

# East Whiteland Township, Pennsylvania

## Multi-Year Financial Management Plan

July 13, 2018



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## Building from a position of strength

In 2017 East Whiteland Township received a grant from the Pennsylvania Department of Community and Economic Development to develop a multi-year financial management plan through the Department's Early Intervention Plan (EIP) program.

While many Pennsylvania communities have used the EIP process to close persistent deficits and fund basic services, East Whiteland enters this process in a better, stronger position.

East Whiteland's population is growing, new housing is being built and large employers like Vanguard expect to expand. The Township has a large commuter population and those commuters contribute a significant portion of the revenues that pay for everyday municipal government services like police, fire and public works.

The Township government is led by an engaged, professional Board of Supervisors and experienced senior managers. Township leaders are forward thinking and East Whiteland adopted an update to its comprehensive land use plan in July 2016. Department managers present their budget requests in terms of their goals for the next year, and East Whiteland has the second highest credit rating possible and one of the highest in Pennsylvania.

East Whiteland Township has developed this Plan to build from that position of strength.

Township leaders recognize that, while the government's financial foundation is strong, the Township has recently relied on sporadic revenues to cover recurring costs. In recent years the Township reduced its annual contributions to basic capital needs, like vehicle replacement, and the FY2018 budget has a \$0.5 million (or 4.4 percent) deficit in its primary operating fund. The Township has a manageable debt payment in that fund, but it needs to address facility shortcomings at Township Hall, particularly in the police headquarters.

While the Township has been able to provide its employees with annual base wage increases and a strong health benefits package, there are also unfunded liabilities associated with the employee pension plan and retired employee health insurance. The Township is in the process of changing its actuarial assumptions to more accurately reflect the pension plan's investment performance – a prudent but costly decision that will increase the annual required contributions to the Plan in the near term. In 2018 the Township not only halted its annual contributions to prefund the retiree health insurance liability, but it will also draw money out of that associated fund to pay current year claims.

This Plan starts with a Financial Condition Assessment that explains East Whiteland Township's major sources of revenues and expenditures; describes recent historical performance; and provides a baseline *status quo* projection that shows future performance through 2023 absent corrective action. That diagnostic exercise shows the \$0.5 million budget deficit in 2018 growing to \$1.5 million in 2019 when some of the short-term deficit closing measures expire.

The good news is that, after the deficit increases in 2019, it starts to narrow slightly in 2022 and 2023. Under the assumptions described in the baseline projection, revenues grow by 3.7 percent per year and expenditures by 3.2 percent after 2019. Unlike many Pennsylvania communities where revenues grow more slowly than expenditures without tax increases, East Whiteland has a chance to bring its budget back into structural balance if it uses solutions with

recurring benefits in the 2019 budget. The final section of this Plan describes two options for doing so, one on the revenue side and one on the expenditure side.

Improving Township government's financial performance is not the only objective. Financial strength provides the resources that East Whiteland government needs to execute the mission that its elected leaders – and by extension their constituents – have set for their government. For that to be true, there first has to be a mission that provides a clear, aspirational statement what Township government wants to achieve and why.

With that mission statement in hand, elected and appointed leaders can discuss the obstacles to it – what are the financial, environmental, economic, cultural and other challenges that prevent Township government from fulfilling its mission. Then government leaders can set a limited number of goals intentionally chosen to respond to and overcome the obstacles. The goals then inform the strategies, or specific actions that specific units of Township government will take to achieve its mission. The second section of this Plan describes and walks through the first steps in this strategic planning process.

The second section also reviews Township government's major departments that convert dollars and Board policies into the services that residents, visitors and businesses use every day – police; code and life safety; planning, development and recreation; and public works. Following Township management's direction to focus on best practices rather than cost cutting, the Operations Assessment offers 30-plus recommendations for improving Township government operations, including several that tie back to the draft mission statement.

The Plan's last section describes two areas that the Township Board and management should prioritize for closing the deficit described in the first section of the Plan and increasing the amount of money available to support the mission described in the second section of the Plan.

- **Tax policy options:** While East Whiteland has benefited from sporadic revenue generated by large commercial property sales or development projects, the Township needs recurring revenue to cover its recurring operating expenditures, pay for its long-term liabilities and fund capital improvements.

East Whiteland Township has the statutory authority to increase its earned income tax rate levied on its residents. For some residents, this would mean an increase in the total amount of taxes they pay. For others, it would not change how much they pay but rather shift a larger share to East Whiteland Township. East Whiteland also has the authority to increase the non-resident earned income tax rate levied on people who work in the Township but live elsewhere. Because of the large commuter population and the number of commuters who live in places without a resident EIT, increasing the non-resident EIT would have a large impact on East Whiteland's total revenues.

We describe these EIT options in detail and project the revenue associated with them in a baseline scenario. We also outline two options related to the real estate tax and the open space earned income tax levy.



- **Controlling employee health insurance costs:** A balanced approach to closing the projected deficit should also consider ways to control expenditure growth. Even a place like East Whiteland Township needs to be mindful of whether expenditures are growing at a rate its revenues can support. This is especially true if East Whiteland wants to invest in new amenities like parks and trail ways while keeping real estate tax rates and debt payments low. We briefly outline options for controlling growth in employee health insurance and addressing a potentially large future liability stemming from the current health plans.

The final section closes with strategies to boost East Whiteland Township's credit rating. East Whiteland has a chance to become one of very few Pennsylvania communities where the county, school district and municipality each have the highest credit rating possible. Chester County and the Great Valley School District are already there, and East Whiteland Township is only one step away. That would speak to East Whiteland's attractiveness as a place to live, work and invest and also lower the cost of borrowing for the Township's taxpayers.

Overall East Whiteland Township is positioned to do more than survive. It is positioned to thrive and grow while still retaining the qualities that attracted the residents who already live here. East Whiteland has the opportunity to build from its position of strength. This Plan and the strategic process it outlines will help East Whiteland do so.

# Financial Condition Assessment

Following the Commonwealth's Early Intervention Program guidelines, East Whiteland Township requested a projection of its future financial performance in a baseline, *status quo* scenario. This baseline provides a framework for discussing key questions related to Township government's fiscal health such as:

- What are the key trends and factors that drive the Township's financial performance?
- Are East Whiteland's finances structurally balanced so recurring revenues are likely to cover recurring expenditures?
- What's the magnitude and nature of any projected deficits – recurring versus one-time, consistent or uneven growth, etc.?

The answers to these questions inform discussions about an effective strategy for changing the Township government's financial trajectory in a way that complements Township government's strategic and operational goals, which are discussed at the front of the next chapter.

Following the methodology used in other multi-year financial plans written through Pennsylvania's Early Intervention Program, we have generated a baseline projection of the Township's financial performance through 2023. The baseline assumes current financial policies and programs are continued to reflect the Township's future financial position absent any corrective action.

Our review and analysis focused on East Whiteland's General Fund, which is the Township's largest and primary means for funding most operations. We reviewed the financial results for 2012 through 2016 and the adopted budget for 2017. In late 2017 we discussed this historical performance and likely variances from the 2017 budget targets with Township leaders; identified one-time events, external factors and policy changes that impacted historical results; and reviewed external reference points that provide context for the Township's financial performance.

Through this analysis, we developed a series of growth rates for the revenue and expenditure accounts (lines) in the General Fund. We applied these growth rates to the Township's 2018 adopted budget. As required in the Township's request for services, much of our analysis took place in the final four months of 2017.

In reviewing these projections, the readers should keep two important contextual items in mind:

- **The baseline projection is generally a *status quo* scenario.**

The Township explicitly requested the type of status quo "baseline" scenario presented in this chapter. For revenues, the baseline assumes no significant changes in tax rates, tax policies or collection approaches from those in place entering 2018. Unless otherwise noted, revenue growth is generally related to projected growth in the tax base, not tax rate increases. The baseline assumes no significant changes in the amount or types or levels of user fees charged. Grant revenues decrease if existing grants expire.

For expenditures, the baseline assumes no changes in the types or levels of service provided by City government as reflected in the 2018 budget. The baseline does not assume changes in headcount (new positions or layoffs) and follows the City's budgeting

approach of assuming each position will be filled for 12 months, though practically some positions are vacant at any point during the year.

We discuss other key assumptions in the baseline projection in the next chapter.

- **The baseline projection is not a prescription for what should happen or a prediction for what will happen.**

The baseline contains assumptions about future tax rates, wage increases, service levels and other factors in a status quo scenario. These are not recommendations for what tax rates, wage increases or service levels *should* be or a prediction of what they *will be* through 2023. The baseline projection is an analytical tool to help Township leaders and residents better understand the current condition of East Whiteland Township finances.

East Whiteland's 2016 comprehensive annual financial report shows the Township finishing that year with a \$4.3 million fund balance, which are the resources available or projected to be available early enough to cover expenditures in 2017. That includes \$2.9 million in cash and \$1.6 million in receivables (taxes or fees due for payment to the Township. All but \$69,000 of the \$4.3 million fund balance is assigned to a budgetary reserve (\$1.9 million), tax rate stabilization (\$1.8 million) and pension stabilization (\$0.5 million). The Township's fund balance was 39 percent of total expenditures in 2016, higher than the two-month (or 16.7 percent) minimum level recommended by the Government Finance Officers Association (GFOA)<sup>1</sup>.

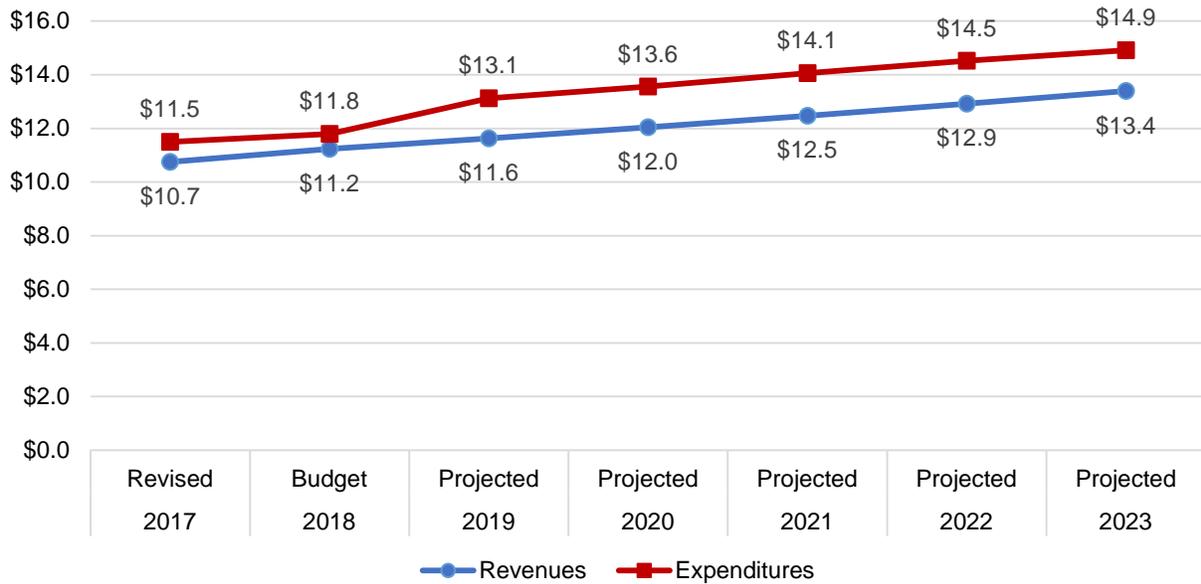
While East Whiteland is in a stable position in terms of cash and reserves, it also has financial challenges. The Township's adopted FY2018 budget includes a deficit of \$0.6 million covered by the aforementioned reserves. Absent corrective action, the deficit would triple to \$1.5 million.

East Whiteland Township's structural deficit is not unique. Many Pennsylvania local governments struggle to close or avoid structural deficits. Even governments with manageable debt burdens, adequately funded pension plans and high credit ratings can have structural deficits or project their arrival in a couple years. Frequently the revenues that fund core government services do not grow as much or as consistently as the cost of providing those services. Structural deficits can be masked or mitigated by one-time events that boost revenues or deflate expenditures, which has been the case in East Whiteland. Reliance on short-term fixes or continued good fortune is not a sustainable strategy.

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<sup>1</sup> Please note that the 16.7 percent figure is a recommended minimum. Fund balance is discussed further in the Credit Rating Strategies chapter.

### General Fund Baseline Projection (\$ Millions)



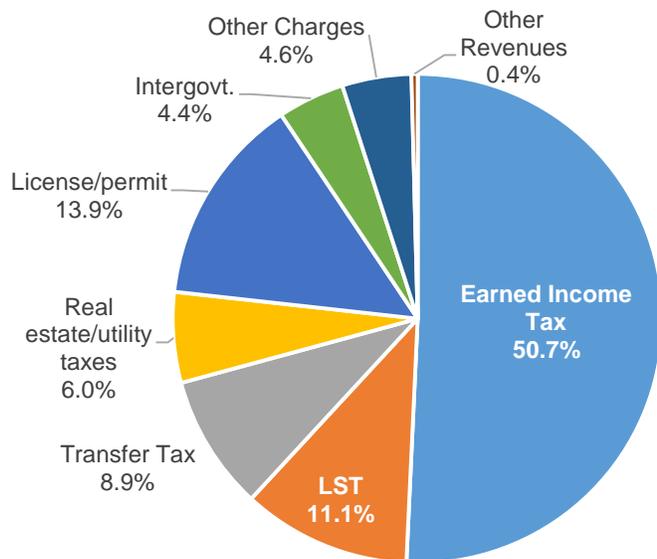
This chapter focuses on the baseline forecast and projected deficit, starting with the Township’s major revenues.

### Revenues

For 2018 the Township anticipates generating \$11.2 million in General Fund revenue. Three-quarters come from local taxes, primarily the earned income tax (EIT). The FY2018 revenue budget is \$0.5 million (or 4.5 percent) higher than the FY2017 revenue budget mostly because the Township used the 2018 budget to adjust its EIT revenue projection to account for better-than-budgeted performance in 2017.

General Fund revenue grew from \$9.7 million in 2012 to \$12.3 million in 2016, which equates to 27 percent compound annual growth, boosted in part by one-time real estate transfer tax revenue in 2016. The table below shows the Township’s General Fund revenues from 2012 to 2017.

2018 General Fund Revenues (\$ M)



### General Fund Revenues

|                                      | 2012<br>Actual   | 2013<br>Actual    | 2014<br>Actual    | 2015<br>Actual    | 2016<br>Actual    | FY12-16<br>CAGR |
|--------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-----------------|
| Real Estate and Public Utility Taxes | 602,799          | 606,368           | 597,971           | 622,405           | 660,376           | 2.3%            |
| Real Estate Transfer Tax             | 760,791          | 574,812           | 927,764           | 1,104,855         | 2,182,702         | 30.1%           |
| Earned Income Tax                    | 4,397,004        | 4,693,510         | 5,014,880         | 6,084,879         | 5,143,306         | 4.0%            |
| Local Services Tax                   | 919,549          | 1,004,423         | 1,074,886         | 1,396,149         | 1,277,561         | 8.6%            |
| License and Permits                  | 1,415,712        | 2,348,089         | 1,650,806         | 1,595,158         | 1,295,650         | -2.2%           |
| Intergovernmental Revenue            | 642,676          | 665,109           | 730,063           | 465,083           | 575,385           | -2.7%           |
| Other Revenue                        | 930,973          | 935,170           | 1,082,711         | 1,106,958         | 1,119,920         | 4.7%            |
| <b>Total General Fund Revenue</b>    | <b>9,669,504</b> | <b>10,827,482</b> | <b>11,079,080</b> | <b>12,375,487</b> | <b>12,254,900</b> | <b>6.1%</b>     |
| <b>Annual Change</b>                 | <b>N/A</b>       | <b>12.0%</b>      | <b>2.3%</b>       | <b>11.7%</b>      | <b>-1.0%</b>      | <b>-</b>        |

Significant one-time revenues contributed to large year-over-year growth in both 2013 and 2015. The 12.0 percent growth in 2013 was largely the result of a 66 percent increase in revenue from licenses and permits, which comprised 81 percent of total revenue growth that year. License and permit revenue decreased by 30 percent in 2014 and has not reached its 2013 level since. The 11.7 percent increase in 2015 was due to a one-time jump in EIT revenues caused by an accounting change<sup>2</sup>. In 2016 there was a large property transfer that caused real estate transfer tax revenue to double. However, other revenues decreased or remained close to 2015 levels, which caused total 2016 revenue to decrease by 1 percent.

