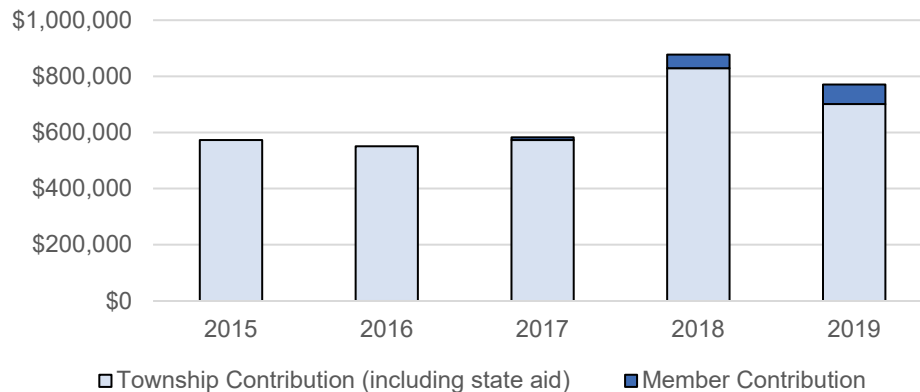
⁶⁸ Center for State and Local Government Excellence, 2019 State and Local Government Workforce Survey.

⁶⁹ As mentioned in the financial condition assessment, The Township currently makes contributions equivalent to 10 percent of the employees' salaries with no requirement for employee matching contributions.

pensionable compensation⁷⁰ in 2017, 1.5 percent of their pensionable compensation in 2018, and 2.0 percent of their pensionable compensation in 2019. The required contribution then stayed at 2.0 percent and will remain the same through 2022 according to the current collective bargaining agreement that expires at the end of 2022.

As a result of these changes, employee contributions increased from \$10,000 in 2017 to \$70,000 in 2019. At the same time, Upper Providence's MMO for the police defined benefit pension plan increased by 10.6 percent annually from \$573,000 to \$701,000. The table below shows the Township's contribution to the police pension fund versus member contributions.

Contributions to Police Pension Plan, 2015 - 2019⁷¹



Compared to selected Townships in the region, Township officers' contribution rate of two percent is on the low end. Police officers' contributions in comparable townships generally range from four to five percent of pensionable compensation.⁷²

Police Officers' Pension Contributions

Employee Contribution (as a percentage of Pensionable Compensation)	
Upper Providence Township	2.0%
Upper Merion Township	4.0%
Tredyffrin Township	4.0%
East Whiteland Township	5.0%
West Whiteland Township	5.0%
Horsham Township	5.0%
Upper Dublin Township	5.0%

To help the Township control its pension cost growth, Upper Providence should consider increasing the required employee contribution for the police pension plan during the next round of negotiation. The following table shows the fiscal impact of increasing police officers' contribution from 2.0 to 5.0 of pensionable contribution beginning in 2023 after the current collective bargaining agreement expires.

Fiscal Impact

2023	2024	2025	2026
\$114,000	\$120,000	\$126,000	\$132,000

⁷⁰ Members contribute a percentage of base salary.

⁷¹ Data from Upper Providence Township Annual Financial Reports and 2019 Police Pension Plan Actuarial Valuation Report

⁷² Pennsylvania Department of the Auditor General Audit Reports

Next steps

This initiative provides options the Township can consider as part of its workforce strategy. As the Township enters the 2022 budget process and future negotiations with the police union, it should first determine a target level of savings given its revenue performance and overall investment needs and then have broader discussions about the type of compensation growth it can afford to provide. Doing so would allow the Township to better understand the fiscal impact of the provisions over a multi-year period and the revenue enhancement measures that may otherwise be necessary absent workforce savings relative to the baseline.

It should also continue to evaluate its staffing levels, especially given disparity in compensation growth between public safety and non-public safety departments. The next initiative provides more guidance in this area.

WF02	Evaluate the size of workforce in terms of value delivered and strategic priorities
Goal(s)	Prioritize resources; facilitate data-driven understanding of staffing and service demands
Responsible parties	Board of Supervisors; Township Manager; Department Directors
Fiscal Impact	TBD

As mentioned in the beginning of this chapter, there are two primary variables that determine how much Township government spends on the different forms of employee compensation that account for most of its budget – the amount of compensation provided to each employee and the number of employees. The previous initiative focused on the first variable and this initiative focuses on the second.

The question of what Upper Providence's headcount should be was raised several times during our engagement. One of the potential investments the Township was interested in pursuing was to staff at least one fire engine with full-time career firefighters during all times of the day, and the Fire Chief has a proposal to meet that goal. During our interviews with the Police Chief, the Public Works Director, and the Parks and Recreation Director, each of them discussed how headcount would impact their service quality and level. When we presented the baseline projection to the Board of Supervisors in June 2022, there was also an interest in understanding how Upper Providence's staffing levels compare to other similarly-sized municipalities.

This initiative details the headcount trends and future demands of each of the four major departments – Police, Fire, Public Works, and Parks and Recreation – to provide Township government with the guidepost it needs when evaluating the size of the workforce. Our hope is that this type of informed approach will allow the Township to have meaningful, intentional discussions regarding headcount changes so that when the Township determines what it needs to increase service levels it does not simply increase headcount nominally with the hope for better or more services. This type of analysis will also help the Township make better decisions when external circumstances, like a national recession, require cost-cutting measures.

Department of Fire and Emergency Services

Upper Providence Department of Fire and Emergency Services is a combination department served by both volunteers and career firefighters. The Department's full-time headcount increased from five to nine from 2017 to 2021 to provide more reliable fire protection services in the daytime from 6am to 6pm.⁷³ During that five-year period, the Department's spending increased from \$1.6 million to \$3.1 million.

⁷³ Instead of relying primarily on volunteers to provide fire protection services in the daytime, the current staffing allows the Township to staff one fire engine with at least three career firefighters from 6am to 6pm.

Department of Fire and Emergency Services Headcount and Spending, 2017 to 2021

	2017	2018	2019	2020	2021
Fire Marshal (Chief)	1	1	1	1	1
Assistant Fire Chief / Fire Marshal	1	1	1	2	2
Emergency Management Coordinator	1	1	1	1	1
Full-time Firefighters ⁷⁴	2	2	4	5	6
Total Full-Time Employees	5	5	7	9	10
Operating Spending	1,284,456	1,544,718	1,774,416	2,252,123	2,222,977
Capital spending ⁷⁵	286,041	23,986	382,444	384,699	905,000
Department Spending	\$1,570,497	\$1,568,704	\$2,156,860	\$2,636,822	\$3,127,977

One of the Township's goals is to transition the Department to a 24-hour daily operation, meaning that in addition to using career firefighters to staff the day shift (6am to 6pm), the Township would use full-time firefighters to provide nighttime coverage as well. This goal was established in part because Upper Providence wishes to meet the National Fire Protection Association (NFPA) Standard as outlined below. Upper Providence has a population 1,338 per square mile, so it falls within the urban area demand zone.

National Fire Protection Association (NFPA) Standard 1720

Demand Zone	Demographics	Minimum staff to respond ⁷⁶	Response time	Meets Objective
Urban area	>1,000 people/sq. mile	15	9 min	90%
Suburban area	500-1,000 people/sq. mile	10	10 min	80%
Rural area	<500 people/sq. mile	6	14 min	80%

We spoke with the Department as part of this engagement to better understand the proposed staffing plan. To meet the NFPA Standard, the Fire Chief noted that the Township may have to increase the number of full-time firefighters from 6 (current headcount) to 24. The following table shows the two-step staffing plan proposed by the Department to reach a full-time complement of 24 and their corresponding service level.

Fire Department Proposed Staffing Model

	Full-time Employees	Part-time Employees	Volunteer Firefighters' Service Level	Career Firefighters' Service Level
Current staffing	6 firefighters staffed from 6am-6pm	8 part-time firefighters to supplement full-time firefighters (11 twelve-hour shifts each week)	Provide coverage from 6pm-6am (night) and as needed from 6am-6pm (day)	At least 3 career firefighters staffed on 1 engine from 6am-6pm
Step 1: Current staffing + 6 firefighters	12 firefighters staffed to provide full-time coverage 24/7	Eliminate the need for part-time firefighters	Provide coverage from 6pm-6am (night) as needed	At least 3 career firefighters staffed on 1 engine 24/7
Step 2: Current staffing + 18 firefighters	24 firefighters staffed to provide full-time coverage 24/7	Eliminate the need for part-time firefighters	Provide coverage from 6pm-6am (night) as needed	At least 6 career firefighters staffed on 2 apparatus 24/7

⁷⁴ The 2021 budget assumed five full-time firefighters, but the Township currently has six full-time firefighters because one firefighter went on long-term leave in summer 2021.