#### Employment-based taxes

The majority of the Township's revenues come from two employment-based taxes – the earned income tax (EIT) and local services tax (LST). Together, these taxes comprise 61.8 percent of the FY2018 General Fund revenue budget.

The **earned income tax** is the Township's largest source of General Fund revenue with a 2018 budget target of \$5.7 million, or 51 percent of total revenue. East Whiteland's EIT is a 0.5 percent tax levied on the earnings of residents, regardless of where they work. The Township also levies a 0.5 percent EIT on commuters working in East Whiteland, though the Township only receives money from that tax if the commuter's home municipality has an EIT rate lower than 0.5 percent<sup>3</sup>.

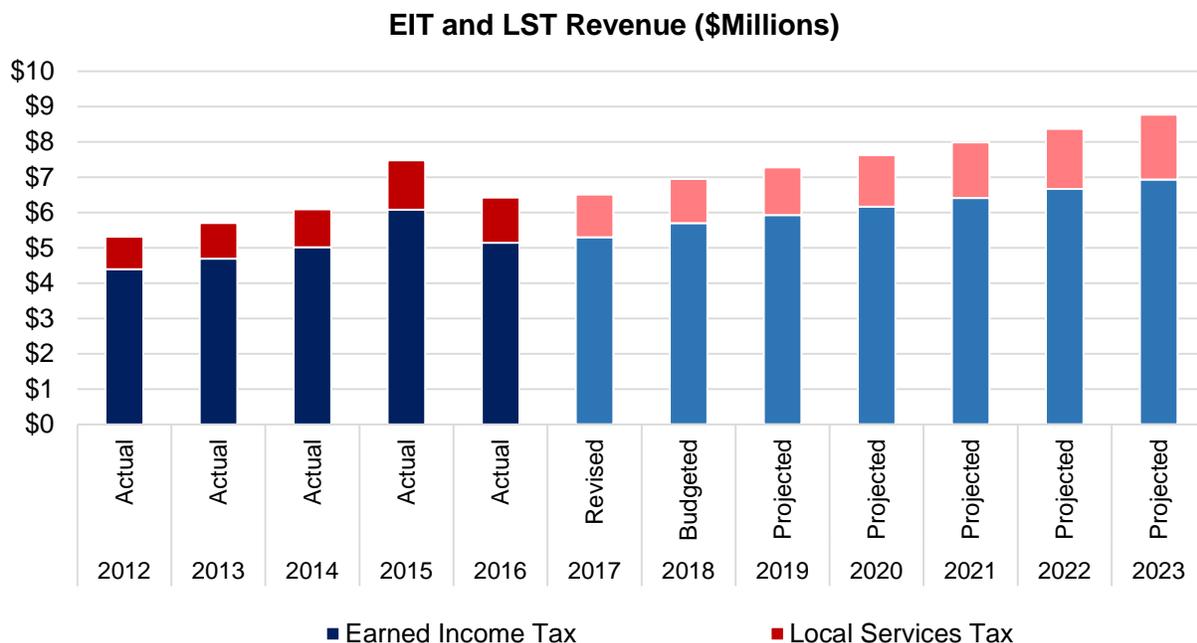
EIT revenues grew by 4.0 percent per year from 2012 through 2016. The 2018 budget shows EIT revenues increasing by 7.5 percent over 2017 budget levels because the 2017 budget target was too low. The baseline continues the 4.0 percent growth rate for 2019 through 2023.

The **local services tax** is a \$1 weekly charge levied on anyone who works in East Whiteland, with an exemption for anyone earning less than \$12,000 a year. LST revenue grew by 8.6 percent from 2012 through 2016. On its face this higher growth rate seems to contradict the 4.0 percent growth rate in EIT – it seems as if the number of jobs in the Township increased but total earnings from those jobs decreased. The difference between these two trends is the LST is paid by all people employed in East Whiteland above a certain income threshold while the EIT is paid by a

<sup>2</sup> The Township started to accrue EIT revenues from the early part of each year back to the prior year. So the 2015 EIT revenues include money remitted to the Township in early 2016, the 2016 EIT revenues include money remitted to the Township in early 2017, and so on. This creates the large one-time year-to-year increase in 2015.

<sup>3</sup> The EIT is discussed in much more detail in the Tax Policy Options chapter of this report.

mix of residents (who work in and outside the Township) and commuters depending on the EIT rate in their home municipality. There is some overlap between the tax bases, but they are different. The baseline projection assumes 8.0 percent growth, which was the average for 2012 through 2014 before the larger fluctuations in 2015 and 2016.

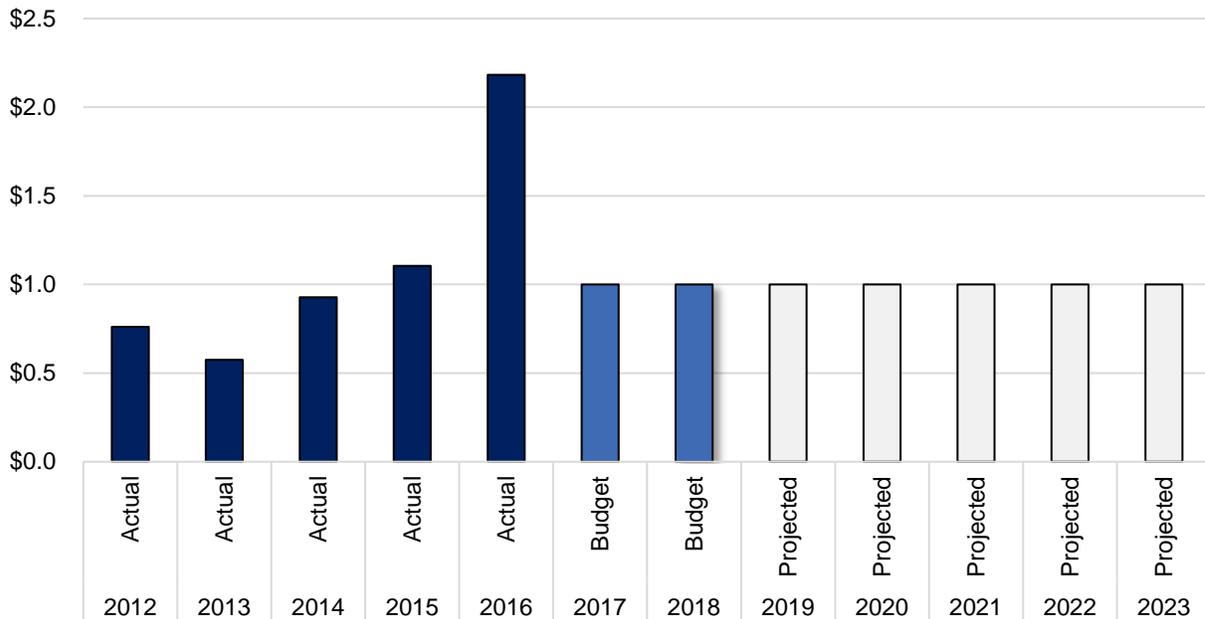


### Real estate transfer tax

The Township levies a one percent **real estate transfer tax** on the total value of real estate transferred by deed, long-term lease or other arrangements. The revenue is split evenly between the Township and the Great Valley School District.

Transfer tax revenues can vary widely year to year with the occurrence of transactions involving large commercial properties. That was the case for East Whiteland in 2016 when transfer tax revenues nearly doubled due to transactions by one large property owner that helped push total receipts to \$2.2 million. Given the volatility in this revenue, the Township has budgeted \$1.0 million for 2017 and 2018 – less than the Township collected in 2015, before the large one-time increase, but more than it collected in 2012, 2013 or 2014. The baseline assumption carries that \$1.0 million assumption forward.

### Real Estate Transfer Tax Revenue (\$ Millions)



### Real estate tax

East Whiteland Township projects it will receive \$663,000 from its real estate tax in FY2018<sup>4</sup>, or 5.9 percent of the total General Fund revenue budget. Real estate tax revenue is generally the product of the Township’s tax rate and the tax base, which is the total assessed value of taxable real estate in the Township.

East Whiteland Township residents pay a total real estate tax rate of \$25.614 per \$1,000 in assessed taxable value, also expressed as 25.614 mills – 4.369 mills to Chester County, 20.80 mills to the Great Valley School District and 0.445 mills to the Township government. The Township has not changed its real estate tax rate in over a decade.

This tax rate is applied to the total assessed value of taxable property in the Township, which is provided by Chester County government. Please note that the Township applies the tax rate against a property’s assessed value, not its market value. As shown in the table below, the Township’s total assessed value grew by 1.7 percent per year from 2012 to 2016. Looking farther back, total assessed value of property in the Township remained relatively flat with a compound annual growth rate of 0.52 percent from 2006 through 2016.

### Total Assessed Value of Property in East Whiteland (\$ in billions)

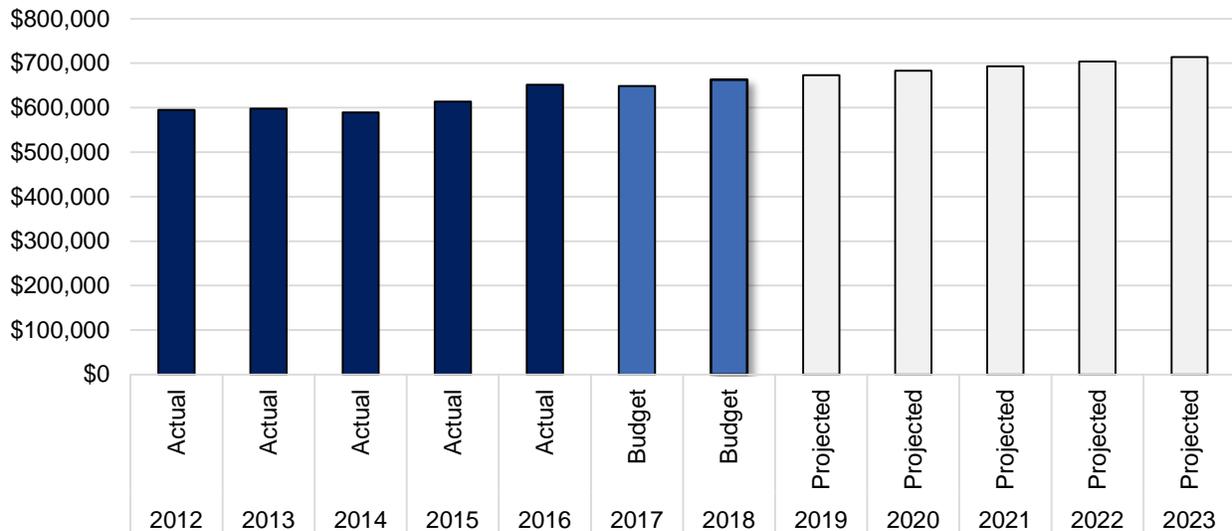
| 2012 | 2013 | 2014 | 2015 | 2016 | CAGR |
|------|------|------|------|------|------|
| 1.34 | 1.34 | 1.35 | 1.38 | 1.44 | 1.7% |

From 2012 through 2016, current year real estate tax revenues grew by 2.2 percent per year, which was close to the growth in total assessed value. The baseline assumes 2.0 percent annual growth in real estate tax revenues.

<sup>4</sup> This is almost entirely current year revenues. East Whiteland Township's collection rate for this tax is very high (99.0 percent in 2016) so there is very little delinquent real estate tax revenue.

The Township also budgets for a **public utility realty tax** that is less than \$1,000 in revenue. The baseline assumes flat growth for this tax.

### Real Estate and Public Utility Realty Tax Revenues



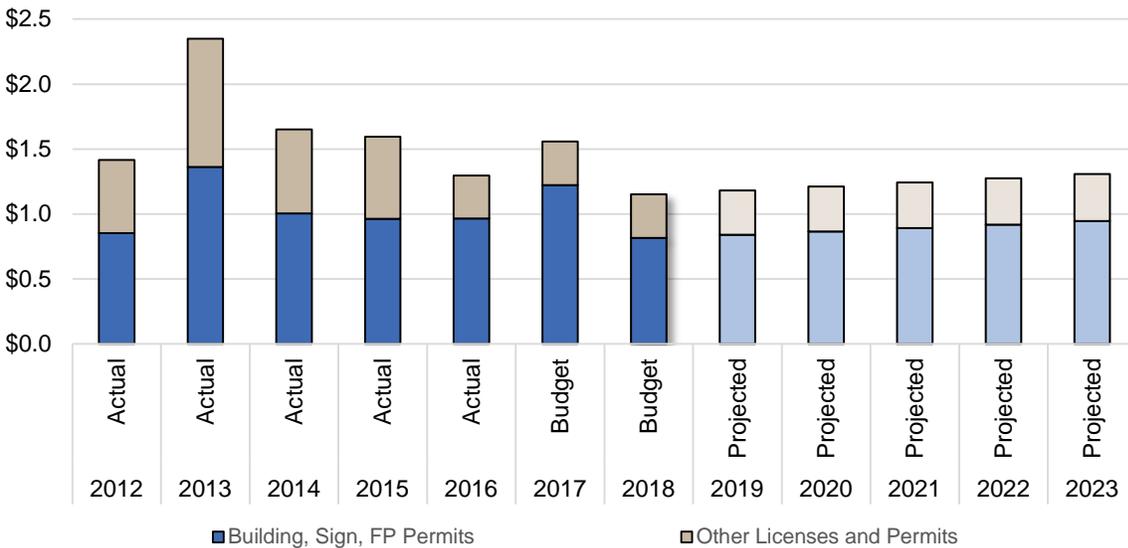
### Licenses and permits

Similar to the real estate transfer tax, revenue from licenses and permits has been volatile from year to year. On average about 60 percent of the revenue in this category came from building construction permits and other large portions came from electrical, plumbing or mechanical permits, depending on the construction projects occurring in a given year.

As noted earlier, revenue from this category peaked at \$2.3 million in 2013 due to projects requiring building permits, electrical permits, and engineering inspections. Revenues then declined the next three years to \$1.3 million total, which was less than in 2012. In 2015 the Township budgeted \$1.4 million in building permit revenue and only received \$1.0 million. It also had a \$121,000 shortfall in electrical permit revenue.

Given the recent decline in total permit revenue and the prior history of over projecting these revenues, the Township Administration advocates for a more conservative approach to projecting, even with the understanding that large projects like the Vanguard expansion will likely occur during the projection period. The baseline projects building permit revenue will grow by 3.0 percent, which was the historic compound annual growth rate for that category from 2012 – 2016 and all other licenses and permits will grow by 1.5 percent.

### Licenses and Permits Revenue (\$ Millions)



### Other revenues

The 2018 budget allocates \$496,000 (or 4.4 percent) of the total revenue budget for **intergovernmental revenues**. That is primarily the Commonwealth pension aid that the Township receives to offset a portion of its minimum municipal obligation to the employee pension plans (\$383,000 in FY2018). The baseline projects state pension aid revenue will grow by 3.0 percent per year according to historical trends. Other intergovernmental revenue is held flat.

Other smaller or one-time revenues include:

- Revenues from the **cable TV franchise fees** (\$330,000 in FY2018) grow by the 2012 – 2016 compound annual growth rate of 5.2 percent.
- Revenues from a variety of **charges for services** grow by the inflationary rate of 2.2 percent.
- The Township **transferred money to the General Fund** from the separate fund that receives liquid fuels money from the Pennsylvania Department of Transportation (PennDOT) for maintaining, plowing and improving roads. The Township has not made that transfer since 2015 and it is not assumed in the baseline.
- The Township sold property that generated \$515,000 in **asset sale proceeds** for 2016. On average the Township only received \$34,000 a year from this source before 2016 and it does not budget any for 2018.

## Overall projection

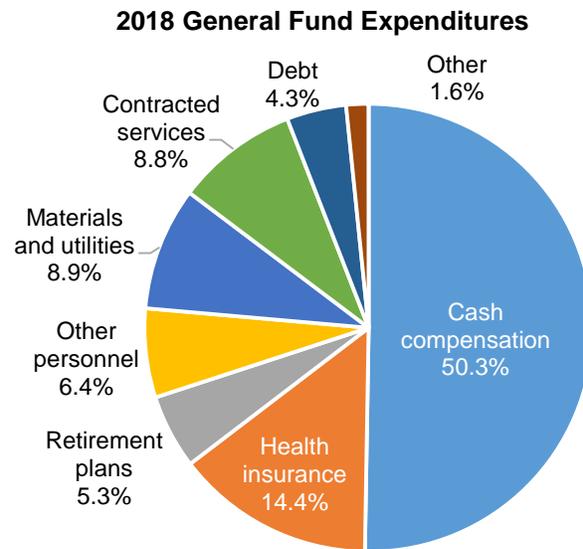
The summary of line-by-line revenue projections is shown below. Growth in the earned income tax, the largest general fund revenue source, and the local services tax account for most of the projected revenue growth.

### General Fund Revenue Projection Summary

|                                    | 2018<br>Budgeted  | 2019<br>Projected | 2020<br>Projected | 2021<br>Projected | 2022<br>Projected | 2023<br>Projected | Annual<br>Growth |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| Real Estate & Public Utility Taxes | 672,135           | 685,395           | 698,920           | 712,716           | 726,788           | 741,141           | 2.0%             |
| Real Estate Transfer Tax           | 1,000,000         | 1,000,000         | 1,000,000         | 1,000,000         | 1,000,000         | 1,000,000         | 0.0%             |
| Earned Income Tax                  | 5,700,000         | 5,928,000         | 6,165,120         | 6,411,725         | 6,668,194         | 6,934,922         | 4.0%             |
| Local Services Tax                 | 1,250,000         | 1,350,000         | 1,458,000         | 1,574,640         | 1,700,611         | 1,836,660         | 8.0%             |
| License and Permits                | 1,557,400         | 1,599,106         | 1,641,988         | 1,686,080         | 1,731,417         | 1,778,036         | 2.7%             |
| Intergovernmental Revenue          | 495,700           | 507,181           | 519,006           | 531,187           | 543,732           | 556,654           | 2.4%             |
| Other Revenue                      | 558,600           | 563,489           | 568,488           | 573,597           | 578,821           | 584,161           | 0.9%             |
| <b>Total General Fund Revenue</b>  | <b>11,233,835</b> | <b>11,633,171</b> | <b>12,051,522</b> | <b>12,489,945</b> | <b>12,949,563</b> | <b>13,431,574</b> | <b>3.7%</b>      |

## Expenditures

The Township has budgeted \$11.8 million in expenditures from its General Fund for 2018. Like many other Pennsylvania municipalities, East Whiteland allocates most of its General Fund to personnel-related expenses. Including health insurance and the Township's required contribution to employee pension plans, the City expects to spend 76.4 percent of its General Fund budget on personnel-related expenses this year. The Township anticipates it will spend \$297,000 (or 2.6 percent) more in 2018 than in 2017. That percentage is deflated by the Township removing its spending on retiree health insurance (\$297,000 in 2017) for one year.



General Fund spending increased from \$8.7 million in 2012 to \$11.1 million in 2016, or 6.2 percent per year. The chart below shows these expenditures over this period.

### General Fund Expenditures

|                                        | 2012<br>Actual   | 2013<br>Actual    | 2014<br>Actual    | 2015<br>Actual    | 2016<br>Actual    | FY12-16<br>CAGR |
|----------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-----------------|
| Salaries                               | 3,661,374        | 3,873,180         | 4,080,865         | 4,406,368         | 4,720,426         | 6.6%            |
| Other Cash Compensation                | 430,954          | 424,780           | 437,570           | 450,446           | 414,023           | -1.0%           |
| Retirement Plan Contributions          | 497,247          | 622,611           | 634,206           | 724,623           | 761,114           | 11.2%           |
| Health Insurance                       | 1,248,365        | 1,593,745         | 1,751,519         | 1,623,706         | 1,871,741         | 10.7%           |
| Other Personnel Costs                  | 605,197          | 1,641,506         | 794,739           | 781,890           | 737,496           | 5.1%            |
| Contracted services                    | 651,991          | 725,118           | 982,536           | 1,224,448         | 807,647           | 5.5%            |
| Materials and Utilities                | 1,294,237        | 1,176,983         | 1,341,214         | 1,455,249         | 678,703           | -14.9%          |
| Debt Service                           | 0                | 0                 | 0                 | 440,114           | 505,560           | N/A             |
| Other Expenditures                     | 287,140          | 422,146           | 416,589           | 3,301,201         | 559,728           | 18.2%           |
| <b>Total General Fund Expenditures</b> | <b>8,676,506</b> | <b>10,480,069</b> | <b>10,439,238</b> | <b>14,408,045</b> | <b>11,056,438</b> | 6.2%            |
| <b>Annual Change</b>                   | <b>N/A</b>       | <b>20.8%</b>      | <b>-0.4%</b>      | <b>38.0%</b>      | <b>-23.3%</b>     | <b>-</b>        |

The large year-over-year increases in 2013 and 2015 were due to one-time transfers made by the Township to other funds. In 2013 the Township contributed \$1 million to its Other Post Employment Benefit (OPEB) Trust fund, which is discussed more below. The transfer is recorded with “other personnel costs” in the chart above. The 38 percent growth in 2015 is attributed to a \$3 million transfer made to the Township’s Capital Improvement Fund, shown in “other expenditures”. Transfers returned to normal levels in 2016.

Even without those one-time expenditures that skew the year-to-year results, the Township’s spending is generally rising, in total and in most categories. Spending on employee salaries grew by 6.6 percent per year and health insurance grew. The Township’s contribution to the employee pension plans increased by \$264,000. The Township spent \$616,000 less on materials and utilities in 2016<sup>5</sup> but even that was offset by new debt service payments out of the General Fund and higher spending on contracted services.

#### Salaries

The Township spends most of its General Fund budget on its employees, which is common for Pennsylvania local governments. By its nature, municipal government is labor intensive. East Whiteland spends more on employee salaries than any other expenditure category, which is also not unusual. The Township budgets \$4.9 million for salaries and wages paid to full-time employees, with close to half of that amount (or \$2.4 million) allocated to full-time police officers. Full-time firefighter salaries are budgeted at \$0.9 million and full-time civilian employee salaries at \$1.7 million. The Township also budgets approximately \$0.5 million for part-time police officers and firefighters.

In most cases an individual employee’s salary is governed by one of the three collective bargaining agreements with the unions that represent most employees. Employees are also eligible for tenure based step increases during the early part of their career, which result in higher base salary increases than the across-the-board increases shown below.

<sup>5</sup> Budgeted expenditures for this category rebounded to \$1.2 million for 2017.

### Recent Across-the-Board Salary Increases

| Employee group       | Contract Term      | 2015 | 2016 | 2017 | 2018 |
|----------------------|--------------------|------|------|------|------|
| AFSCME – DC 88       | Expires 12/31/2018 | 3.0% | 3.0% | 3.0% | 3.0% |
| IAFF, Local No. 4551 | Expired 12/31/2015 | 3.5% | 3.5% | TBD  | TBD  |
| EWT Police JNC       | Expires 12/31/2018 | 3.0% | 3.0% | 3.0% | 3.0% |

The Township’s collective bargaining agreements for Police and AFSCME employees are set to expire in December 2018. The Fire contract expired in 2015 and the parties are currently in arbitration<sup>6</sup>.

Other factors, like changes in headcount, changes in work schedules, position vacancies or turnover (i.e. a junior employee with a lower salary replaces a senior employee with a higher salary), also impact the total amount that the Township spends on employee wages. The 2016 comprehensive annual financial report shows the Township’s total headcount across all funds growing from 59.9 full-time equivalents (FTEs) in 2012 to 65.4 FTEs in 2016<sup>7</sup>. That growth is scattered across administration, fire, planning and public works.

From 2012 to 2016 total salary expenditures across all employee groups grew by \$1.1 million or 6.6 percent per year. The \$1.1 million is split relatively evenly by dollar amount between the police department, fire department and all other departments combined. But the percentage increase for fire is higher than for the other two groups because the fire fighters moved to a new schedule with more hours in 2014. Rather than renegotiate annual salaries, the Township applied the hourly rate in the collective bargaining agreement to the additional hours for which the firefighters were scheduled, increasing their base salary.

### General Fund Employee Salary Expenditures (Full and Part-time)

|                               | 2012             | 2016             | \$ Change        | CAGR        |
|-------------------------------|------------------|------------------|------------------|-------------|
| Police Department Salaries    | 1,988,791        | 2,370,469        | 381,678          | 4.5%        |
| Fire Department Salaries      | 658,268          | 981,074          | 322,806          | 10.5%       |
| All Other Department Salaries | 1,014,315        | 1,368,883        | 354,568          | 7.8%        |
| <b>Total Salaries</b>         | <b>3,661,374</b> | <b>4,720,426</b> | <b>1,059,052</b> | <b>6.6%</b> |

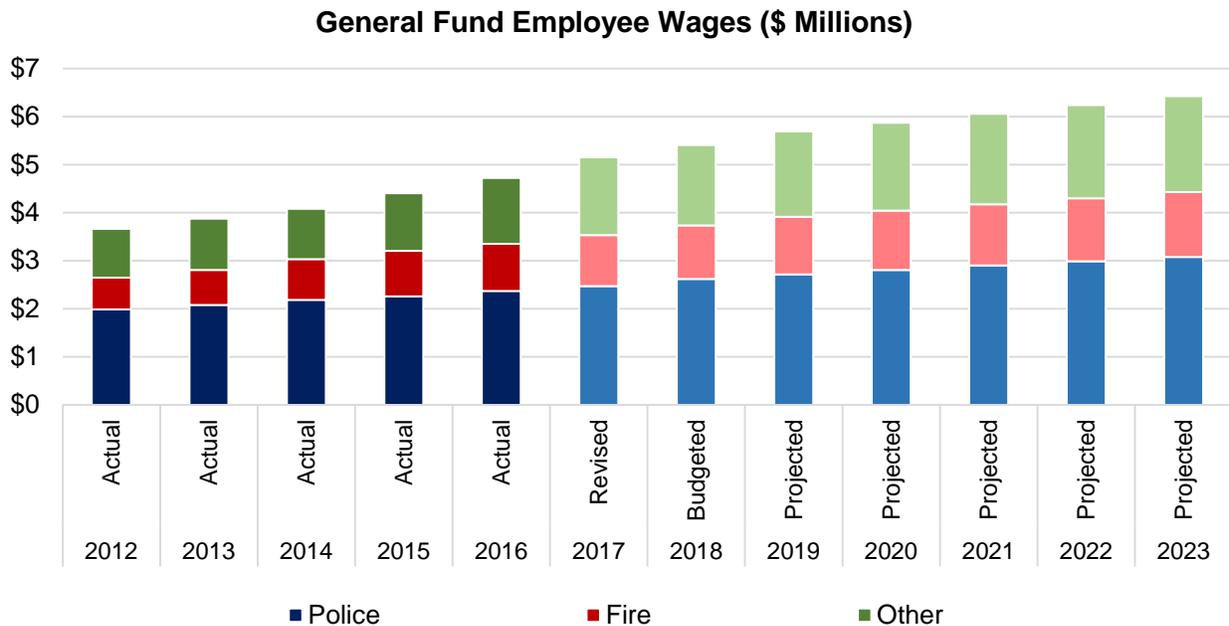
The baseline projection assumes 3 percent annual across-the-board base salary increases for all employees. It also accounts for step increases for Police Department employees who are likely to receive them under their collective bargaining agreements, bringing the total growth in salary

<sup>6</sup> The collective bargaining agreement expired on December 31, 2015 and was extended for one year.

<sup>7</sup> 2016 CAFR, page 117. This table shows the FTEs by function, including full-time and part-time employees on the Township’s payroll as of December 31<sup>st</sup> of each year. Interns are excluded.

expenditures to 3.5 percent per year. This is lower than the historic growth rate of 6.6 percent per year, but the baseline projection does not assume any changes in headcount, which happened from 2012 to 2016.

Please note these projections are not recommendations for the Township's upcoming collective bargaining negotiations or the ongoing fire arbitration. In line with other assumptions in the baseline scenario, these projections reflect the financial impact of recent trends continuing into the future, absent changes in headcount.



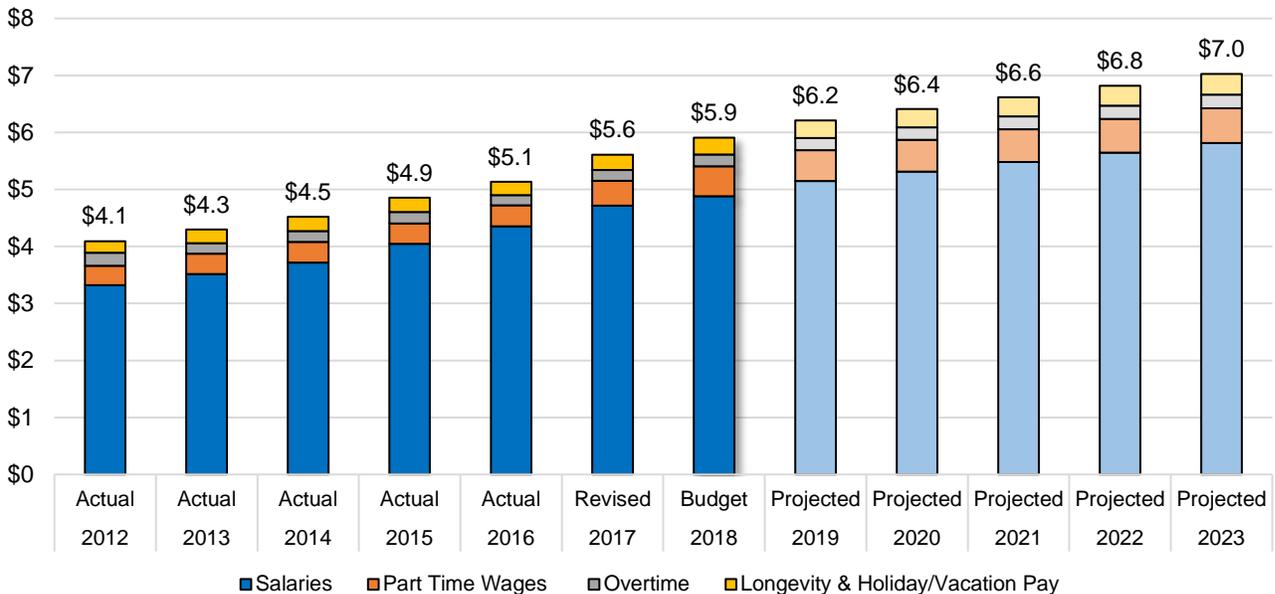
**Other cash compensation**

Employees receive other forms of cash compensation in addition to their salaries. The 2018 budget has \$502,000 for these items including the following:

- **Holiday pay:** Police officers and firefighters receive additional pay for working on holidays, in addition to their base salary. Other Township employees that work on a holiday are entitled to overtime pay. The Township budgets \$106,000 for holiday pay in 2018. The baseline assumes holiday pay is indexed to base salary growth.
- **Vacation payout:** Township employees are entitled to convert unused vacation leave to cash compensation. AFSCME bargaining unit members may exchange a maximum of five days of vacation time for pay in January of the next year. Police officer and firefighters who have completed the probationary period of six months are paid in a lump sum for accumulated vacation leave upon separation. The Township budgets \$40,000 for vacation payout in 2018. The baseline assumes these payouts are indexed to base salary growth.
- **Longevity:** Full-time township employees are eligible for longevity payments equal to flat dollar amounts that increase when an employee reaches certain years of service. The Township budgets \$149,000 for longevity in 2018. The baseline uses the existing schedule of longevity steps to project incremental growth each year, without accounting for when individual employees actually reach the next step in that schedule.