⁷⁵ The Department's capital spending includes spending to replace fire apparatus and the debt service related to the new fire station.

⁷⁶ Minimum staff includes career firefighters and volunteer firefighters.

The Chief noted that the additional 6 firefighters (step 1 of the staffing proposal) are primarily to eliminate the current use of part-time firefighters and allow the Township to staff one fire engine with at least three full-time career firefighters during all hours of the day. Even though part-time firefighters are typically paid on an hourly basis and are less costly than full-time personnel, the Fire Chief noted that they are generally unavailable during the day, which is also the reason why he has not been replacing them and plans to eliminate the use of part-time firefighters in the future. Part-time firefighters are also difficult to retain by virtue of the job - they are not able to earn a full-time salary and when faced with an opportunity for full-time work, they are more likely to leave than those already in full-time positions. Part-time firefighters currently fill 11 twelve-hour shifts each week (5 on weekdays and 6 on weekends).

To help make this transition, the Department applied for a Staffing for Adequate Fire and Emergency Response (SAFER) Grant to hire an additional 6 full-time firefighters. If awarded the SAFER grant, the Township would receive \$2.6 million that would fund the salaries and benefits of the 6 additional firefighters for three years. Beyond the initial three years, however, the Township would have to pay for the recurring costs for the 6 additional firefighters. The following table shows the total costs for the 6 additional firefighters and the amount that would have to be funded annually by the General Fund beginning in 2024 if the Township moves forward with this staffing plan. Consistent with the baseline projection, the following scenario assumes salaries to grow by 3.3 percent annually and health benefits to grow by 5.0 percent annually.

Costs of Hiring 6 Additional Firefighters (Step 1 of the Staffing Proposal)

	2022	2023	2024	2025	2026
Salaries	88,369	91,285	94,298	97,409	100,624
Benefits	57,840	60,245	62,761	65,393	68,149
Total per FTE	\$146,209	\$151,530	\$157,058	\$162,803	\$168,772
6 Additional FTE	\$877,254	\$909,178	\$942,349	\$976,817	\$1,012,635
Funded by SAFER Grant ⁷⁷	\$877,254	\$909,178	\$845,330	\$0	\$0
Funded by the General Fund	\$0	\$0	\$97,019	\$976,817	\$1,012,635

Note that the additional cost that would have to be funded by the General Fund was **not** included in the baseline projection. If the Township hires 6 additional firefighters using revenues provided by the SAFER grant and chooses to maintain the headcount even after the grant expires, annual spending would increase by approximately \$1.0 million per year beginning in 2025. For context, \$1.0 million in additional cost is equivalent to 0.4 mill in real estate tax. The tax levy would also have to increase because personnel costs generally grow at a faster rate (3.8 percent) than the Township's real estate tax base (1.5 percent).

If the Department adds 18 full-time firefighters (step 2 of the staffing proposal), it would cost the Township an additional \$2.6 million in 2022 that grows to \$3.0 million by 2026. To fund this increase, the Township would have to double its 1.2-mill real estate tax levy. Even if the Township is awarded the SAFER grant, the grant would only cover the 18 additional firefighters for one year. After that, the Township would have to find a recurring funding source to fund the increases.

Costs of Hiring 18 Additional Firefighters (Step 2 of the Staffing Proposal)

	2022	2023	2024	2025	2026
18 Additional FTE	\$2,631,762	\$2,727,534	\$2,827,046	\$2,930,450	\$3,037,904
Funded by SAFER Grant	\$2,631,762	\$0	\$0	\$0	\$0
Funded by the General Fund	\$0	\$2,727,534	\$2,827,046	\$2,930,450	\$3,037,904

⁷⁷ The grant application assumes the cost of \$877,254 for three years without assuming any growth. Practically speaking, firefighters' salaries and benefits will continue to grow over time, which is why the Township will have to supplement a portion of the firefighters' compensation in 2024 if the Township is awarded the grant and adds six firefighters beginning in 2024.

Please also note the estimated increase only includes the salaries and benefits of firefighters and does not include additional administrative staff the Department may need. Furthermore, as described in initiative WF01, to meet the minimum staffing level on each apparatus, the Township would likely see increases to overtime spending as a result of having to call full-time firefighters back on overtime whenever someone is sick or injured and/or when volunteers are unavailable.

As the Township moves forward in determining the right staffing level for the Department of Fire and Emergency Services, it needs to ask the question of **what is the cost of providing service at the different levels and how does that compare to the benefit of doing so?**

This cost-benefit question is not a rhetorical device to suggest the Township should hire more or fewer staff. Rather, it is intended to raise the question for Township leaders to have better discussions. Those leaders can make more informed decisions if they know, for example, that the impact of hiring X instead of Y number of staff is that response time will increase by Z percent than if they just rely on generalizations like “response time will be faster with more staff” or “we need more firefighters because our call volume is increasing.”

This type of cost-benefit exercise is especially helpful if Township leaders are weighing a tax increase to fund these service enhancements. Once the Township knows what it is buying for the amount it spends on a service, leaders can make better decisions.

The Township’s 2022 budget proposes adding four full-time firefighters to provide adequate daytime staffing and contracting the Township’s EMS provider to provide additional coverage at night. While that approach may be sufficient in meeting the Township’s immediate service demands especially given that nighttime call volume is 40 to 45 lower than daytime call volume,⁷⁸ the Township may also find value in seeking and retaining the services of a consultant specializing in fire operations in the future who can provide a fuller, independent evaluation of the Township’s fire staffing needs.⁷⁹ In addition to providing analysis related to workload, apparatus, and response time, the consultant should also be able to provide insight into how different fire response tactics (such as interior versus exterior fire attack⁸⁰) impact staffing needs. Depending on the fire consultant’s evaluation, Upper Providence may also find value in performing a fire risk analysis that can be helpful in providing an objective assessment of a community’s level of risk and allow the Township to align resources accordingly.

Benchmarking

When we presented the baseline projection to the Board of Supervisors, there was a question regarding how Upper Providence’s staffing compares to similarly-sized municipalities. While a detailed staffing comparison would be beyond the scope of our engagement, the following table compares Fire Department spending in Upper Providence with other similarly-sized townships in the region. All the townships shown in the table below have a population of at least 1,000 per square mile, so they all fall within the urban area demand zone according to the NFPA Standard.

Please note this type of benchmarking is not determinative. Just because the amount each township spends on fire protection is different does not mean that the “right number” is somewhere in the middle. Rather, we use this analysis to provide Township leadership some of the information it needs as it works through the cost-benefit question we described above. This is another reason why pursuing a fire operations study may be beneficial.

⁷⁸ Please see initiative BP03 in the Best Practices chapter for daytime and nighttime call volume from 2018 to 2020.

⁷⁹ The Township had a fire study completed in 2014, prior to hiring full-time career firefighters to provide daytime coverage.

⁸⁰ While having at least four personnel is the required standard for *interior fire attack* (in which firefighters enter a burning building and attempt to extinguish the fire from the inside), the requirement of having four personnel assembled on-scene prior to making entry would not apply to *exterior fire attack* (in which firefighters initially discharge water from the exterior of the building and knock down the fire before entry in the building is made). There have been studies, such as “Innovating Fire Attack Tactics” by U.L.COM/News Science (2013), that evaluated the effectiveness of interior vs. exterior attacks in certain simulated fire environments and have found exterior attack to be equally effective.

Fire Spending per 1,000 population⁸¹

Municipality	Population	Population per sq. mile	Fire Department Spending	Spending per 1,000 residents
Upper Merion	30,260	1,784	\$4,366,514	\$144,300
Upper Providence (2020)	24,355	1,367	\$2,636,822	\$108,266
East Whiteland	11,841	1,082	\$2,282,713	\$192,780
Upper Providence (2019)	23,920	1,343	\$2,156,860	\$90,170
Tredyffrin	29,461	1,490	\$1,613,138	\$54,755
Horsham	26,487	1,529	\$1,350,235	\$50,977
Upper Dublin	26,327	1,990	\$1,248,692	\$47,430
West Whiteland	18,650	1,452	\$871,873	\$46,749
Median (excl. Upper Providence)	26,407	1,510	\$1,481,687	\$52,866
Average (excl. Upper Providence)	23,838	1,555	\$1,955,528	\$89,499

Long-term Goal: Regionalization

To ensure that residents receive quality public safety services at an affordable price, many Pennsylvania communities began exploring the possibility of creating a regional department. Upper Providence already recognizes the opportunities for shared services and has been having ongoing discussions with neighboring townships. In addition to coordinating with nearby municipalities, Upper Providence should also coordinate with County government to develop a regional approach. Coordinating with the County can be useful because it provides a platform for all stakeholders to work together. It also prevents Upper Providence from finding itself in a situation where it essentially subsidizes neighboring municipalities fire protection services simply because its career staffing level is higher than the surrounding townships.