- Overtime:** The Township pays employees for additional time worked outside of their regularly scheduled shifts. From 2012 to 2016, approximately 80 percent of overtime expenses were police-related. Public works overtime spending comprised most of the remaining 20 percent. The Township budgets \$207,000 for overtime in 2018. Though total overtime spending decreased by a compound annual growth rate of 6 percent from 2012 to 2016, the baseline projects overtime will grow in conjunction with base salaries since overtime payments are a function of it.

**General Fund Total Cash Compensation (\$ Millions)**



**Health insurance**

The Township’s second largest expenditure category after cash compensation is providing health insurance to active and retired employees. For 2018 the Township budgets \$1.7 million, or 14.4 percent of General Fund spending, for this purpose. Health insurance spending grew by a compound annual growth rate of 10.7 percent from 2012 to 2016.

East Whiteland is self-insured for coverage, which means the Township pays for actual claim costs incurred up to a certain limit. Non-uniformed employees and firefighters are insured through the Delaware Valley Health Insurance Trust (DVHIT) and police officers have a plan through AmeriHealth HealthNow. In all cases the Township pays most, if not all, of the premium costs. Police and non-uniformed employees in AFSCME do not contribute to the cost of premiums. Firefighters contribute very little -- \$12.50 per pay period for single coverage and \$22.50 per pay period for all other coverage levels.

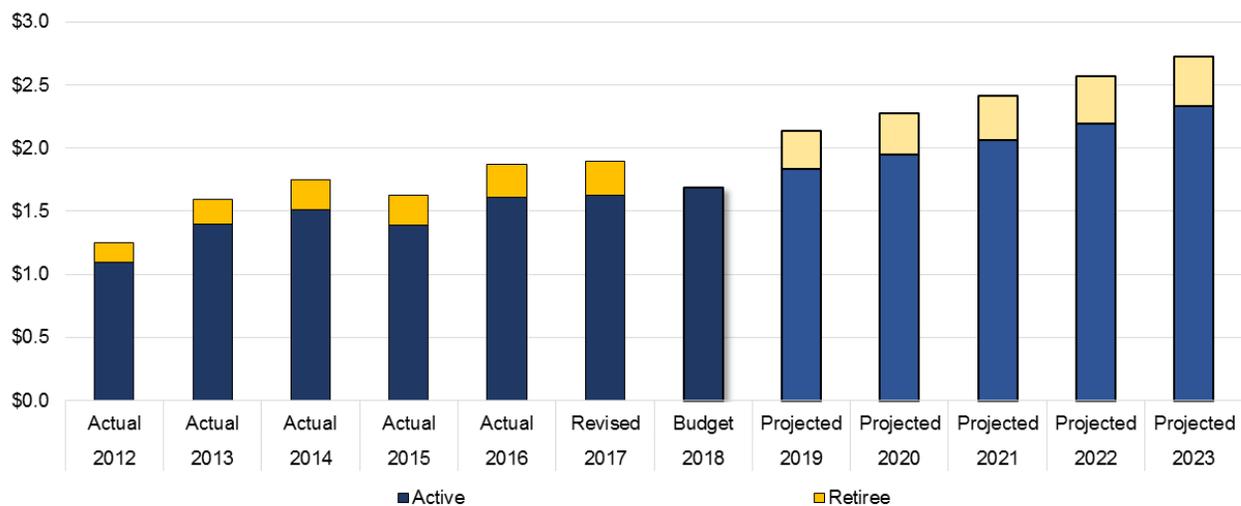
DVHIT premiums have increased by an average of approximately 6.3 percent over the past decade. The baseline projection uses this growth rate for health insurance expenditures for firefighters and non-uniformed employees. For police officers the Township originally assumed 2 percent growth from 2017 to 2018. In early 2018 the Township learned that the premiums for that

plan will increase more than budgeted<sup>8</sup> and recommended a 6 percent annual growth rate after 2018.

East Whiteland also has expenditures for other post-employment benefits (OPEB), which is predominately health insurance for retired employees. Before 2018 the Township paid its retiree health claims as they came due each year and then made an additional contribution to a separate fund established to cover future OPEB liabilities. The Township eliminated this additional contribution in 2018 and elected to draw money out of that separate fund to cover its annual claim costs for 2018. These moves reduced the Township’s spending by \$320,000 for 2018, but this is not a sustainable long-term strategy since the fund cannot indefinitely support ongoing claim costs.

The baseline projects the Township will resume covering its annual OPEB costs through its General Fund in 2019, which adds \$307,000 to the budget. After 2019 retiree health insurance expenditures for police grow by 7 percent annually in the baseline projection. OPEB expenditures for other employees grow by 6.0 percent, which is close to the historical compound annual growth rates for 2012 – 2016. The baseline projection does not assume that the Township will reinstate the additional contributions to the designated OPEB fund, though that is a good idea for reducing the Township’s long-term liabilities.

**General Fund Employee Health Insurance – Active and Retiree (\$ Millions)**



### Retirement plan contributions

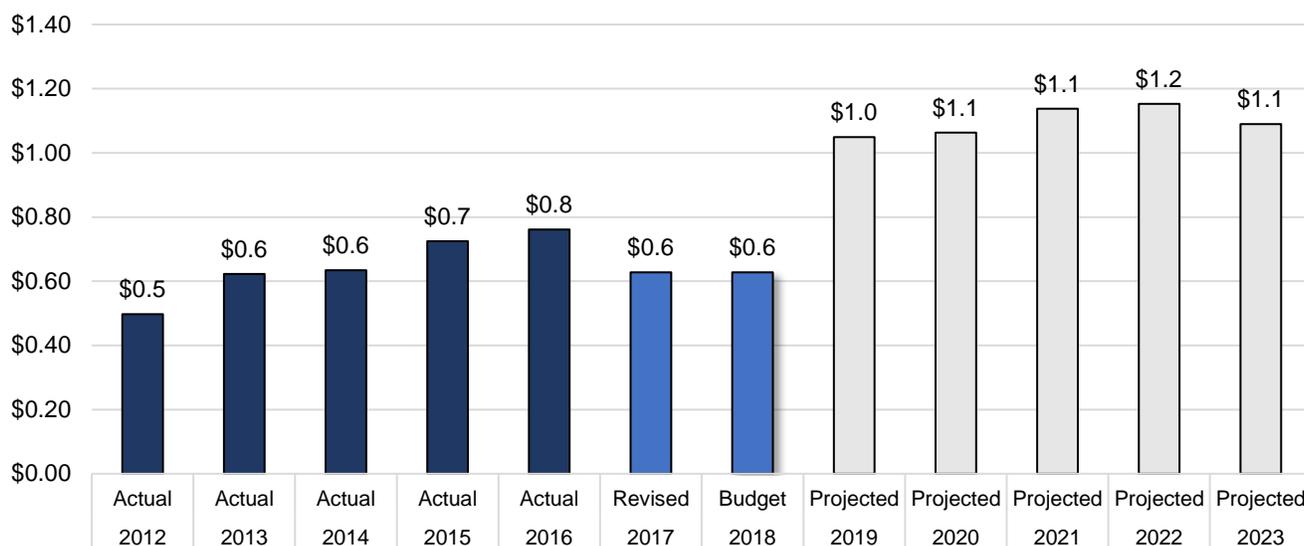
East Whiteland Township has three employee pension plans – one for police officers, one for firefighters and one for non-uniformed employees – that are funded through a combination of Township government contributions, employee contributions and plan investment earnings. Each pension is a defined benefit plan, meaning it provides a set level of benefits to retired employees, usually based on their salary near the end of their career, irrespective of pension plan funding levels, the Township’s financial condition or other factors.

<sup>8</sup> The enrollment year for this plan runs from February 1<sup>st</sup> through January 31<sup>st</sup>. So the Township did not have its premium rates for 2018 until after the 2018 budget was adopted.

The Township's contribution to the pension plans, also known as the Minimum Municipal Obligation (MMO), is calculated by an independent actuary. The MMO is the net amount owed by the Township after the employees make contributions as established in their collective bargaining agreements. The Commonwealth provides pension aid to East Whiteland to cover a portion of the MMO. The Township anticipates it will receive \$383,000 in pension aid for 2018.

Every other year the actuary updates the MMO calculation based on several factors including the pension plan's provisions, the Township government's payroll, employee contributions, recent investment performance and actuarial assumptions involving factors like life expectancy. The most recent MMO update will impact the Township's contributions starting in 2019. The Township lowered its assumed rate of interest earnings, which will increase the Township's MMO in the short term and improve the funding levels over the long term, holding all other factors constant. According to projections provided by the actuary in December 2017, the MMO payment will increase from \$0.6 million in 2018 to \$1.0 million in 2019<sup>9</sup>.

### General Fund Retirement Plan Contributions (\$ Millions)



East Whiteland also pays for other personnel-related costs such as:

- **Social security:** The Township's portion of federal employment taxes is budgeted for \$448,000 in 2018. The baseline projects these expenditures to grow in accordance with salaries.
- **Workers' compensation:** The Township budgets \$160,000 for worker's compensation insurance. These expenditures grew by a compound annual growth rate of 4.8 percent from 2012 to 2016 and the baseline continues this trend at 5 percent growth per year.

<sup>9</sup> A portion of the MMO for non-uniformed employees is charged to the sewer fund to cover the pension costs for employees work on that system. We have estimated that portion and removed it from the General Fund projections.

Other benefits like disability insurance and life insurance comprise the rest of personnel-related spending. These expenses are small and either indexed to an inflationary rate or held flat in the baseline.

### **Non-personnel operating expenditures**

The Township allocates \$2.8 million for operational spending on items other than personnel-related expenses in its 2018 budget.

The 2018 budget has \$1.1 million for **contractual services** where East Whiteland pays someone other than its employees to deliver service. The largest single line in this category is the Township payment for general liability insurance coverage (\$129,000 in 2018), which is projected to grow at the compound annual growth rate of 2.3 percent. Other major areas within this category, such as legal services and computer and information technology support, are generally projected to grow by an inflationary rate of 2.2 percent per year.

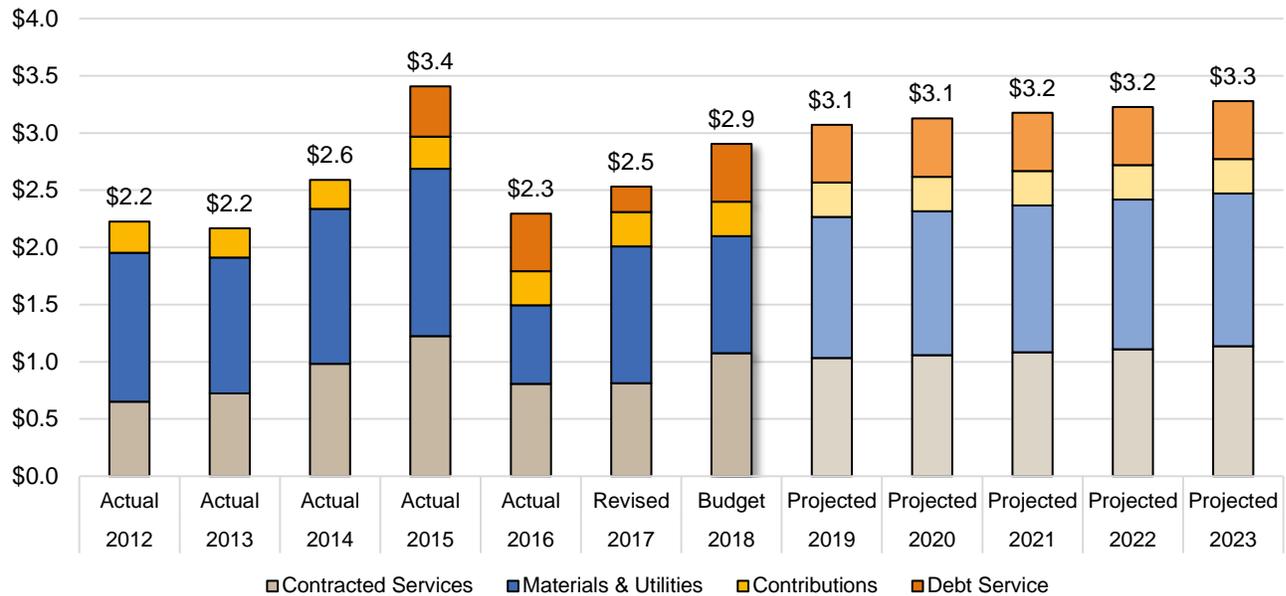
**Materials and utility** expenses are budgeted for \$1 million in 2018. Supplies, equipment, and maintenance comprise 67 percent of the \$1 million allocation. Vehicle expenses and utilities make up the rest. From 2012 through 2017 the Township allocated \$216,000 per year on average to replace the vehicles and major equipment used in daily operations. That “amortization” contribution was eliminated from the 2018 budget, but it is restored to the baseline in 2019 since Township government cannot function without police cars, public works equipment, etc. Utility expenditures are projected to grow by 1.0 percent per year based on the Bureau of Labor Statistics consumer price index for utilities. Other line items in this category grow by the inflationary rate of 2.23 percent.

Since 2016 the Township has paid about \$500,000 per year in **debt** from its General Fund<sup>10</sup>. Payments on the existing debt stay at that level through the projection period according to the current schedules and the baseline does not assume any new debt issuances. The Township allocates \$301,000 for contributions to other organizations with about half of that amount going to the E.W. Fire Company. The projections hold those contributions flat through the projection period. The projections also account for a \$166,000 annual transfer into the General Fund (recorded as a negative expenditure) from the Sewer Fund to help cover the Township’s debt related to the public works facility.

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<sup>10</sup> The Township also has \$1.3 million in debt payments from its Sewer Fund related to that system.

### General Fund Non-Personnel Operating Expenditures (\$ Millions)



### Overall projection

The summary of line-by-line expenditure projections is shown in the chart below. Expenditures are projected to rise by 11.5 percent (or \$1.3 million) in 2019, mostly because of the anticipated increase in the pension MMO (\$421,000) and the return of the Township’s usual expenditures on retiree health insurance (\$307,000) and vehicle/equipment replacement (\$190,000). After that the Township’s expenditures grow by 3.1 percent per year, mostly due to projected growth in Township spending on employee salaries and health insurance.

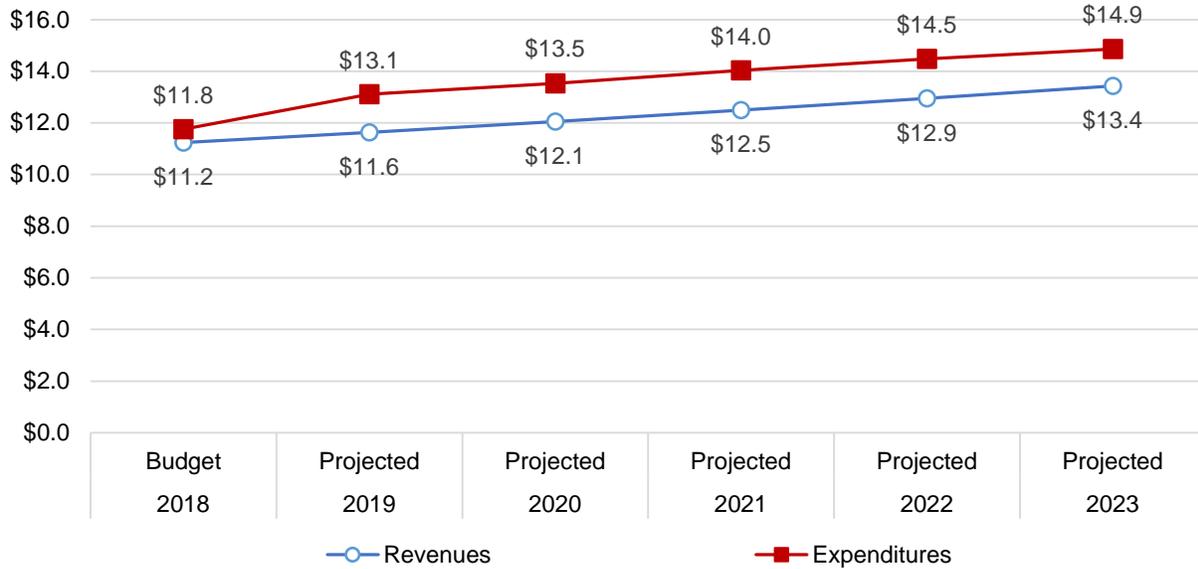
### General Fund Expenditure Projection Summary

|                                        | 2018              | 2019              | 2020              | 2021              | 2022              | 2023              | Annual      |
|----------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------|
|                                        | Budgeted          | Projected         | Projected         | Projected         | Projected         | Projected         | Growth      |
| Salaries                               | 5,406,526         | 5,689,205         | 5,870,374         | 6,056,006         | 6,237,184         | 6,423,797         | 3.5%        |
| Other Cash Compensation                | 502,143           | 521,629           | 541,433           | 561,564           | 582,033           | 602,848           | 3.7%        |
| Retirement Plan Contributions          | 627,670           | 1,049,061         | 1,063,085         | 1,137,540         | 1,152,708         | 1,089,605         | 11.7%       |
| Health Insurance                       | 1,688,380         | 2,140,108         | 2,273,787         | 2,415,834         | 2,566,773         | 2,727,163         | 10.1%       |
| Other Personnel Costs                  | 738,108           | 744,913           | 768,698           | 793,356           | 818,922           | 845,432           | 2.8%        |
| Contracted services                    | 1,075,316         | 1,033,395         | 1,058,169         | 1,083,563         | 1,109,594         | 1,136,278         | 1.1%        |
| Materials and Utilities                | 1,023,188         | 1,233,198         | 1,257,874         | 1,283,083         | 1,308,836         | 1,335,146         | 5.5%        |
| Debt Service                           | 505,500           | 504,030           | 510,630           | 509,430           | 508,130           | 506,190           | 0.0%        |
| Other Expenditures                     | 188,633           | 189,835           | 191,064           | 192,320           | 193,604           | 194,917           | 0.7%        |
| <b>Total General Fund Expenditures</b> | <b>11,755,464</b> | <b>13,105,375</b> | <b>13,535,115</b> | <b>14,032,696</b> | <b>14,477,784</b> | <b>14,861,376</b> | <b>4.8%</b> |

## Bringing the projections together

Combining the General Fund revenue and expenditure projections through 2023 yields the following baseline projection. Expenditures exceed revenues by \$522,000 in 2018 and then the gap increases to \$1.5 million in 2019 absent corrective action because of the anticipated increase in the pension MMO (\$421,000) and the return of the Township's usual expenditures on retiree health insurance (\$307,000) and vehicle/equipment replacement (\$190,000).

**Baseline General Fund Projection (\$ Millions)**



The bad news is that the Township's deficit nearly triples from the \$0.5 million level in the 2018 budget because some of the gap closing measures used this year, like not allocating money for vehicle replacement, are not sustainable in the long term.

The good news is that, after the deficit increases in 2019, it starts to narrow slightly in 2022 and 2023. Under the assumptions described above, revenues grow by 3.7 percent per year after 2019 and expenditures by 3.2 percent. Therefore the Board should focus on strategies that close the anticipated deficit in 2019 and have a sustainable impact beyond next year. The final section of this Plan describes two options for doing so, one on the revenue side and one on the expenditure side.

# Mission and Management Audit

Strengthening the financial position and improving the financial performance of East Whiteland Township government is the primary goal for this multi-year plan. So the Plan begins by describing Township government’s revenues and expenditures, explaining how they compare to each other historically and in a forward-looking *status quo* scenario and assessing the government’s financial condition overall.

Maintaining a strong financial position and improving financial performance is not the only objective, in and of itself. Financial strength is a means to provide the resources that East Whiteland government needs to execute the mission that the Township’s elected leaders – and by extension their constituents – have set for their government. For that to be true, there first has to be a mission that provides a clear, aspirational statement of purpose -- what Township government wants to achieve and why – that is broad enough to apply to all of Township government and specific enough to be meaningful.

With that mission statement in hand, elected and appointed leaders can discuss the obstacles to it – what are the financial, environmental, legal, economic, cultural and other challenges, both within the government and the community at large, that prevent East Whiteland Township from fulfilling its mission. Then government leaders can set a limited number of goals intentionally chosen to respond to and overcome the obstacles. The goals then inform the strategies, or specific actions that specific units of Township government will take to achieve its mission.

Having a strategy does not guarantee that it will be successfully executed, or even that successful execution will advance the mission as intended. So, whenever possible, the Township should have measures so leaders can gauge whether a strategy is working and how that success changes over time. The combination of goals, strategies and performance measures provide a framework for evaluating what works and deciding how to allocate the limited resources accordingly.

In early 2018 PFM led the Board of Supervisors and Township Manager in a discussion about an initial mission statement for Township government and the primary obstacles that East Whiteland Township’s government faces in achieving that mission. This section summarizes the results of that discussion and describes a process that Township leaders can use to set goals and department-specific strategies that support their mission. This section also contains the Operations Assessment in which we briefly review each of the Township government’s major departments and offer recommendations for strengthening their performance, often in ways that tie directly to the recommended Mission Statement.

The third and final section of this report offers a small number of high impact recommendations that the Township elected officials can use to close the projected deficit described in the Financial Condition Assessment and allocate more resources in support of the strategic and operational goals described here.



## Defining Township Government's Mission

In early 2018 PFM led the Board of Supervisors and Township Manager in a discussion about an initial mission statement for East Whiteland Township government. Based on those discussions, we recommend the following mission statement as a starting point for the mission-goals-strategies process described above.

***We strive to make East Whiteland a safe, prosperous, inclusive and environmentally healthy Township that capitalizes on its economic diversity, delivers quality-of-life amenities and strengthens resident pride in East Whiteland as a unique community.***

The component parts of that mission statement are:

- **Safe:** East Whiteland's two largest departments in terms of 2018 budget allocation are Police and Fire and the Board commended those departments for keeping crime rates low, responding to emergencies in a timely manner and keeping the Township safe from the traditional first responder perspective. Public safety, though, also extends to eliminating blight, ensuring that rental housing meets safety and livability standards and improving road safety, including preventing sinkholes created by the concentration of limestone in East Whiteland.
- **Prosperous:** While the Township's economy is strong overall, East Whiteland's leaders note that there are parts of the Township, particularly at the west end of Route 30, where the housing stock and buildings need rejuvenation. The Township's finances depend largely on tax revenues tied to economic activity, like the earned income tax, so growth in resident and commuter earnings is also important for providing the money that funds Township government. From a more proactive perspective, the Township recently updated its comprehensive plan and now needs to develop, design and execute projects that translate that document into reality.
- **Inclusive:** Each of the Board members spoke about the importance of communication and citizen engagement so residents have an appropriate sense of ownership and pride in East Whiteland. Inclusivity also involves appreciating and fostering diversity, within Township government itself and the community at large, and welcoming new residents to the Township.
- **Environmentally healthy:** Township leaders noted that East Whiteland historically has been a place where other communities have sent their residential and industrial waste. Township officials are committed to doing their part to remediate existing environmental problems and to set standards for future development that prevent new problems. The Board conveyed the importance of building on East Whiteland's natural amenities through expanded trail ways, potentially putting money toward green space preservation and making Township government itself as environmentally sustainable as possible. From the perspective of a workplace environment, the Township is interested in improving the Township building itself on Conestoga Road.

The second half of the mission statement ties what Township government aspires to be to what the Board wants the community at large to be – economically vibrant with strong local businesses and connections to the regional economy; a place that offers the kinds of arts,

cultural, educational, recreational, retail and dining options that attract and retain residents; and a destination that inspires community pride and a sense of belonging.

While the Township has not previously discussed a formal mission statement, the Board did adopt five goals in 2016:

- Developing a sustainable multi-year financial plan
- Managing development and growth
- Acquiring open space, developing parks and providing recreational programming
- Developing renovated municipal infrastructure and providing comprehensive services
- Increasing citizen involvement and building a Township identity

The Township has taken specific steps to advance these goals, like developing this multi-year financial plan through Commonwealth's Early Intervention Program, completing the comprehensive plan, and increasing its presence on the internet and social media. Each department set goals for 2018 and we offer additional recommendations for improving department operations in the pages that follow. Tying those tasks and recommendations to the Township's mission will make them more meaningful and provide a better framework for prioritizing them and evaluating their effectiveness.

The chart on the next two pages demonstrates how to tie these elements together, starting with the draft mission statement. This is not a comprehensive list of obstacles, goals or strategies to advance those goals, but rather a demonstration of how the mission connects to specific activities performed by Township government and recommendations in this report.

It is certainly possible to expand the list presented here, though we do encourage the Township leaders to focus on a limited number of obstacles, goals and strategies that they can realistically address over the next five years. That list can and should change over time, but it is better to focus on a small number of priorities than scatter resources too broadly across many. Scarcity of resources – money, staff, time, attention – will always be a constraining factor for what the Township can accomplish.

The chart on the following pages implies siloes, but this is only for ease of presentation. In reality obstacles are often related to each other, some goals will address more than one obstacles and some strategies require more than one department. Goals that cut across departmental boundaries are more than acceptable – they are **necessary** to find effective solutions to complex problems. Strategies should be assigned to specific department(s) to ensure accountability, but communication and coordination across departments is imperative.

## Sample Strategic Framework (Page 1 of 2)

|                                                                         |                                                                                                                                                                                                                                                            |                                                                    |                                                                                                                                             |                                               |                                                                                                       |                                                                       |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| <b>Mission<br/>(Statement of Purpose)</b>                               | We strive to make East Whiteland a safe, prosperous, inclusive and environmentally healthy Township that capitalizes on its economic diversity, delivers quality-of-life amenities and strengthens resident pride in East Whiteland as a unique community. |                                                                    |                                                                                                                                             |                                               |                                                                                                       |                                                                       |
| <b>Obstacles<br/>(What prevents us from fulfilling our mission)</b>     | Financial: Projected baseline deficit and scarcity of resources to advance strategic priorities                                                                                                                                                            |                                                                    | Quality of life: Risk of development that hurts the quality of life or strains available resources<br>(Road congestion, loss of open space) |                                               | Economic obstacles: Risk of too little investment, disinvestment in some areas or economic stagnation |                                                                       |
| <b>Goals<br/>(How we will overcome the obstacles)</b>                   | Address projected baseline deficit                                                                                                                                                                                                                         | Establish multi-year capital plan with funding                     | Improve safety and travel time on specific roads                                                                                            | Improve quality of building stock             | Execute projects in the Comp Plan and Route 30 Plan                                                   | Revenue diversification                                               |
| <b>Strategies<br/>(Specific actions for specific departments)</b>       | Consider changes to EIT rates (see Tax Policy chapter)                                                                                                                                                                                                     | Improve credit rating (see Credit Rating Strategies chapter)       | Traffic sign replacement program (EW31)                                                                                                     | Proactive occupancy inspections (EW19)        | Specific Project 1                                                                                    | Consider RE tax designated for core services (see Tax Policy Chapter) |
|                                                                         | Control growth in employee health insurance costs (see Health Insurance chapter)                                                                                                                                                                           | Invest \$X per year in pay-go capital for vehicles and facilities  | Road resurfacing program                                                                                                                    | Rental property inspection program (EW21)     | Specific Project 2                                                                                    |                                                                       |
| <b>Sample Performance Measures<br/>(Defining and measuring success)</b> | Annual operating results                                                                                                                                                                                                                                   | Credit rating                                                      | Number of accidents or traffic violations on roads X, Y and Z                                                                               | % of high risk properties inspected annually  | Assessed value of new development initiated in area X after date Y                                    |                                                                       |
|                                                                         | Revenue growth versus expenditure growth                                                                                                                                                                                                                   | Vehicle mileage, cost of maintenance                               | Condition of roads in neighborhoods X, Y and Z                                                                                              | % of rental properties in compliance with UCC |                                                                                                       |                                                                       |
|                                                                         | Fund balance as a percent of expenditures                                                                                                                                                                                                                  | Remaining useful life of facilities and major systems (HVAC, roof) |                                                                                                                                             | median assessed value of rental properties    |                                                                                                       |                                                                       |

## Sample Strategic Framework (Page 2 of 2)

|                                                                     |                                                                                                                                                                                                                                                            |                                                       |                                                                                    |                                                 |
|---------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------------------------|
| <b>Mission<br/>(Statement of Purpose)</b>                           | We strive to make East Whiteland a safe, prosperous, inclusive and environmentally healthy Township that capitalizes on its economic diversity, delivers quality-of-life amenities and strengthens resident pride in East Whiteland as a unique community. |                                                       |                                                                                    |                                                 |
| <b>Obstacles<br/>(What prevents us from fulfilling our mission)</b> | Cultural: Lack of citizen engagement or counterproductive engagement                                                                                                                                                                                       |                                                       | Environmental: Remediating existing environmental problems and preventing new ones |                                                 |
| <b>Goals<br/>(How we will overcome the obstacles)</b>               | Increase citizen participation on boards                                                                                                                                                                                                                   | Increase engagement by specific segments of community | Improve municipal government facilities                                            | Improve trail and parks system                  |
| <b>Strategies<br/>(Specific actions for specific departments)</b>   | Fill vacancies on Board 1                                                                                                                                                                                                                                  | TBD                                                   | Facility needs assessment for Township Hall and Police Headquarters (EW02)         | Parks and recreation master plan (EW25)         |
|                                                                     | Fill vacancies on Board 2                                                                                                                                                                                                                                  |                                                       | Preventive inspection and cleaning program for sewer lines (EW28)                  | Design trail connections and begin construction |
| <b>Measures<br/>(Defining and measuring success)</b>                | % of board vacancies filled                                                                                                                                                                                                                                | # of subscriptions to Enews                           | Make decision by date X whether to renovate or replace Town Hall/Police HQ         | Number of trailway/parks users                  |
|                                                                     |                                                                                                                                                                                                                                                            | Number of "click throughs" on Facebook, Twitter, etc  | Include funds to renovate or replace Town Hall/Police HQ in 20XX Capital Budget    | Resident survey on satisfaction                 |

# Operations Assessment

In 2017, East Whiteland Township received funding from the Pennsylvania Department of Community and Economic Development's Early Intervention Program (EIP) to develop this financial management plan. Under the terms of that program, this plan must include a Financial Condition Assessment and an Operations Assessment. PFM led the Financial Condition Assessment provided in the first section of this plan and The Novak Consulting Group provided this Operations Assessment focused on identifying best practices for improving Township government.