Police Department

Upper Providence Township Police Department provides a full range of law enforcement services to Township residents and businesses. From 2017 to 2019, total headcount remained flat at 32. In 2020, the Township engaged a nationally-recognized external consulting practice to complete a study that reviews and analyzes the Department's operations. Because of the ongoing study at the time, the Department held two positions vacant and total headcount dropped to 30.

Police Department Headcount and Spending, 2017 to 2020

	2017 Actual	2018 Actual	2019 Actual	2020 Actual
Chief	1	1	1	1
Police Officers ⁸²	28	28	28	26
Office Staff ⁸³	3	3	2.5	2.5
Total	32	32	32	30
Department Spending	\$6,085,873	\$6,246,087	\$6,496,728	\$6,307,549

The consultant study culminated in 97 recommendations and the Department has already started implementing several initiatives, including removing the Chief and the Lieutenant's access to property and

⁸¹ The amount of spending is based on the 2019 Annual Financial Report published by Pennsylvania Department of Community and Economic Development (DCED), the most recent data available when this report was written.

⁸² Includes Lieutenants, Sergeants, Corporals and Patrolmen.

⁸³ The three office staff include an office manager who manages the front office and two administrative staff who provide support such as releasing police reports and right-to-know requests, inputting citation data, answering phones, and handling walk-in inquiries.

evidence and changing the supplemental investigator's schedule from 12-hour shifts to 8-hour shifts to provide weekend coverage and reduce overtime costs for weekend callouts.

One of the recommendations from the report was to civilianize two vacant police officer positions since civilian personnel can often be more cost-effective and doing so would also provide opportunities for civilian personnel to professionally develop in the department. The report recommends reclassifying a police officer position to a Community Service Officer (CSO) who would be responsible for investigating minor injury and non-injury traffic accidents, handling traffic-related matters such as parking enforcement and deploying speed signs, and assisting the sergeant for duties like transferring patrol units for repairs.

The report also recommends reclassifying another police officer position to a civilian position that would manage the property and evidence function including reorganizing the property and evidence room, conducting research for destruction orders, executing destruction of the property and evidence, and conducting a full audit of the property and evidence room. In addition, the property and training civilian position could also serve as the administrative assistant to the lieutenant given that the lieutenant has some administrative duties that do not align with his position's level in the organization.

Police Study Staffing Recommendations by External Consultant

	2019 Actual	2020 Actual	Recommendation⁸⁴
Police Chief	1	1	1
Police Officers	28	26	26
Civilians	0	0	2
Office Staff	3	3	3
Total	32	30	32

Part of the reason the police consultant recommended reclassifying the two vacant police officer positions to civilian positions was because the workload analysis performed as part of the study showed that the Department (with 26 police officers) was amply staffed to meet the workload demands.⁸⁵ That said, during our interview with the Department, the Police Chief noted the need to increase the number of police officers to 28 – the same staffing level as 2019 – in order to provide consistent and adequate protection to the community. The Police Chief also expressed concerns that reducing the number of police officers below 28 would result in longer response time, especially since the policy study found that current response time for priority one calls is 5.8 minutes, higher than the five-minute standard by the International City/County Management Association (ICMA).

The Department's concern is understandable and should not be taken lightly, but instead of taking the consultant's recommendation off the table, the Township should consider changes that may help the Department achieve its mission with the recommended staffing level. It is possible, for example, that by investing in technology like speech-to-text recognition software or a field-based reporting application, officers would be able to complete police reports in a patrol vehicle strategically positioned within the Township instead of having to return to the station to write reports, thereby reducing the amount of travel

⁸⁴ See recommendation 10 on p. 54 of the police study (consider applying salary savings from frozen police officer position toward civilian positions). On p. 51 of the report, the external consultant also noted that "based on Patrol workload demand discussed here, CPSM does not recommend the addition of officers to the department's ranks. Rather, CPSM recommends salary savings from the two frozen police officer positions be used to fund potential civilian positions recommended later in this report."

⁸⁵ Please see *Police operations and data analysis report* by International City/County Management Association, p. 50. The consultant came to the conclusion that the department is amply staffed to meet workload demands in part because the Department meets both parts of the "Rule of 60," meaning that at least 60 percent (currently 78 percent) of the police officers are assigned to patrol functions, and no more than 60 percent (currently in the mid-thirty percent range) of their time should be committed to calls for service or else patrol resources would become largely reactive. The consultant also noted that, even with the "non-call activities," which were primarily administrative activities that were not recorded in the Department's Computer-Aided Dispatch (CAD) system, workload averages were still below the "Rule of 60" standard.

time it takes to respond to calls.⁸⁶ In addition, by hiring a CSO for traffic-related matters and training front office staff to take fingerprints, release property, and transfer and pick up vehicles,⁸⁷ police officers would have a lighter administrative burden and be able to better focus on core law enforcement duties. Finally, the Township could collect better data to help inform its deliberation that would help provide direction for alternative approaches.⁸⁸

Fiscal Impact

According to data provided by the Bureau of Labor Statistics, the average salaries in the Philadelphia Metropolitan Statistical Area (MSA) for occupations that resemble CSO duties, such as parking enforcement and animal control workers, are 40 to 45 percent lower than police officers' salaries. In Lower Merion Township, civilians' salaries are 25 to 50 percent lower than police officers' salaries. If Upper Providence is able to reduce police officers' administrative burden and follow through with the police consultant's recommendations and civilianize two police officer positions, it could generate savings ranging from \$40,000 to \$75,000 annually that grow over time at the same rate as cash compensation growth.

Occupational Employment Statistics (OES), Philadelphia MSA (May 2020)

	Annual 25th Percentile Wage	Annual Mean Wage	Annual Median Wage	Annual 75th Percentile Wage
Police and Sheriff's Patrol Officers	\$60,800	\$76,260	\$76,210	\$91,710
Parking Enforcement Workers	\$36,630	\$44,200	\$42,490	\$50,930
Animal Control Workers	\$33,070	\$46,090	\$42,440	\$60,620

Department of Public Works

The Department of Public Works is responsible for maintaining the Township's infrastructure including roads, buildings, streetlights, street signs, traffic signals, parks, pump stations, and sewer lines. The Department currently outsources any major vehicle repairs and janitorial services. In 2018, headcount dropped from 15 to 14 in part because the Township outsourced janitorial services the prior year. Since then, headcount has remained at approximately the same level.

Department of Public Works Headcount, 2017 - 2021

	2017	2018	2019	2020	2021
Public Works Director	1	1	1	1	1
Public Works Administrator	1	1	1	1	1
Assistant Public Works Director	1	1	1	1	1
Foreman	2	2	2	3	3
Laborers	8	9	9	8	9
Janitors	2	0	0	0	0
Total Full-time Employees	15	14	14	14	15

One of the questions that was raised when PFM presented the baseline projection to the Board of Supervisors in June 2021 was whether the Township should provide leaf collection services. Currently, Township residents contract with private trash and recycling collectors directly and the Township provides a compost facility where residents can drop off raked leaves.

⁸⁶ Please see p. 52 of the police study for recommendations to reduce response time.

⁸⁷ These were recommendations provided in the police study (see recommendation 71 and 86).

⁸⁸ Please see initiative SI04 in the strategic investments chapter for the recommendation to capture all activities in the Computer-Aided Dispatch (CAD) system.

To answer that question, one has to first understand how the Department operates. While the 15 full-time employees are responsible for various public works duties, no employee is responsible for one single duty. Rather, public works employees are cross-trained and perform work as needed. For example, while the main responsibility of the five-employee road crew is to maintain and clean Township roads, 40 percent of their time is spent on stormwater system maintenance, including cleaning and maintaining inlets. Similarly, even though the main responsibility of the two-employee sewer crew is to maintain the sewer system, they spend approximately 25 percent of their time maintaining streetlights, street signs, and traffic signals.

For the Township to provide leaf collection services, it would not only have to add capacity to provide a new service, it would also need to reorganize its workforce because leaf collection is not a year-round service. Setting the issue of workforce management aside, the Township may also have to acquire, store, and maintain vehicles for leaf collection since it does not already have garbage trucks to which it can simply attach a leaf collector trailer for the operation.