The methodology of the operations assessment included individual interviews with Township Board Members, key staff throughout the organization, and contracted service providers, and a review of a significant number of documents and other materials provided by Township staff, such as budgets, work plans, performance data, and various other staffing and operational information from each department.

This report section details the findings, analysis, and recommendations that, once implemented, will help the Township improve the effectiveness and efficiency of its operations. Some recommendations are designed to reduce expenses and others are designed to modernize the organization's resources, practices, and procedures. These recommendations are specific and action-oriented and often tie back to the mission statement described above.

## Administration and Finance

The administrative and finance functions include general management, financial management, and human resources. The Township Manager is the Chief Administrative Officer of the Township, responsible to the Board for the execution of its policies and initiatives. The Finance Department, which is led by a full time Finance Director, is responsible for financial management, budgeting and risk management, and human resources. Human Resources (HR) is provided by the Township Manager, Finance Director, and contracted HR personnel.

### ***Initiative EW01: Implement a performance management system***

As an element of the EIP process, East Whiteland Township and the Board of Supervisors has engaged in mission development and a strategic planning process that is intended to serve as a framework for Township programs and provide guidance on future projects. These initiatives must be implemented alongside the ongoing work of the organization. To successfully accomplish these tasks, it will be important to develop a management structure that facilitates progress and engenders proactive communication throughout the organization and to the Board of Supervisors.

In addition, beyond this need, it is necessary to fully integrate the entirety of Township operations under the direction and authority of the Township Manager. This is an especially important consideration as it relates to the Police Department which has historically operated with limited formal direction from the Township Manager's Office. To begin to bridge this gap, it is appropriate to develop a formal performance management system that integrates all Township Departments within a framework of oversight and reporting through the Township Manager's Office.

A performance management system typically consists of three core elements: (1) setting goals and creating strategic plans; (2) measuring actual staff performance against established performance goals; and (3) sustaining a dialogue between management and employees to ensure that the work of the organization is completed in conformance with established schedules.

A performance management system encompasses all the work that is done in an organization, including strategic planning, budgeting, and work planning. A performance management system includes all the processes through which managers plan and manage the work of the organization to fulfill the mission and produce desired outcomes. The collection and use of performance measurement data is one element of a performance management system.

In addition to monitoring the work, a good performance management system employs discipline. Under such a system, managers meet with direct reports on a regular basis to review organizational performance. As the regularity and discipline of the management system become integrated into operations, discussions about performance become focused on strategic issues. This type of management system allows managers to avoid total crisis management, as the rigor of the system helps ensure regular meetings to discuss strategic issues rather than the crisis du jour. This type of system and meeting structure has been absent throughout Township departments.

Establishing a performance management system can be accomplished through two mechanisms. First, a formal agenda and recurring staff meeting structure for each level of Township operating departments and divisions should be established. These meetings should serve to address five key characteristics: 1) operations updates; 2) financial condition; 3) customer service/public relations; 4) special project updates; and 5) performance indicators.

These are summarized here:

- **Operations updates:** Describe the status of ongoing operations for each Division/Function. Effort should be made to discuss progress on the prior week's work plan, outstanding items and the plan to address them, and obstacles or challenges to success and the requirements to overcome those issues.
- **Financial condition:** On a quarterly basis, each Division/Function should report the status of their operating budget and spending to date as compared to prior year's spending. Current or projected unanticipated expenses should be discussed and, if necessary, should be elevated to the Township's Finance Department for discussion. In addition, unanticipated cost overruns should be reported as they become evident.
- **Customer service/public relation:** Any current or projected issues that could affect the public, internal customers, or elected officials should be discussed, and a plan for communication with the appropriate parties should be established.
- **Special project updates:** Status updates on any special projects should be reported during the weekly staff meeting.
- **Performance indicators:** On a quarterly basis, each Division/Function should report the progress of relevant executive level performance measures. Executive level

performance measures are high level indicators of program outcomes and costs compared to prior years and established goals.

Second, the Township Manager should institute a practice of conducting a formal one-on-one meeting, at least monthly, with each direct report. Likewise, those direct reports should establish a similar practice to review work plans, personnel issues, financial condition, and pending developments relating to their work. The information collected during these staff meetings and one-on-one meetings will serve as the basis of reporting from the Township Manager to the Board on work plan issues as well as progress toward the initiatives outlined in this report. It will also better enable the Township to proactively monitor and improve its own services. These meetings should be supported with performance measures collected and reported by department directors.

***Initiative EW02: Conduct a facility needs assessment for Township Hall and Police Headquarters***

The Township's administrative, code enforcement, planning, and police functions operate out of a Municipal Building that no longer meets the needs of the organization. The Public Works and Fire departments both have relatively new facilities that meet the needs of their operations. Meanwhile, some employees in the Municipal Building do not have space for offices or even desks. Additionally, code enforcement and planning personnel struggle to find sufficient space to unroll and review plans. Finally, there is not sufficient space for meetings to occur.

In addition, the adjoined facility occupied by the Police Department is inadequate for many of the Department's needs. Locker and office space is limited. Prisoner processing areas are constrained by a lack of secure holding space, which requires multiple officers to process arrests. Interview space is also limited. Additionally, the Department's LiveScan terminal, which is used for taking electronic fingerprints, is located in an open hallway. Prisoners must stand opposite the terminal to have their photographs taken, which provides them with direct access to doorways that are not secure.

Police Departments have a responsibility to safeguard officers, suspects, witnesses, and the public, and to protect records, evidence, and other materials. The Department's current facility is insufficient to consistently meet these needs, and the Township should conduct a space needs analysis to assess options for providing Police Department staff with additional functional space.

Construction or renovation of a facility is a major financial undertaking. Whether the choice is to construct a new facility or renovate the existing building, additional space will be needed to meet the Township's needs into the future. Therefore, the Township should conduct a space needs assessment, so it can begin the process with an understanding of the potential scope and cost of the project.

***Initiative EW03: Continue contracting for strategic Human Resources services***

Historically, the Township's HR function has been the responsibility of the Finance Director. Under this model, the Finance Department met immediate HR needs (i.e., payroll, workers' compensation, job postings). However, the organization's higher-level HR needs (i.e., employee development, onboarding, labor relations, risk management) were taken on by the Township Manager. The Township recently redesigned its Finance Department function and began

contracting with an experienced HR professional to develop and implement the HR systems and processes the organization requires. In addition, the Township has initiated the recruitment of an HR generalist position.

The core services that should be provided by the Township's HR function involve a mix of high-level and routine tasks. This presents a challenge when it comes to staffing this function in a small organization. For example, the development of a performance management system for the Township or the negotiation of labor contracts requires an experienced HR professional. However, routine HR tasks such as payroll and recruitment do not require an HR Manager.

Based on a review of HR workload, it is recommended that the Township proceed with its plan to hire a generalist to meet the routine needs of the organization (payroll, employee relations, personnel records management, etc.) and continue contracting with an HR Manager to establish policies, procedures, and processes that will meet the high-level HR needs of the organization. In addition, this contract position will assist the Township Manager with employee relations and strategic HR issues and allow the Township Manager to focus on broader strategic issues in the Township.

***Initiative EW04: Implement the Munis™ HR Module***

As the HR function expands to better meet the needs of the organization, so too must the technology supporting the function. Currently, HR processes are paper-based. For example, hard copy employee records are stored in filing cabinets in the Finance Director's office and employees submit paper timesheets to the Finance Department.

The Township currently uses an ERP software called Munis™ to manage the Township's finances and payroll software called Ceridian™. However, the two systems are not integrated. It is recommended that the Township digitize paper-based payroll processes and implement the HR module of the Munis system. This will integrate the major cost center of the organization, personnel services, with the financial system and help to streamline the payroll process in the Township. This will require a cooperative effort between the Finance Department and the contracted HR Manager.

***Initiative EW05: Consider consolidating the part-time receptionist and part-time Office Assistant positions into a full-time Administrative Services Specialist position***

The Township's administrative operations are supported by the Assistant to the Township Manager, a full-time Receptionist, and a part-time Receptionist. Additionally, the Township's code enforcement functions are supported by a full-time Secretary and a part-time Office Assistant.

One of the consistent challenges expressed by personnel in the Township was the lack of administrative support available. Skilled and professional positions are spending considerable time engaging in administrative activities that limit already strained staff capacity. For example, the Planning, Development, and Recreation Director is responsible for managing the Freedom of Information Act (FOIA) process for the Township. In addition, in Codes and Life Safety, there is limited administrative support available to field and respond to customer inquiries which limits the ability of professional staff to absorb inspection workload.

To aid with this issue, the Township should consider consolidating the part-time receptionist and part-time office assistant positions into a full-time administrative clerk/specialist position, which could take on more advanced administrative responsibilities for the Township Manager's Office and the Code and Inspections, Finance, and HR functions. This position would provide additional administrative support and serve as backup to the receptionist desk to ensure consistent coverage after the position conversion.

## **Police Department**

The East Whiteland Township Police Department employs 31 staff consisting of 20 full-time sworn, eight part-time sworn, and three civilian members. The Department is led by the Chief of Police, one Deputy Chief, and one Lieutenant. The Deputy Chief is responsible for the Department's Investigations and Traffic Units, while the Lieutenant oversees Patrol.

The Patrol division consists of four Sergeants, eight full-time Police Officers, and eight part-time Police Officers. Four additional part-time Officers have been interviewed and are in the hiring process. The Investigations and Traffic Units each consist of one Sergeant and one Police Officer. Non-sworn staff include one Administrative Police Secretary, one Assistant Police Secretary, and one IT Manager, who is also a part-time Police Officer.

The Department patrols an area of approximately 11 square miles which includes a broad mix of housing stock, from high-end residential communities to trailer parks. Recent development has changed that mix somewhat, as sizeable townhome and rental apartment projects have been built. The Township is also home to a significant amount of commercial real estate, including several corporate headquarters. The presence of these industries increases the Township's commuter-adjusted daytime population by an estimated 151.9%, to 26,403 residents.<sup>1</sup> In contrast, the Township's overall population has increased approximately 8.1% between 2010 and 2016, to 11,517 total residents.<sup>2</sup>

The Department records an average of 578 events monthly in its Computer Aided Dispatch (CAD) system.<sup>3</sup>

### ***Initiative EW06: Maintain current patrol work schedule***

Patrol personnel are currently assigned to twelve-hour shifts and provide around the clock coverage. Minimum patrol staffing consists of three Officers (including Sergeants) from 7:00 A.M. to 7:00 P.M. daily. Sunday through Thursday, three Officers are required from 7:00 P.M. to 1:00 A.M., and two Officers from 1:00 A.M. to 7:00 A.M. Friday and Saturday, three Officers are required from 7:00 P.M. to 3:00 A.M., and two from 3:00 A.M. to 7:00 A.M.

One Sergeant and two Police Officers are assigned to each squad to provide staffing of three Officers on all shifts; they receive one day per month of "Kelly Time" to compensate for time exceeding 80 hours in each two-week period resulting from the schedule. Unfilled shifts are staffed by part-time Officers. Kelly Time is an additional day off during a Fair Labor Standards Act (FLSA) pay cycle used to limit overtime expenses. The twelve-hour schedule is generally an efficient and cost-effective method of deployment, depending on the operational needs of a

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<sup>1</sup> Daytime adjusted figures are based on the 2010 U.S. Census, which used a base residential population of 10,481.

<sup>2</sup> U.S. Census population estimates, 2016.

<sup>3</sup> Figures provided for the Department showed 9,821 incidents between September 1, 2016 and January 31, 2018.

municipality. In East Whiteland Township, this schedule appears to maintain sufficient staffing to handle the Department's current workload. At this time, the Department should retain this schedule, with consideration to be given to supervisory issues noted elsewhere in this report.

### ***Initiative EW07: Enhance patrol supervision***

For staffing purposes, Sergeants are considered the same as Police Officers. Each squad is made up of one Sergeant, two Police Officers, and one or more part-time Police Officers. The minimum staffing of three members may or may not include a Sergeant on a given shift. When a Sergeant is not assigned, a Police Officer is designated "Officer in Charge" (OIC) for the shift and is paid an additional \$1.00 per hour pursuant to the collective bargaining agreement.

Many police departments, particularly smaller ones, favor the use of OICs for multiple reasons. The complexities of police scheduling make it difficult to provide seamless supervisory coverage without costly overlaps. The use of OICs can provide an opportunity for Police Officers to take on the challenges of supervision, to showcase their abilities, and to demonstrate their suitability for future promotion, providing command staff with an opportunity to evaluate candidates in action.

However, there are significant drawbacks. The program requires Officers to supervise without concomitant rank, which may require them to direct or initiate corrective action against colleagues with whom they will be equal on the next shift – or who may be assigned in a supervisory role over them. Of greater concern is the impact of extended supervisory absence; first line supervision is a key element in maintaining operational effectiveness and integrity in a police department.

Consequently, the best practice in this area is to maximize patrol supervision. Although supervisory gaps are likely to occur in smaller police organizations, they should be minimized to the greatest extent possible. There are several strategies to reduce supervisory gaps, including:

- Promoting additional Sergeants, which typically results in extensive overlaps.
- Assigning Sergeants to cover vacancies on overtime, which can be costly.
- Creating a position of "Relief Sergeant," with a flexible schedule to cover vacations and other scheduled absences. This position will fill many, but not all, absences.
- Creating a rank of Corporal to assume supervisory responsibility in the absence of a Sergeant. During other shifts, Corporals would handle routine patrol assignments while acting as mentors for junior Officers and/or as field training Officers.
- Creating a training program to ensure that all Officers assigned as OICs are familiar with the duties, responsibilities, and expectations of the position. Only qualified Officers would be eligible for OIC assignment.

At a minimum, the creation of a training program for OICs should be undertaken by the Department. In addition to such training, the creation of a Corporal rank would be a practical and cost-effective way of enhancing supervisory presence on patrol shifts. However, creating this rank will likely require discussions with the Department's collective bargaining unit.

### ***Initiative EW08: Expand participation of Patrol Officers in investigations***

According to Department staff, Patrol Officers take only very basic reports regarding crimes, and all investigative follow-up is done by the Investigations Unit. This practice extends to Officers' own witness statements. Rather than recording their own observations and interactions, Officers are interviewed by Detectives, who then prepare written reports. This practice has the double effect of preventing Officers from practicing basic investigative skills, as well as generating workload for the Department's Detectives. The Detective Unit's current workload has been increasing steadily in recent years, from 9.42 cases per month in 2015 to 10.33 in 2016 to 13 in 2017.<sup>4</sup> It is within generally accepted standards,<sup>5</sup> but approaching the high end of the range. Additionally, requiring Detectives to interview Officers introduces a duplicative step which can lead to inaccuracies regarding an Officer's recollection or disagreements about the intent of an Officer's statements.