This is another area where cost-benefit analysis can be helpful in making service and staffing decisions. For Township leaders to start having meaningful discussions, it must first ask the question of **what is the cost of providing a new service and how does that compare to the benefit of doing so?**

Even if Township leaders conclude that the benefits of providing the service outweigh the additional costs, it should take a step further and develop a formal plan that addresses the funding source(s) before committing to any policy decision. Asking the question of “are we willing to increase taxes by X mills to provide this service?” is another way to help Township officials have more meaningful discussions regarding the type of services to provide.

Department of Parks and Recreation

The Department of Parks and Recreation is the agency that provides community programs and coordinates parks and trails facilities for Township residents. Over the last five years, the Department reduced its full-time headcount and relied more heavily on part-time employees.

Department of Parks and Recreation Headcount, 2017 – 2021

	2017	2018	2019	2020	2021
Parks and Rec Director	1	1	1	1	1
Assistant Parks and Rec Director	0	0	1	1	1
Administrative Assistant	1	0	0	0	0
Program Coordinator	1	1	0	0	0
Total Full-time	3	2	2	2	2
Administrative Assistant	0	1	1	1	1
Program Coordinator	0	0	2	2	1
Total Part-time	0	1	3	3	2

One of the challenges the Department raised during our interview was staffing. The Department used to have three part-time staff but has had to reduce the number of part-time staff and their hours from 25 to 30 hours a week to below 20 hours as a result of the pandemic. As the pandemic recedes and as social and economic activities resume, the Department would need additional capacity to staff special events and run recreation programs.

In addition to maintaining sufficient staffing, the Department also discussed the need for parks and playground renovations and upgrades as well as trail expansion. The Black Rock Park and MacFarlan Park playgrounds are 18 years old and the Department noted that significant repairs are needed for health and safety reasons. The Park Master Plan adopted in April 2021 also identified a number of immediate priorities

including making Americans with Disabilities Act (ADA) accessible upgrades, improving signage, and connecting trails to create loop systems. The following table summarizes the cost estimates provided in the Park Master Plan. The Township will not be able to address all of these needs in the short term given its other competing priorities but will likely have to fund a portion of these suggested improvements to maintain and improve park and playground conditions.⁸⁹ The Township could also consider funding some of these needs through debt-financing and working with local sports clubs or community groups.

Cost Estimates of Upgrades and Improvements Identified in the Park Master Plan

	Site work	Paving	Amenities	Administration ⁹⁰	Total
Anderson Farm Park	155,000	605,400	1,000,400	704,320	\$2,465,120
Black Rock Park	22,500	540,000	1,387,500	780,000	\$2,730,000
Longford Park/Reynolds' Dog Park	11,500	18,000	245,000	109,800	\$384,300
MacFarlan Park	57,500	655,375	564,900	511,110	\$1,788,885
Port Providence Park	32,500	469,500	180,500	273,000	\$955,500
Taylor Farm Park	47,500	1,143,750	158,500	539,900	\$1,889,650
Total	\$326,500	\$3,432,025	\$3,536,800	\$2,918,130	\$10,213,455

As described in initiative BP01, the Township should develop a formal mission statement and related goals to guide resource prioritization discussions.⁹¹ Having a clear mission and goals will allow the Township to ask a second question when reviewing staffing levels – **should we be allocating our resources differently to advance the priorities we have set?**

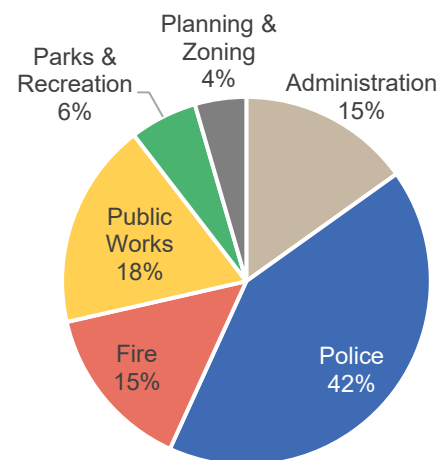
The chart to the right shows total departmental spending (excluding any capital pay-as-you-go spending and debt service) in the 2021 budget. As shown, public safety represents over half⁹² of total operating spending, public works represents another 18 percent, and parks and recreation represent just 6 percent of the total operating budget.

In the 2018 community study conducted by the Township, 96 percent of the respondents noted that recreation is at least important to them and their families, with 72 percent of the respondents noting that recreation is very important or extremely important.

If providing excellent parks facilities is an important factor in keeping the Township an attractive place for families to live, then the Township should revisit whether it should reallocate existing resources to increase funding for the Department of Parks and Recreation so that the way the Township spends its resources reflects its vision.

For example, if the Township is able to civilianize two police officer positions as described earlier, the savings generated in that department can potentially be dedicated to better fund the Township's parks and recreation efforts. Similarly, if the Township is able to achieve its goal of providing reliable fire protection

2021 General Fund Departmental Budget



⁸⁹ The proposed 2022 budget uses a park/open space millage to fund some of these investments.

⁹⁰ Includes survey design and permitting, construction inspection, and contingency.

⁹¹ Please see initiative BP01 in the Best Practices chapter regarding the recommendation to develop a formal mission statement.

⁹² The allocation for the Department of Fire and Emergency Services excludes the debt service payment related to the construction of the new fire facility. If the debt service payment was included, the allocation would be even higher.

services without having a total of 24 full-time career firefighters and two apparatus staffed entirely by career firefighters, then it would have more resources to dedicate toward trail connectivity, parks renovation, and other important projects that are important in keeping Upper Providence an attractive place to live.

The underlying question here is not which department does more important work, but what kind of resource allocation would best advance the stated goals in the mission statement. The answer to that question is not a purely financial one, nor is it one that can be answered based solely on the information we have collected. It is one that Township officials and leaders will need to first answer on its own and then collaboratively.

We recommend the Township work through this resource prioritization question in advance of the budget process so that any changes can be implemented through the development of the budget. For example, the Township may conclude that the best way to allocate resources while balancing the budget is to first determine how it wants to advance its priorities, before any requests are made for additions to or cuts in specific programs or departments.

The Township may ultimately decide that directing the same or more resources toward public safety is still the best way to advance its mission, but that decision should not be a result of the Township's practice of asking non-public safety departments for budget cuts first during the budget process. Rather, it should be an intentional decision with an understanding that directing more resources toward public safety would inevitably mean less resources for other priorities.

Revenue Opportunities

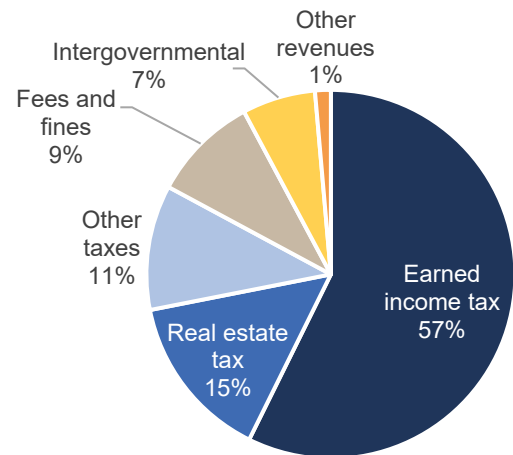
The previous chapters describe a number of potential investment needs. Some of those investments, such as playground infrastructure improvements and public works building upgrades, are necessary for the Township to continue providing the same level of services. Other investments, such as building a new library and hiring additional career firefighters to provide nighttime coverage, are new services that the Township needs to further consider given that it would have to find new funding sources to pay for those services.

Because funding those investments solely through tax increases is too negative to be a viable strategy, Township government needs to identify new funding sources. This chapter therefore provides recommendations to increase revenue diversity by providing suggested next steps for a stormwater fee and a streetlight assessment.

In addition to finding new revenue resources, the Township also needs to ensure that current non-tax revenues grow at a rate commensurate with the cost of providing services. If these other revenues do not grow and the cost of providing the associated service does, then the Township will become even more dependent on the real estate and earned income tax. The Township should think about non-tax revenues in terms of diversity because every lost dollar in non-tax revenue will have to come from taxes or expenditure reductions. This chapter therefore provides guidance to help the Township continuously revise fees and improve cost recovery.

These initiatives will help the Township make necessary investments in its existing infrastructure and services, but they would not provide sufficient revenues for the Township to provide new or higher level of services. The last two initiatives in the chapter therefore focus on two “game-changing” options – evaluating the sale of a sewer system and adopting a Home Rule charter.

2021 General Fund Revenues



RV01	Enact a stormwater fee
Goal(s)	Improve cost recovery; diversify revenues
Responsible parties	Board of Supervisors; Township Manager; Public Works Department
Fiscal Impact	\$1.1 million in 2023; growing to \$1.2 million in 2026

Stormwater is the runoff created when rain, snow, or melted ice flows over land and impervious surfaces such as roads, sidewalks, or parking lots. The runoff carries pollutants and dirt through the stormwater collection system and eventually makes its way into the Schuylkill Canal, the Schuylkill River, the Perkiomen Creek.

The scale of the Township’s stormwater collection system, the risk associated with its age, the many competing demands for capital funding, the need to meet state and federal regulatory requirements to manage stormwater, and the limitations on the Township’s ability to use its existing funding sources to meet

these needs all lead to the conclusion that the Township should establish a dedicated revenue stream to cover the full cost of stormwater maintenance and improvements.

Some may argue that establishing a stormwater fee is a cumbersome process and the Township should instead use a real estate tax levy to pay for the costs. While collecting a new fee requires additional billing and collections costs and adds potential upfront administrative burden to Township officials, in the long term it is an appropriate way to deal with the costs of maintaining and improving the system. One of the major benefits of establishing a stormwater fee is that every parcel owner – not just those subject to municipal taxes – benefits from a properly functioning stormwater system, and the specific costs of this function are identifiable and allocable. In 2021, almost 8.0 percent of the Township's assessed values were exempt from the real estate tax. These properties usually are owned by non-profit entities (e.g., religious organizations) and government entities (e.g., School District).

2021 Taxable and Non-Taxable Assessed Values

	Assessed Value	% of Total
Taxable Assessed Values	2,284,723,151	92.3%
Tax-Exempt Properties' Assessed Values	189,909,680	7.7%
Total Assessed Values	\$2,474,632,831	100.0%

While tax-exempt property owners do not pay the real estate tax, they will be required to pay the stormwater fee. For example, a school building owned by the School District would be exempt from the real estate tax, but it would be subject to the stormwater fee that is usually based on the impervious area of the property. This often includes not only the land where the building is built but adjacent roadways and parking lots as well.

Another advantage of levying a stormwater fee is that it can incentivize improved stormwater management systems. Property owners who install green infrastructure such as green roofs, rain gardens, and infiltration and detention basins would be eligible for fee credits. While there are some associated costs related to establishing and administering a fee credit structure, in the long term it can help manage and reduce stormwater runoffs and pollution, which is especially important in Upper Providence given the number of developments in the last several years.

Establishing the stormwater fee

One model for developing such a program and fee can be found in nearby Radnor Township in Delaware County. Radnor's stormwater ordinance establishes a stormwater management system fund for operating and capital expenditures. In Radnor, that work is funded by a fee charged on the basis of a "Billing Unit" (BU), which measures the number of square feet of impervious surface (determined by aerial photography and a surface feature evaluation process). Each single-family residential property is assigned to one of four tiers of BU based on lot size. Properties with less than 7,000 square feet are considered to be one BU and pays an annual fee of \$29. Properties with more impervious ground cover have more BUs and pay higher fees accordingly. Commercial properties, on the other hand, are billed at a rate of one BU (or \$29) per 1,500 square feet of impervious area. Properties with approved stormwater mitigation techniques can receive credits offsetting the fee.

The first step in the process of establishing a stormwater fee is to perform a stormwater management study. Ideally, the stormwater study would provide the following information:

- Quantify historical, budgeted, and prospective General Fund spending dedicated solely for stormwater management;

- Quantify the backlog of capital improvement projects (if any) and the annual spending needed to comply with federal, state, and local regulations for stormwater management and meet service standards, including a process for regularly monitoring, cleaning, repairing, replacing, and maintaining the stormwater pipes and inlets;
- Recommend a level of contingency the Township should maintain to respond to unexpected emergency stormwater projects;
- Propose a reliable, predictable stream of revenue that fairly distributes the cost of system maintenance and improvements to all property owners who benefit from the stormwater management system; and
- Propose a revenue collection model that considers costs such as program administration, billing, and collections as well as potential fee credits for reduced stormwater runoff through green infrastructure installations.

The Township has already started developing the study and estimating the annual cost of maintaining the stormwater system. In addition to using the stormwater fee to offset projects identified in the 2021 capital plan, the Township should also use the fee to offset any related workforce costs. For example, the Public Works Director and the Assistant Public Works Director spend 15 to 20 percent of their time on managing the stormwater system. The public works road crew, which consists of five full-time employees, spends approximately 40 percent of their time maintaining and making repairs to stormwater pipes and inlets. These labor costs as well as any associated health benefits and pension contributions should all be allocated as part of the overall stormwater management cost analysis.

The Township should also include any billing and collection costs in the stormwater fee. The Township has been using a third-party collector to collect the sewer fee since 2019 and can consider using the same collector to collect stormwater fee, especially given that the collector may be able to combine both the sewer and stormwater fee into one single bill to streamline collection efforts.

Furthermore, any operating expenses (e.g., vehicles and equipment and their related maintenance and fuel costs) and indirect costs (e.g., building maintenance and janitorial services) that are required to maintain the stormwater system should also be reviewed so that the appropriate cost allocation amount is included as part of the total program cost. Finally, the amount of time the Township Manager and Assistant Township Manager spend on overseeing the stormwater management program should also be allocated to and offset by the stormwater fee.

The Township should adopt a stormwater fee and create a separate fund for the revenue to restrict its use to stormwater purposes. The Township should also transfer the costs of any stormwater expenditures in the General Fund to the Stormwater Fund.

We estimate the following costs to be offset by a stormwater fee beginning in 2023 that would otherwise have to be paid for by the General Fund. That said, Township management should review these cost estimates together with the Public Works Department and make applicable changes as it proceeds with the stormwater management study. Furthermore, any cost saving initiatives the Township implements relative to the baseline (e.g., lower across-the-board wage increases) would also reduce the fiscal impact as shown below.

Fiscal Impact

2023	2024	2025	2026
\$1,095,000	\$1,117,000	\$1,154,000	\$1,175,000

Given the estimated fiscal impact of this initiative and the benefit this revenue would bring by spreading the cost across a larger tax base, the Township should prioritize this initiative for implementation in 2022. For reference, the baseline projects deficits ranging from \$0.2 million to \$0.4 million annually. Enacting a stormwater fee and using the resultant revenues to pay for existing costs in the General Fund would eliminate the projected deficits and create some room in the budget for the Township to make other investments.

Note: The Township is already implementing this initiative and proposing a stormwater fee for implementation in 2022.

RV02	Enact a streetlight assessment
Goal(s)	Improve cost recovery; diversify revenues
Responsible parties	Board of Supervisors; Township Manager; Public Works Department
Fiscal Impact	TBD

After the Township completes the stormwater management process, it should explore whether that same concept can be applied to streetlights. Act 69 of 1933 (the Second Class Township Code) enables townships to assess all benefited properties for the costs of public improvements, which includes the installation, maintenance, or operation of lighting that illuminates the streets and sidewalks within the Township. Upper Providence Township currently maintains and operates over 600 streetlights.

Upper Providence may understandably be hesitant to establish another new fee levied on Township property owners who are already paying the County, School District, Township real estate taxes, and potentially the stormwater fee if the Township moves forward with the recommendation outlined in initiative RV01. If the Township only levies the fee on property owners who pay those taxes, then the assessment is essentially an extension of the real estate tax. However, according to the Second Class Township Code, the Township can charge the fee on a wider range of property owners, including those who are exempt from the real estate tax, which means that the burden can be spread more equitably to all the people and organizations that benefit from well-lit streets.

The Township should demonstrate the value of this new service charge by providing a streetlight improvement plan that shows how the fee would do more than just help keep the lights on. The plan should address more forward-thinking lighting goals, like installing more energy efficient lights or decorative lighting that complements other community development efforts. The Public Works Director noted that the Township currently does not use light emitting diodes (LED) streetlights but is in the process of working with the Delaware Valley Regional Planning Commission (DVRPC) to develop a regional plan to do so. Many municipalities across the country have been gradually replacing traditional incandescent streetlights with LED lights, which are typically six to seven times more efficient than traditional incandescent bulbs and can last anywhere from three to 25 times longer.

The Township should make this improvement plan accessible on its website with a clear explanation of the schedule for undertaking specific improvements in specific neighborhoods so property owners can track the Township's progress. The Township should also wait until the stormwater management study is completed before performing a streetlight assessment and improvement plan, which would be the first step in levying this fee.

The following table shows other selected Pennsylvania municipalities that levy a streetlight assessment. Some townships levy the assessment based on the assessed values provided by the county while others levy it on a foot-front basis.