The extent to which Patrol Officers pursue cases is a policy decision based on each department's needs. While some departments prefer that Detectives perform all investigative work, many agencies encourage patrol personnel to work appropriate cases, such as misdemeanors, to the fullest extent possible. This practice encourages more thorough preliminary case reports and enhances Officers' skill sets. It also enables Detectives to focus their resources on more serious cases, those that require more extensive investigative effort, or those that cross jurisdictional boundaries.

Consequently, the Department should require more thorough preliminary reports from Patrol Officers and expand the scope of preliminary investigations. This will increase and enhance Patrol Officers' skills and allow Officers to develop some capacity for managing Detective caseload, should the volume become excessive. Officers should also be permitted to record their own statements in routine incidents. All cases should continue to be reviewed by the Investigations Unit to ensure that appropriate investigative measures are taken and to identify emerging trends, patterns, and connections with ongoing investigations.

### ***Initiative EW09: Review distribution of overtime and extra duty work***

Department personnel are currently assigned to work "extra duty details," such as road construction assignments, a daily traffic detail for the school district, coverage of school dances, weddings at local venues, stockholder meetings, and holiday events at corporate headquarters located within the Township. Extra duty details are assigned by the Operations Lieutenant according to a Department policy on private work details. This policy requires that assignments be filled by rotation among off-duty Officers, including Lieutenants. If no full-time Officers are available, part-time Officers become eligible, followed by neighboring agencies.

However, the current policy does not reference when supervisors should be assigned to details. Generally, details which require three or more Officers, or which involve large events or significant crowds, should include a supervisor on the detail. The need for a supervisory presence will frequently require senior staff, including the Lieutenant, to assist with extra duty details outside of the usual rotation for extra duty work. To provide more transparent

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<sup>4</sup> 113 cases were forwarded to Detectives in 2015; 124 in 2016; and 156 in 2017.

<sup>5</sup> While there are no universal standards to determine optimal caseloads because the workload can vary considerably based on the nature and complexity of the cases received, 10 to 12 cases per month for a general investigations Detective is generally considered to be within an acceptable range.

understanding of extra duty details for Department customers and staff, this policy should be updated to explicitly define when and how supervisors will be assigned extra duty details.

***Initiative EW10: Develop detailed recordkeeping practices related to overtime usage and extra duty work***

The Department currently maintains some records related to extra duty detail assignments and overtime usage. This includes a standardized invoice for extra duty details which shows the Officer's hourly rate, dates and times of coverage, total hours of coverage requested, and total amount due. The Department also maintains payroll budget summaries for each pay period which illustrate the total pay amounts in several categories, including regular pay, extra duty detail pay, various kinds of overtime, holiday pay, court and on-call pay, shift supervisory pay, and miscellaneous/other pay. In 2017, the Department paid approximately \$116,300 in extra duty pay and \$56,000 in overtime. Approximately \$86,000 was billed to the miscellaneous/other pay category.

While maintaining financial records regarding this information is a beneficial practice, current records offer limited utility to the Department. For example, existing records cannot be used to readily quantify the amount of extra duty/overtime pay awarded to supervisors compared to line staff. Additionally, the contents of supporting documentation for extra duty details varies from assignment to assignment, which complicates efforts to determine which Officer participated in the assignment, how long they were assigned, and their earned pay. As a result, the Department knows how much extra duty time and overtime are paid in aggregate but cannot readily determine which staff earn this pay. This information is critical for understanding the organization's potential staffing needs.

To better track and evaluate extra duty and overtime pay, the Department should standardize all supporting documentation requirements and compile a database which provides more detailed information about when and how extra duty and overtime is used, including the date used, staff accruing the time, hours accrued, hourly rate, and the purpose for overtime. If overtime usage grows significantly, this information should be analyzed to evaluate options for adding staff or other options to cover overtime needs. These tracking practices should also extend to "Other" pay, and amounts paid in this category should be accompanied by clear documentation which describes what the pay was for, how it was earned, and who earned the pay.

***Initiative EW11: Review effectiveness of the Traffic Unit***

One Sergeant and one Police Officer are currently assigned to the Traffic Unit. A second Police Officer is typically assigned, but that position is currently vacant. The unit conducts traffic enforcement, commercial vehicle enforcement, and accident reconstruction; monitors accident-prone locations; and responds to resident complaints regarding speeding and other violations. Traffic unit staff do not routinely handle vehicle accidents or calls for service.

Traffic safety is typically a major concern of residents of a community such as East Whiteland, and the assignment of dedicated resources to address traffic conditions is appropriate. When fully staffed with a Sergeant and two Police Officers, the Traffic Unit represents a substantial commitment – 15% of its full-time sworn staff, and 18% of its full-time Police Officers. To ensure this staffing level is appropriate given current workload, the Department should track and evaluate performance indicators such as citations and warnings issued, DUI and other

arrests made, motor vehicle accidents handled, accident reconstruction investigations completed, traffic education or planning activities conducted, and calls for service handled. Although the effectiveness of such a unit is measured by more than simply enforcement indicators, they provide a baseline for comparison over time.

***Initiative EW12: Evaluate adequacy of training budget and schedule***

The Department has two separate training budgets – one for firearms training and one for other types of training. The firearms training program appears adequate; members qualify with handguns twice each year, qualify on rifles annually, and participate in annual tactical and low light exercises. Department records indicate that all members of the Department are in compliance with Pennsylvania Municipal Police Officer Education and Training Commission (MPOETC) certification as well as firearms and CPR training requirements. The Department also documented 32 training sessions attended by members of the Department at outside agencies during 2017 on topics including Drug Identification, Active Shooter Response, DUI Checkpoints, Forensic Interviewer Training, Mental Health First Aid, Practical and Tactical Handcuffing, Situational Awareness Weapons Training, High Impact Supervision, Glock Armorer certification, Patrol Rifle Instructor Certification, Pennsylvania Vehicle Inspection Regulations, Credit Card/Fraud Investigations, and Standardized Field Sobriety Testing.

Although all basic training requirements have been met, staff report that additional training opportunities regarding criminal law and technology assets are limited by budgetary constraints. Because legal and technology matters directly impact how Officers do their work, it is important for staff to remain up-to-date regarding legal developments and to maintain an effective working knowledge of technology used by the department. The Township should review the Department's training funding periodically to ensure that sufficient funding is available and utilized to provide training programs beyond basic requirements.

***Initiative EW13: Evaluate police staffing levels in light of future population growth***

East Whiteland Township has grown steadily in recent years. Its residential population has increased 8.1% since 2010 and 14.1% since 2000.<sup>6</sup> In addition to residential growth, the Township is home to nine hotels (some of which reportedly generate significant activity), three college campuses, and several corporate headquarters, including such high-profile companies as Vanguard and Siemens Health Services. All of these institutions bring security concerns, and the presence of corporate entities often increases the incidence of “white collar” crime, fraud, and Internet crime. They also result in a significant increase in the Township's daily population, as noted previously.

The Township continues to grow, and a substantial amount of residential construction is ongoing. Much of the new development represents a shift from vacant land or single-family homes to townhouses, condominiums, and rental properties. Such changes can impact the demand for police services, as they increase the density of an area and cater to a more transient tenant base. Staff report that they have noticed a degree of heightened demand associated with the increased development, although to date they have been able to address it with current resources. Changes in the residential/commercial mix of the community, as well as in the nature and scope of institutions, should be monitored.

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<sup>6</sup> U.S. Census population figures: 1990, 8,398; 2000, 9,333; 2010, 10,650; 2016 estimate, 11,517.

It is important for a municipality to assess and periodically review its police department's workload, particularly when populations shift and grow. The Township should regularly review calls for service and other police workload to ensure that staffing remains adequate as the Township develops.

***Initiative EW14: Require command staff to work in uniform***

Initial observations of the Department indicate that the command staff – specifically the Lieutenant and the Deputy Chief – work in business casual clothing rather than in uniform. It is ultimately the prerogative of the Chief of Police to determine dress requirements,<sup>7</sup> and there may be advantages to command staff working in civilian clothes, whether as a matter of routine or when circumstances dictate. However, in a Department of this size, to maximize uniformed and supervisory presence, the best practice is typically for command personnel to work in uniform unless their duties, such as investigations, are performed more effectively in civilian clothes. The Department should evaluate its policies in this area.

***Initiative EW15: Implement revised hiring policy***

The Department has traditionally hired full-time Police Officers principally from the ranks of its part-time Officers. Although there has routinely been substantial turnover in the ranks of part-time employees – not unusual, since part-time Officers are often seeking full-time police employment, or are unable to continue in their part-time employment because of the demands of their full-time careers – this practice had been effective as a hiring pool. The Department had an opportunity to evaluate the performance of part-time employees under actual working conditions before hiring them permanently.

During 2017, the Township indicated its intention to revise and formalize the hiring process, partially in order to expand the candidate pool beyond part-time employees. Currently, there is uncertainty regarding the parameters of the hiring process. A group of four candidates has completed initial processing, but no determination had been made at the time of analysis.

It is the Township's prerogative to design and implement a hiring process that addresses its needs and meets relevant legal and procedural standards. However, it must be kept in mind that vacant positions can seriously impact the operational effectiveness and the budget of a smaller police department, and considerable lead time is required to identify, process, and train candidates. It is imperative that the Department is able to hire personnel without unnecessary delay. The Township should clarify its hiring procedures to ensure that when hiring of additional personnel is authorized, it can proceed without delay.

***Initiative EW16: Pursue Police Department accreditation***

Accreditation – a process by which an outside agency evaluates and certifies an agency's compliance with specific operating standards – is a valuable tool for validating the proper operation of a police department. It can also serve to reduce an agency's insurance premiums and can assist in defending against liability in civil litigation. The accreditation process provides a framework to ensure that the Department is, and remains, in compliance with best practices

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<sup>7</sup> Department policy states that "Civilian clothing may be worn by the Detective and by other Officers when authorized by the Chief of Police."

in a series of standards that cover critical operational and administrative areas. Periodic reaccreditation assessments ensure ongoing compliance.

The Pennsylvania Law Enforcement Accreditation Program, administered by the Pennsylvania Chiefs of Police Association, provides an opportunity for municipal departments to become accredited at minimal cost. The Department has begun the process of obtaining accreditation. This can be a lengthy and arduous task, which requires leadership, perseverance, and support from the Department's command staff, Township management, and elected officials.

It is in the Township's best interest to ensure that the Department is provided with adequate support to pursue accreditation for the benefits that derive from the ongoing operational review it requires.

***Initiative EW17: Track ongoing community relations efforts and diversity training***

The Department appears to have a positive relationship with the community, and there has not been a perceived need to emphasize formal community relations programs or initiatives. However, in light of national events, community outreach has become a timely issue for all police departments, and a documented, proactive approach to community outreach and diversity training is a wise strategy for any police agency. The Department Manual includes a concise policy on policing impartially and preventing perceptions of bias.<sup>8</sup> However, it should track indicators of its performance regarding community relations. It should also maintain rigorous ongoing training programs regarding the use of force and the importance of eliminating bias from policing.

## **Codes and Life Safety**

The Department of Codes and Life Safety consists of two divisions: Fire and Code and Inspections. The Fire Division provides fire protection and Basic Life Support (BLS) medical services with a combination of career firefighters and volunteer firefighters from the East Whiteland Volunteer Fire Association. The East Whiteland Fire Company is led by the Volunteer Fire Chief and full-time Deputy Fire Chief. The Division is staffed by seven full-time Firefighter/EMTs and three Fire Captains and operations are supplemented by 14 part-time Firefighter/EMTs and volunteer Firefighters.

The Code and Inspections Division administers and enforces Building, Electrical, Plumbing, Mechanical, and Fire Protection Codes. The Division is led by the Deputy Director of Codes and is staffed by one Inspector/Deputy Fire Marshal, one Inspector (vacant), a full-time Codes Assistant, and a part-time Codes Assistant.

***Initiative EW18: Implement a proactive occupancy inspection program***

The Inspector/Deputy Fire Marshal completes site, building, and fire protection system plan reviews and all fire inspections. Inspections are initiated by either a building permit application or a transfer of ownership. In 2017, the Inspector/Deputy Fire Marshal completed a total of 1,177 inspections. Reactive inspection programs result in many commercial buildings, places of employment, and shared living quarters not being inspected on a regular basis.

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<sup>8</sup> Policy 3-05.1

Proactive Fire Protection Code inspection programs are an industry best practice. A proactive inspection program involves maintaining a list of occupancies and adopting a risk-based inspection schedule. Once an accurate inventory of occupancies by type is compiled, the Township can then determine which occupancy types should be inspected and the frequency with which each occupancy type should be inspected based on the hazards that are present in the community (i.e. high-risk properties should be inspected annually, while low-risk properties may be inspected every two or three years).

### ***Initiative EW19: Implement a Fire Company Inspection program***

As previously mentioned, the Inspector/Deputy Fire Marshal currently completes all Fire Code plan reviews and inspections. Given the current workload, this position's capacity to absorb the increased inspection workload involved in the recommended proactive inspection program is limited. Additionally, while the Fire Company has developed preplans for approximately half of the estimated 1,500 businesses in the Township, firefighters are rarely afforded the opportunity to familiarize themselves with the inside of buildings in the community.

To alleviate some of the burden on the Inspector/Deputy Fire Marshal, it is common practice to implement an engine company inspection program. Such a program involves assigning a portion of the lowest risk occupancies (those that only require inspection every three years) to the engine companies. All follow-up inspections would then be completed by the Inspector/Deputy Fire Marshal. It should be noted that the implementation of such a program requires additional training of the firefighters who will perform the inspections.

### ***Initiative EW20: Implement a rental inspection program***

Township administration has acknowledged the need to develop a rental inspection program as a foundational element of the building inspection function. The Township has completed best practice research into program design and it is recommended that the Township initiate the rental inspection program.

Under the rental inspection program, landlords should be required to register single and multi-family residential rental properties. Upon registration, the Township should inspect the property to ensure that there are no code or life safety issues. If there are compliance issues, inspectors work with the property owner to address the issues and conduct inspections as necessary until they are addressed. After the initial inspection, each property is scheduled for re-inspection after a certain period of time. Typically, a three-year proactive inspection cycle, with the ability to complete complaint-driven inspections, is sufficient to maintain property condition.

When there are life safety issues, it is essential for inspectors to maintain an inflexible approach to ensure that the issue is addressed before occupancy is permitted. However, for items that do not pose a significant life safety issue, a more collaborative and flexible approach may be warranted.

Once policy makers have settled on an inspection philosophy for the program, it will be appropriate to conduct training sessions and workshops with inspectors. These training opportunities should be used to discuss the implementation of the program's policies and clarify how it translates for inspectors when they are in the field working with landlords, property owners, and tenants. Providing staff with clear direction and expectations and the appropriate resources will alleviate some of the natural conflict that arises in the enforcement role.

Implementing a rental inspection program will require a significant staff commitment in the initial year. After major initial code items are addressed, the inspection workload will diminish. However, it is important to emphasize that existing Code and Life Safety personnel are already dealing with a heavy building permit review and inspection workload. As such, a multiyear phased implementation approach may be required. Further, it is likely that additional inspector capacity will be necessary in order to implement a proactive inspection program. Once the Township has an accurate occupancy inventory and inspection schedule, the staffing needs of the program will need to be considered.

***Initiative EW21: Fill the vacant Building Inspector position***

All building, electrical, plumbing, and mechanical inspections are completed by the Deputy Director of Codes, a Building Inspector position (currently vacant), or a third-party inspector. The workload of the Township's building inspection function more than doubled between 2015 and 2017. This increased workload combined with recent turnover and staffing level changes in the building inspection function have increased the number of inspections completed by a third-party inspector (from 224 in 2015 to 617 in 2017) and the number of inspections completed by the Deputy Director – Codes position (from 813 in 2015 to 3,327 in 2017).