2021 Streetlight Assessment for Selected Pennsylvania Second Class Townships

Municipality	County	Annual Assessment
East Norriton Township	Montgomery County	0.03 mill
Horsham Township	Montgomery County	\$0.59 per front foot
Whitemarsh Township	Montgomery County	\$0.45 per front foot
Newtown Township	Delaware County	0.045 mill
Caln Township	Chester County	Varies by district (\$0.31 to \$1.056 per front foot for improved land \$0 to \$0.22 per front foot for vacant land)
Bensalem Township	Bucks County	1.00 mill
Falls Township	Bucks County	0.88 mill
Lower Southampton Township	Bucks County	0.75 mill
Middletown Township	Bucks County	0.788 mill
Upper Southampton Township	Bucks County	1.335 mill
Exeter Township	Berks County	\$0.42 per front foot for improved land; \$0.2625 per front foot for unimproved land
Spring Township	Berks County	\$0.67 per front foot for improved land; \$0.167 per front foot for unimproved land

Next steps

The first step the Township should take is to estimate the annual cost it currently spends on lighting the streets. Those costs should include the annual spending on electricity as well as the cost of maintaining and repairing streetlight poles. The Township should also work with DVRPC to estimate the amount it would cost to replace all streetlights with LEDs and the resultant energy cost savings so that the Township understands the return on investment for the project.

At the same time, the Township should have intentional discussions about the benefits and drawbacks of this recommendation and establish the streetlight assessment *prior to* the LED replacement project so that there is an identified revenue stream to pay for the project. Establishing the streetlight assessment prior to replacing streetlights with LEDs would also help Township residents and businesses better understand the value provided by this initiative.

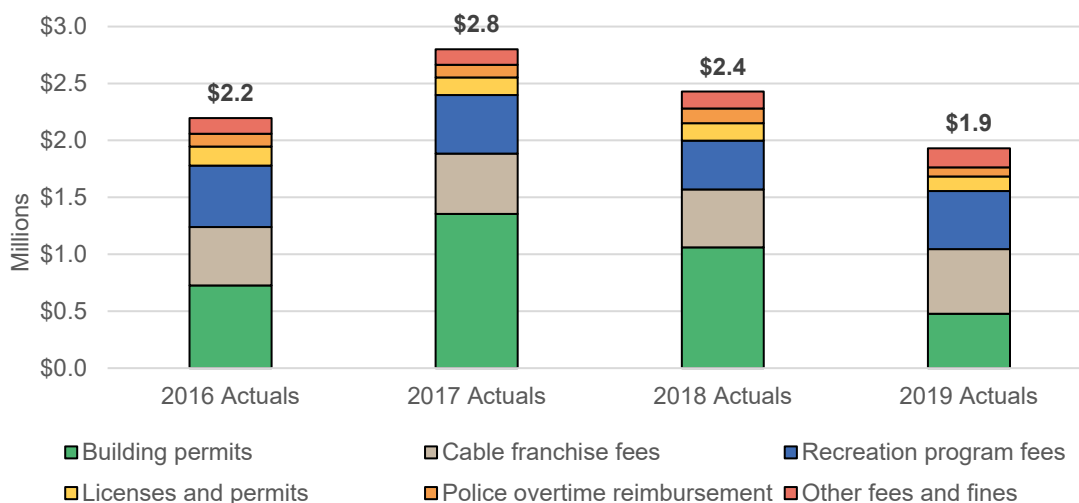
RV03	Regularly revise fees
Goal(s)	Implement best financial practices; revenue enhancement
Responsible parties	Township manager; Finance Department
Fiscal Impact	\$37,000 in 2022; growing to \$40,000 in 2026

Township government has two types of locally generated, locally controlled revenue – taxes and service charges. While some understandably describe service charges or fees as “just another type of tax,” there is an important conceptual difference between the two. Taxes are generally levied across a broader base to fund services that produce a benefit that is harder to quantify and assign to specific individuals. Service charges are paid by the individual or organization that benefits most from the service.

Upper Providence Township levies sewer fees that are used to offset the cost of carrying sewage from commercial buildings and residential households to the sewer treatment plant and eventually discharging into the Schuylkill River. These fees are projected to generate \$3.8 million in 2021 and are accounted for in the Sewer Fund. The Township most recently increased those fees in 2019 in order to more fully recover cost of transporting and treating sewage.

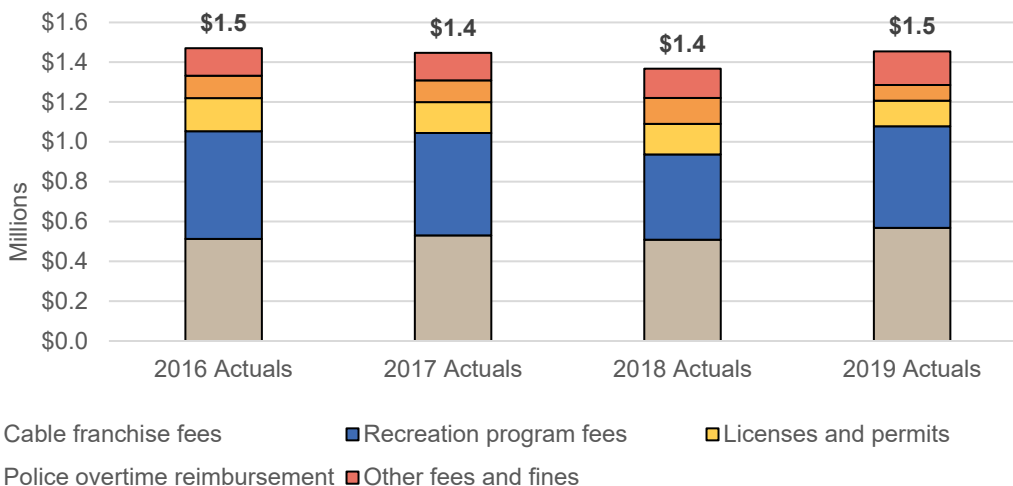
The Township also levies over 50 different types of fees and fines that are deposited into the General Fund. The largest sources of these revenues are the cable franchise fee, building permits, and recreation program fees. Over the last few years, total General Fund fee revenues increased from \$2.2 million in 2016 to \$2.8 million in 2017 and then declined each year after that. We excluded 2020 from this review because the COVID-19 pandemic resulted in large decline in the Township's recreation fees and the decline should reverse once the pandemic recedes.

Licenses, Permits, Fees, and Fines, 2016-2019



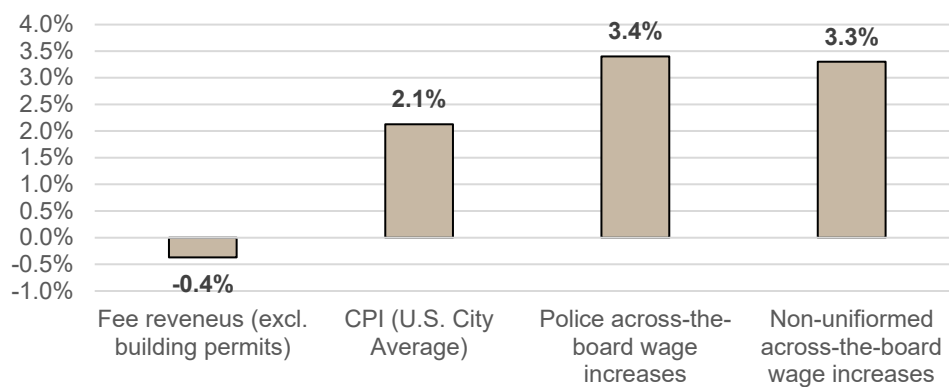
The fluctuation in the Township's fee revenue was driven largely by building permits. As discussed in the financial condition assessment, building permits tend to fluctuate from one year to the next depending on the amount of construction and renovation activity. Excluding building permit revenues, the Township's fee revenue has remained flat, as shown in the chart below.

Licenses, Permits, Fees, and Fines (Excludes Building Permits)



We reviewed the Township's fee schedule and found that the majority of the fees have remained at the same rate over the last few years. At the same time, U.S. consumer prices grew at an annual average rate of 2.1 percent over the same period. The Township's costs for employee compensation grew at an even higher rate over the same period, as shown in the following chart.

Average Annual Growth, 2016 - 2019



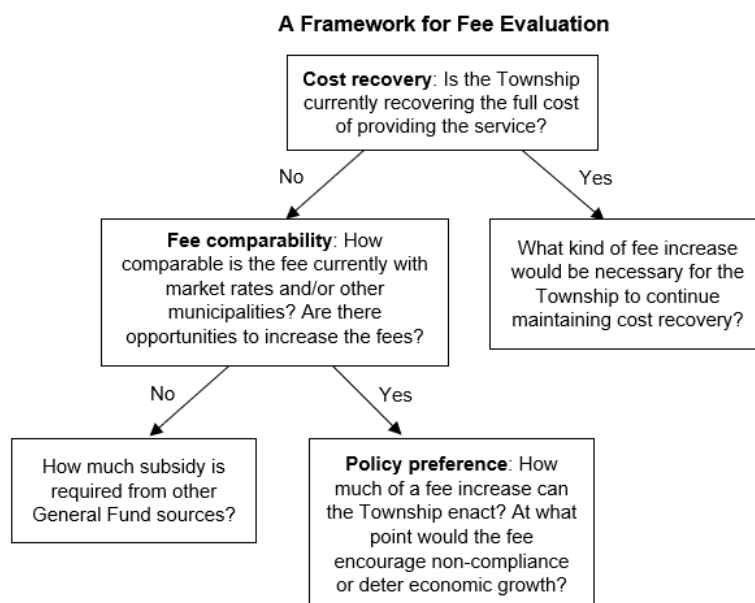
Moving forward, the Township should review and adjust its fee schedule regularly with the goal of maintaining or improving cost recovery. Reviewing fees for Township services that can be financially self-sufficient will allow the Township to spend more on the services that cannot be financially self-sufficient.

Recommendation: Create a formal process for fee review

To improve cost recovery, the Township should organize its fees into different groups and review one group each year to avoid creating an unmanageable administrative burden or falling behind in the review cycle. The Township should also consider establishing a policy that adjusts fees based on the rate of inflation to maintain cost recovery where possible. This is particularly important given the higher inflation rate as indicated in the most recent release by the Bureau of Labor Statistics.⁹³

In addition to enacting more regular fee increases, the Township should also review its fees and identify any opportunities for fee revisions. When determining whether there are opportunities for fee revisions, there are generally three perspectives to consider:

- **Cost recovery:** Is the Township collecting enough revenues to offset the cost of providing the service?
- **Fee comparability:** Is the fee comparable to market rates or the rates set by other municipalities?



⁹³ According to the Bureau of Labor Statistics (BLS), over the 12 months from September 2020 to September 2021, the all item Consumer Price Index for All Urban Consumers (CPI-U) increased by 5.4 percent before seasonal adjustment.

- **Policy preference:** Should the service be expected to “pay for itself” or should it be subsidized by tax revenues? At what point would fee level discourage compliance or economic growth?

Resolving the question of what a comprehensive fee evaluation looks like lies beyond the reach of this report, which is why we encourage the Township to organize its fees into different groups and review one group each year. As a starting point, the Township should begin with fees that have not been revised since prior to 2017.

Fiscal Impact

The fiscal impact projected for this initiative assumes the Township’s licenses and permits grow by 2.0 percent annually, instead of remaining flat as assumed in the baseline.

2022	2023	2024	2025	2026
\$37,000	\$38,000	\$39,000	\$40,000	\$40,000

RV04	Evaluate the pros and cons of a sewer sale
Goal(s)	Create funding stream for one-time investments
Responsible parties	Administration; Finance
Fiscal Impact	TBD

During our review of Township operations, we were asked whether Upper Providence should sell its sewer system.

Upper Providence operates and maintains two pumping stations and 121 miles of sewer lines. The Township is not responsible for sewer treatment – instead, it pays the Lower Perkiomen Valley Regional Sewer Authority (LPVRS) an amount each year to treat wastewater.

Sewer Revenue and Capital Funds’ Net Operating Result, 2015 - 2019⁹⁴

	2015	2016	2017	2018	2019
User charges ⁹⁵	2,745,821	2,844,137	2,880,095	2,755,584	2,819,608
Other revenues ⁹⁶	67,081	98,711	593,550	428,097	723,375
Total Revenues	2,812,902	2,942,848	3,473,645	3,183,682	3,542,983
Sewer treatment	1,968,688	2,006,332	2,032,410	2,067,606	2,217,249
Operating and capital expenses	490,650	598,026	1,012,431	1,402,107	2,226,181
Transfer to General Fund	157,523	165,658	368,789	248,000	400,000
Total Expenditures	2,616,861	2,770,015	3,413,629	3,717,713	4,843,430
Net Operating Result	196,041	172,833	60,016	(534,031)	(1,300,447)
Restricted & Unrestricted Fund Balance	20,903,688	20,899,624	19,278,794	19,141,754	18,344,980

⁹⁴ The revenue and expenditure figures in this table were provided by the Finance Department. The fund balance figures are from the annual financial statements.

⁹⁵ User charges include sewer fees, tapping fees, unused EDU charges, certification fees, and sewer assessments.

⁹⁶ Other revenues include the loan payment from the Capital Fund (\$225,000 annually) and interest earnings.

From 2015 to 2019, revenues from user charges grew at an annual rate of 0.7 percent. Over this period, sewer rates remained at \$48.50 per quarter for residential users and \$68.50 per quarter for the first 18,250 gallons for commercial users with usage in addition to the first 18,250 gallons charged at the rate of \$3.75 per 1,000 gallons.

Expenditures, on the other hand, grew at a much higher rate because sewer treatment costs have been growing at an annual rate of 3.0 percent and the Township had more capital expenses in the last several years. The Township also increased its reimbursements to the General Fund for work done by General Fund employees related to sewer operations.⁹⁷

As a result of continuous capital needs and the structural imbalance created by a relatively flat revenue trend and rising expenditures, the Township increased the sewer fees in April 2019 to \$75 per quarter (a 55 percent increase) for residential users and \$105 per quarter (a 53 percent increase) for the first 18,250 gallons for commercial users. Rates per gallon in addition to the first 18,250 gallons were raised from \$3.75 to \$5.75 (a 53 percent increase) per 1,000 gallons for commercial users.

Keeping the sewer system

Moving forward, the Township can continue owning and maintaining the sewer system, but it should be aware that periodic rate increases would still be necessary as sewer treatment costs continue to rise and the Township will have to continue making capital investments to meet state and federal mandates, consistent with the findings from the 2016 sewer rate study.⁹⁸ As described in initiative RV03, the Township should start regularly revising fees instead of enacting sporadic rate increases so that it does not lose financial ground in the years when it maintains its fee at the same rate. Increasing rates regularly would also prevent the Township from having to make steep rate increases, which are potentially harder for businesses and residents to accommodate than a more predictable pace of smaller increases. Even if the Township cannot formally adopt a schedule that sets the rate increases years in advance, it can publish a schedule of likely rate increases to provide more predictability for system users and stability for government finances.

Selling the sewer system

Alternatively, the Township can consider a sewer sale in exchange for one-time revenue. Upper Providence has already taken the first step to value the sewer system, and preliminary figures show that the estimated fair market range of values for the sewer system would be between \$35.0 million and \$42.5 million. In addition, any remaining fund balance in the sewer funds would also be returned to Township.

These one-time proceeds would allow the Township to make some of the investments as described in the strategic investments chapter, but the Township would need to develop a judicious plan so that those funds are dedicated toward one-time expenses instead of recurring costs. Doing so would help prevent the Township from running over a fiscal cliff whenever the one-time proceeds are used up.

For example, the Township is currently considering building a new library as detailed in initiative SI02. While using the sewer sale proceeds to pay for the construction of the new library would be a potential use of the sewer proceeds because of its one-time nature, the Township should not use the sewer proceeds to pay for the annual operating cost of the library given that those are recurring costs. Similarly, the Township should not use sewer proceeds to hire additional firefighters given that they are also a recurring cost.⁹⁹ Instead, the Township could consider using one-time proceeds to pay down its existing debt service (a one-time spending) to create room in the budget for other investments.

⁹⁷ Please see initiative BP02 for more information regarding adopting a policy for the sewer transfer.

⁹⁸ The Township did a five-year sewer rate study in 2016 which estimated that absent rate increases, the Township would have to draw down the fund balances in the Sewer Fund to meet operating and capital needs.

⁹⁹ See initiative WF02 for more details regarding the Township's goal to use career firefighters to provide nighttime coverage.

It is also important to note that selling the sewer system comes with downsides as well.

The General Fund receives reimbursements from the Sewer Fund each year for work done by General Fund employees related to sewer operations. The 2021 General Fund budget projects \$400,000 in transfer from the Sewer Fund. Selling the sewer system would eliminate this transfer to the General Fund and create a \$400,000 deficit for the General Fund. While the Township could theoretically manage this deficit by reducing headcount in the Public Works Department, the Public Works Director indicated that the two employees currently responsible for sewer maintenance also maintain streetlights, street signs, and perform traffic signal inspections. Unless the Township reorganizes its public works workforce, it cannot simply eliminate those two positions.

Furthermore, selling the system would eliminate the Township's control over future sewer rate increases as the private company who ultimately purchases the system would control the rates that are subject to regulation by the Pennsylvania Public Utility Commission (PUC). Even if the Township chooses to use a portion of the proceeds to establish a rate stabilization fund to subsidize future rate increases, in the long term this is not a sustainable way to control rates once the rate stabilization fund runs out of money.

Keeping versus Selling the Sewer System

	Keep the sewer system	Sell the sewer system
General Fund Impact	General Fund will continue receive reimbursements from the Sewer Fund (\$400,000 in 2021)	Create a \$400,000 budget hole in the General Fund unless the Township eliminates headcount and reorganizes Public Works workforce to offset the loss of the reimbursement
Funding for one-time Investments	Township needs to find a funding stream to pay for any one-time investments (e.g., build a new library)	One-time upfront payments (estimated at \$35.0 to \$42.5 million) available to make one-time strategic investments (e.g., pay down debt service)
Funding for recurring costs	Township needs to find recurring revenues to fund any recurring costs (e.g., operating a library, providing 24/7 fire emergency services etc.)	Township still needs to find recurring revenues to fund any recurring costs (e.g., operating a library, providing 24/7 fire emergency services etc.)
Sewer rates	Township keeps control of sewer rates, but the rates will still require periodic increases to keep up with spending growth	Eliminate Township's control of sewer rates

Next steps

There is value to the current arrangement and reasons for keeping the system as a public utility go beyond the potential size of an upfront payment. As Township leaders evaluate their options, we recommend the following next steps to help them make the best decision for residents and businesses.

Develop fiscal impact estimates to drive policy decisions

As the Township moves forward in evaluating whether to sell the sewer system, it should first prioritize the strategic investments it wants to make (see initiative BP05) and show how the Township plans to fund those investments under two scenarios – keeping the sewer system under the current arrangement or selling the sewer system in exchange for one-time proceeds. Having a plan to fund desired investments under both scenarios would help Township leaders better weigh the benefits and drawbacks of selling the sewer system.

Adopt a policy for one-time windfalls

To provide the Township with the parameters on how one-time revenues should be used and prevent potential misuse of one-time proceeds, Upper Providence should establish a windfall policy governing the use of those proceeds, which can include:

- Making a contribution to the employee pension plans above the scheduled MMO payments;
- Making an additional debt service payment beyond the amount of principal and interest due in a particular year; or
- Making a capital infrastructure investment.

Using one-time proceeds in this manner will ensure the Township matches a non-recurring cost with a non-recurring expense. It also keeps the Township focused on maintaining long-term financial stability, since reducing the existing debt burden and pension liability will reduce the Township's fixed costs and allow it to spend more of its current year revenues on operations.

The Township could also choose to dedicate some of the proceeds to fund capital projects identified through the capital improvement program and budgeting process.¹⁰⁰ The baseline scenario as described in the financial condition assessment assumes the Township would not issue any new debt to fund capital projects through 2026, so Upper Providence would have to rely on external support, like federal and state grants, and its operating budget to make pay-go contributions to fund capital projects. Realistically, the Township likely needs more capital funding than provided in the baseline to maintain its infrastructure, and one-time proceeds from the sewer sale is one of the ways to provide the capital funding the Township needs.

RV05	Evaluate the potential of adopting a Home Rule charter
Goal(s)	Revenue enhancement; flexibility in government structure
Responsible parties	Board of Supervisors; Township Manager
Fiscal Impact	TBD

Upper Providence is a Second Class Township and its revenue sources and tax rates are governed by the Second Class Township Code. The Second Class Township Code also establishes the structure of Township government and requires that the Township maintains certain positions, including an elected tax collector and a board of auditors.

During this engagement, we were asked to review the benefits and drawbacks of adopting a Home Rule charter. We provide this analysis to answer the Township's question for future consideration.

Communities adopt a Home Rule charter for various reasons, but one of the primary benefits of adopting a Home Rule charter is that it can provide the Township with the flexibility to increase its resident EIT rate. Upper Providence currently levies a 1.0 percent earned income tax (EIT) on its residents, of which 0.5 percent goes to the Township and the remaining 0.5 percent goes to the School District. As a Second Class township, Upper Providence cannot increase its resident EIT above the current rate.

Among the six Home Rule municipalities in Montgomery County,¹⁰¹ two of them currently levy a resident EIT higher than 1.0 percent.

¹⁰⁰ Please see initiative BP04 for more details.

¹⁰¹ According to *Home Rule in Pennsylvania*, Department of Community and Economic Development (DCED), Eleventh Edition.

Montgomery County Home Rule Municipalities' 2021 EIT Rates

	Resident EIT Rate	School District Rate	Total Resident EIT
Municipality of Norristown	1.6%	0.5%	2.1%
Cheltenham Township	1.0%	0.5%	1.5%
Horsham Township	0.5%	0.5%	1.0%
Plymouth Township	0.5%	0.5%	1.0%
Whitemarsh Township	0.5%	0.5%	1.0%
Bryn Athyn Borough	0.5%	0.5%	1.0%

What are the benefits of having the flexibility to set the resident EIT rate?

Many Pennsylvania municipalities consider the EIT an important “revenue lever” because the EIT tax base generally grows at a higher rate than the real estate tax base.¹⁰² So \$1 worth of resident EIT will likely be worth more than \$1 worth of real estate tax in the future. That was true for Upper Providence from 2015 to 2019 when the resident earned income tax grew by 4.3 percent annually and the real estate tax only grew by 1.7 percent from 2017 to 2019.¹⁰³

That said, the EIT is more volatile than the real estate tax and Upper Providence experienced this in 2020 during the COVID-19 pandemic. The resident EIT revenue *dropped* by 2.2 percent when the real estate tax revenue *grew* by 1.5 percent. The volatility of the EIT was also part of the reason why Upper Providence established a real estate tax in 2017.

Key Differences between the Real Estate and the Earned Income Tax

	Real Estate Tax	Earned Income Tax
Who is taxed?	Anyone who owns properties within the geographical boundaries of Upper Providence Township	Taxable income earned by Upper Providence residents, regardless of the place of work
What is being taxed?	Assessed value of the property (not the market value of the property)	Earned income is salaries, wages, commissions, bonuses, incentive payments, tips, fees, and other income
Who pays the tax?	Those who own properties in Upper Providence, regardless of whether or not they are Upper Providence residents	Upper Providence residents with taxable income
Revenue volatility and growth	Revenue remains stable but has minimal growth	More volatile than the real estate tax but has generally grown by 3 to 4 percent annually

Even though there is no “right” answer to the question of whether it is better for the Township to increase the real estate or the earned income tax, adopting a Home Rule charter can be beneficial because it provides Township government with another option in the future if it finds itself in a position of having to

¹⁰² Please see the financial condition assessment for the different tax base growth between the real estate and the earned income tax.

¹⁰³ Upper Providence did not have a real estate tax levy until 2017.

increase tax rates. Currently, even if the Township desires to increase the resident EIT rate to fund general government services, it would have no avenue to do so.

In addition to having the option to set its resident EIT rate, there are other potential benefits in reorganizing the Township under a Home Rule charter. Depending on how the Home Rule charter is written, the Township would have the option to eliminate row officer positions otherwise required under the Second Class Township Code.

What are the drawbacks of starting the Home Rule process?

One of the drawbacks of the Home Rule process is that it is very long, and elected officials have little direct control over the eventual content of a Home Rule charter.

Writing a Home Rule charter begins with a Government Study Commission that is authorized by Board ordinance or a petition of the electors. Members of the Commission are nominated and elected by the majority vote of the electors. The Commission is charged with analyzing the current form of government and comparing the current form to an alternative form permitted under the Pennsylvania Home Rule and Optional Plans Law. The Commission then releases a report stating its findings. If the Commission recommends a Home Rule charter, the recommendation is subject to referendum. If a majority of the electors votes in favor of adopting the recommendation, the form of government changes according to the schedule provided by the law.

Pennsylvania law sets deadlines for the completion of certain stages in this process. If the Government Study Commission is formed, it must release its report and recommendations within nine months of the election establishing the Commission. If the Commission elects to prepare a Home Rule charter and submit it for citizen consideration, it must release the proposed charter within eighteen months of its election.¹⁰⁴

Next steps

We provide this analysis not because Upper Providence is at a point where gaining the flexibility to set the resident EIT rate is crucial to its future financial sustainability. Rather, we provide this analysis for Township officials to consider as it evaluates its investment needs and future revenue options. Even if Township officials do not wish to begin the process of going Home Rule, it still has a number of options to increase revenues as outlined in this chapter.

¹⁰⁴ For more details about the process of going home rule, please reference *Home Rule in Pennsylvania* published by Pennsylvania Department of Community and Economic Development (DCED) found here: <https://dc.ed.pa.gov/download/home-rule-pa-pdf/?wpdmdl=57752&ind=1583780170689>

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