The general industry standard of 10-15 inspections per day per building inspector<sup>9</sup> ensures that inspectors have adequate time to thoroughly conduct inspections. However, this is just a guideline, and the number of inspections that inspectors can successfully complete varies depending on many other factors including the service standards of the community. The Deputy Director – Codes completed an average of 10.3 inspections per day in 2016 and 13.6 inspections per day in 2017. This is within the best practice range and staff report that the function is still able to maintain the service standard of scheduling inspections within 24 hours. However, this workload is concerning when coupled with the fact that the Deputy Director – Codes position also has plan review responsibilities. Filling the vacant Building Inspector position will provide the building inspection function with sufficient staffing to maintain quality and turnaround time standards while also enabling the Township to decrease its reliance on third-party inspectors.

***Initiative EW22: Designate the career Deputy Fire Chief as the designated Fire Chief during all fire operations***

The East Whiteland Township Fire Company is a combination department, which means a combination of full-time and volunteer staff provide services. The Fire Chief is a part-time volunteer employee while the Deputy Fire Chief is a full-time paid employee. This organizational structure presents some challenges. First and foremost, a lack of role clarity can result in command structure confusion, which can adversely impact firefighters and potentially operations. For example, fire scene command structure is often determined at a fire scene after discussion between the career Deputy Chief and the Volunteer Fire Chief. Second, management of combination fire departments is commonly acknowledged as difficult because tensions often exist between volunteer and career staff. In particular, tension can arise when volunteer and career leadership (in East Whiteland Township's case the Volunteer Fire Chief and career Deputy Fire Chief) are roughly equal in authority.<sup>10</sup> Though this does not appear to

<sup>9</sup> Based on Building Code Effectiveness Grading Schedule (BCEGS) staffing standards and general industry best practice

<sup>10</sup> ICMA IQ Service Report Managing Conflict in Combination Departments, 2000

be a current issue in East Whiteland due to the collaborative efforts of the fire leadership, the lack of clarity regarding command structure can lead to issues in the future.

While combination fire departments present some unique challenges, there are things leadership can do to smooth operations. The East Whiteland Fire Company has already implemented many of the best management practices that exist for combination departments, such as having career and volunteer staff train together and be held to the same performance standards. However, the Township has not clearly defined the roles of volunteer and career command staff as well as firefighters and then communicated those roles throughout the organization. The roles of the volunteer Fire Chief and Deputy Fire Chief should be clarified and communicated and the career Deputy Fire Chief designated as command during all fire operations. Also, according to the International City/County Manager Association (ICMA), the ideal division of responsibility is to have volunteers responsible for fire prevention implementation, operational planning, volunteer recruitment, fundraising, company training evolution, and apparatus optional frills. Meanwhile, career staff should be responsible for operational standards, fire prevention planning, personnel policy, basic training, apparatus purchasing, and on scene command and direction.

***Initiative EW23: Apply for Phase II EIP funding for fire staffing and regionalization study***

There are two broader fire staffing issues beyond questions of unity of command and the division of responsibility between career and volunteer personnel. First, volunteer numbers are declining in East Whiteland, as in most parts of the country. Though the volunteerism data was not provided, anecdotal reports indicate a notable decline in recent years. Further, the availability of volunteers is limited to after work hours and weekends. This presents an operational challenge as the Company relies on volunteer personnel or mutual aid to meet on-scene staffing needs in the event of concurrent calls for service.

Second, East Whiteland is the most capable and sophisticated department in the region because it has access to career personnel 24 hours per day and is well equipped. As a result, the East Whiteland Fire Company is heavily engaged in mutual aid service provision to other communities. East Whiteland Fire Company has mutual aid agreements with nearly 20 surrounding communities. The East Whiteland Fire Company responded to 1,618 incidents in 2017 (27% fire and 73% EMS). A total of 21% of the Company's calls were mutual aid calls, meaning the East Whiteland Fire Company was giving aid to a neighboring community. East Whiteland also received aid on 30% of its calls, meaning another department responded to a call within the Township.

Given these issues, it is appropriate for the Township to pursue Phase II funding under the Early Intervention Plan process to complete a two-pronged staffing and regionalization study. First, this study should evaluate staffing levels and needs within the context of the current operating model. This should include a detailed analysis of the level of mutual aid provided to the Township with a specific emphasis on determining what level of mutual aid is provided to meet basic on-scene needs as compared to automatic mutual aid from neighboring volunteer companies. This will be necessary to determine the true "East Whiteland" fire service workload. Second, given the Township's role as a leading department in the area as well as the broader mutual aid profile of the Company, it is also appropriate to evaluate the feasibility of developing a regional fire service model.

## Planning, Development and Recreation

East Whiteland's Planning, Development, and Recreation Department consists of two divisions: Planning and Zoning and Parks and Recreation. The Planning and Zoning Division is responsible for the Township's Comprehensive Plan and manages all Township land development and subdivision applications. The Parks and Recreation Division is responsible for providing recreation programming and acquiring and developing the Township's open space and parks amenities. The Planning and Zoning Division is supported by 3.0 FTE and the Parks and Recreation Division is supported by 0.9 FTE.

### ***Initiative EW24: Apply for Phase II EIP funding to complete a parks and recreation master plan***

The Township maintains an extensive trail system and the Board and Township administration have expressed an interest in further developing the park and recreation infrastructure in the community. This will require long-term planning and capital investment. A best practice to frame these strategic goals is to develop a parks and recreation master plan to prioritize and guide investment decisions and take advantage of opportunities. To that end, the Township should pursue Phase II EIP funding to develop a 10-year park and recreation master plan. This plan will provide a common vision and organizational framework for implementing improved park services, recreation programming, and facilities throughout the Township's park and trail system. Master plans are a result of extensive analysis and collaboration with public interests and user groups. These plans generally provide the basis for funding allocations each year that support the design and construction of capital projects and other park improvements.

### ***Initiative EW25: Define recreation management responsibilities for the Zoning Director position***

As the Township has grown, residents have increasingly shown interest in expanding recreation services, particularly as it relates to open space and trails. Until recently, recreation services were planned and provided by a part-time recreation coordinator – no full-time staff were involved in this service area. The Zoning Director was recently assigned responsibility for the Township's recreation functions, but the specific tasks and goals of that function have not yet been clearly articulated. It is recommended that a work plan be developed to guide efforts in this area. The initial effort should focus on developing the aforementioned park and recreation master plan. However, three additional functions should also be included. First, the position should take over the responsibility of park planning and facility maintenance planning. Second, it should take over recreation contractor and staff supervision. Third, it should develop park/trail maintenance standards and coordinate with public works to develop proactive maintenance plans that reflect the service expectations of the community and the capacity of the Township to perform maintenance. These tasks and work plan expectations should be formalized and the Zoning Director tasked with developing a plan to incorporate these areas as an element of their work assignment.

## Public Works

The East Whiteland Public Works Department is composed of three divisions: Highway, Fleet, and Sewers. The Highway Division is charged with maintaining Township streets, rights-of-way, signs, and ball fields and clearing Township roads of ice and snow during winter weather events. A total of seven Service Workers and an Operations Foreman staff the Highway

Division. The Fleet Division maintains the Township's fleet of 49 vehicles and 21 pieces of equipment and is staffed by one Mechanic. The Sewer Division maintains and repairs the Township's 70 miles of underground sanitary sewers and 14 pumping stations. The Sewer Division is staffed with two Service Workers and a Crew Leader.

***Initiative EW26: Develop a rotating preventive inspection and cleaning program for Township sewer infrastructure***

The Sewers Division is currently unable to complete routine preventive maintenance on the Township's sewer infrastructure. Sewer line inspections are completed whenever there is downtime. Inspecting a section of a sewer line requires a two-person crew and involves significant set up and teardown time. Because one of the Sewer Division's three employees is primarily dedicated to completing utility locates, any emergencies that arise when preventive maintenance is being completed require the crew to stop inspecting.

Proactive and consistent management of the Township's sanitary sewer assets is an essential function of the Sewers Division and is critical to the long-term viability of the Township's infrastructure. In order for the Sewers Division to complete the necessary preventive maintenance, a work plan and schedule should first be adopted. For example, if the expectation is that the Township's entire sanitary sewer infrastructure (369,600 feet) be inspected every five years, the Sewer Division's annual work plan would involve inspecting approximately 74,000 feet of sewer line each year. Township staff estimate that a two-person crew could inspect between 1,000 and 1,500 feet of sewer in one day. Therefore, it would require a total of approximately 800 hours of labor each year. Once a preventive maintenance work plan has been adopted, the crew's staffing level must be set at a level that enables the Division to complete the work plan. This might require an additional position or might be possible by assigning emergency repairs to the crew member completing utility locates and leveraging overtime to meet utility locate service level standards.

***Initiative EW27: Develop a part-time seasonal crew for park, grounds, and right of way maintenance***

Often, the work completed by public works departments is seasonal in nature; departments mow and repair streets during the summer, clear snow during the winter, sweep streets in the spring and fall, etc. Depending on the mixture of services provided and the context of the community, different seasons will be busier. In East Whiteland Township, snow removal activities dictate the base staffing level of the Department. The focus then shifts to using the Department's resources as efficiently as possible throughout the rest of the year. One of the tasks that full-time Public Works Department personnel engage in during the warmer months is park and grounds maintenance throughout the Township. A crew of at least two personnel is typically assigned to these activities each week.

However, this approach utilizes relatively skilled personnel to do unskilled labor and pulls experienced staff away from highway maintenance and other core service activities. Further, as previously discussed, there may be a need to add capacity to the Sewer Division as a means to implement a preventive inspection and maintenance program. As an alternative to hiring new dedicated full-time personnel to staff the Sewer Division, the Township can also develop an alternative service model for grounds maintenance that will allow them to redirect full-time staffing resources to sewer system maintenance as well as warm weather transportation system tasks.

The two primary service alternatives to accomplish this goal include using seasonal employees or contracting for services. The primary benefit of using seasonal employees during the warmer months of the year is that seasonal employees can be dedicated to seasonal grounds maintenance while full-time employees could focus on transportation and stormwater infrastructure maintenance and repairs. In addition, the personnel can be used for other activities if necessary; this is typically not an option in contracted service arrangements. As such, it is prudent to develop a seasonal employee pool as a means to redirect full-time skilled employees to other core activities.

***Initiative EW28: Increase heavy equipment and building trades skill sets***

The Public Works Department is currently in a time of staffing transition. At the time of this study, at least two employees had announced their retirement and there is the potential for additional retirements in the near future. As the Township recruits to fill these vacancies, it is appropriate to consider what additional skillsets may be needed within the Department. Based on the review of the Department's work plan and other strategic issues within the Township, there are two pressing needs.

First, it will be useful and necessary to fill positions with individuals who have a CDL license and a background as heavy equipment operators. This will expand the scope of services that can be provided by in-house staff for transportation and sewer related maintenance projects. Second, there is little internal capacity for skilled facility maintenance within the Township. Most major repairs are contracted out. Further, Township Hall and Police Headquarters facilities are aging and in need of repair. As such, the Township should focus on recruiting individuals with building trades experience, with a specific background in electrical, plumbing, and/or carpentry. This will also provide additional capacity for park and recreation facility development outlined in the recommended park and recreation master plan.

***Initiative EW29: Implement a 12-hour on/12-hour off snow plow rotation schedule***

East Whiteland Township residents expect a high level of service from the community when it comes to snow removal. The current service level expectation is that all Township roads will be clear within 24 hours of a winter weather event. To provide this service, the Township is divided into nine routes that staff plow equally and continuously. During a weather event, staff do not work shifts. Rather, they work continuously, resting when necessary during long-lasting storms.

To preserve the safety of people and property, the American Public Works Association's (APWA) Public Works Management Practices Manual recommends jurisdictions adopt a policy establishing maximum continuous work hours during winter events. Typically, it is unreasonable to expect employees to safely operate a piece of equipment for more than 12 hours at a time. Therefore, during longer events, staff should be divided into shifts, so service can be provided on a continuous basis while also ensuring employees take the necessary breaks.

***Initiative EW30: Implement a traffic sign replacement schedule***

According to the Federal Highway Administration, traffic sign visibility must be maintained during daytime and nighttime conditions in order to be effective.<sup>11</sup> Section 2A.08 of the Manual

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<sup>11</sup> Federal Highway Administration Maintaining Traffic Sign Retroreflectivity, 2013

on Uniform Traffic Control Devices (MUTCD) requires agencies to use one of the following five assessment and management approaches:

- Visual nighttime inspection method: inspect signs and visually assess reflectivity under select conditions
- Measured sign retroreflectivity method: use a retroreflectometer to measure retroreflectivity of signs
- Expected sign life method: monitor age of signs and replace before they degrade below minimum levels
- Blanket replacement method: replace all signs in a group based on expected life
- Control signs method: track the retroreflectivity of a control group of signs to determine when to replace the larger group.

Currently, the Township replaces signs only as they are damaged. To comply with federal regulations, it is recommended that the Township implement a sign assessment and management approach. This should include a five-year inspection schedule followed by targeted sign replacements.

# Tax Policy Options

As discussed in the Financial Condition Assessment chapter, the Township’s largest source of revenue is the earned income tax (EIT).

The Township currently levies a 0.5 percent EIT on the earnings of its residents with all of the resulting revenue flowing to the Township’s General Fund. East Whiteland also levies a 0.5 percent non-resident EIT on the earnings of commuters who work in East Whiteland but live elsewhere. As discussed more fully below, sometimes that revenue flows to the Township’s General Fund and sometimes it goes back to the commuter’s home municipality, depending on what the EIT rate is there. Altogether the Township anticipates that the EIT will generate \$5.7 million in 2018 at these rates.

East Whiteland has a low resident EIT rate relative to other Chester County municipalities. The most common arrangement in Chester County (and throughout Pennsylvania generally) is a 1.0 percent total resident EIT rate split evenly between the municipality and the school district. The Great Valley School District, which serves East Whiteland residents and those in Charlestown, Malvern and Willistown, does not have an earned income tax. East Whiteland residents pay the 0.5 EIT percent to the Township and nothing to the school district. Residents in the other three municipalities covered by the Great Valley School District pay the full 1.0 percent resident EIT allowed by Pennsylvania law<sup>1</sup> to their municipal government.

## 2018 Chester County EIT Rates

| 2018 EIT rates                            | No. | Examples                                            |
|-------------------------------------------|-----|-----------------------------------------------------|
| No EIT rate                               | 5   | Easttown, Tredyffrin                                |
| Muni EIT ≤ 0.5 percent                    | 8   | <b>East Whiteland</b> , Pennsbury, West Marlborough |
| Muni EIT ≤ 1.0 percent                    | 6   | Charlestown, Malvern, Willistown                    |
| Muni EIT 0.5 + School EIT 0.5 = 1.0 total | 30  | East Goshen, West Chester, West Whiteland           |
| Total EIT ≥ 1.0                           | 24  | Coatesville, New Garden, West Bradford              |

In light of the projected deficit and East Whiteland’s low tax rate relative to other Chester County communities, Township officials asked PFM to evaluate the potential impact of increasing the resident and commuter EIT rates. The next section walks through these projections.

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<sup>1</sup> There are some instances where a municipality can levy a resident EIT higher than 1.0 percent, such as having a home rule charter that allows a higher tax rate or having a distressed pension fund according to Pennsylvania law. Those exceptions do not apply to East Whiteland at this time. There are also instances where the total EIT rate (municipality plus school district) exceeds 1.0 percent because, for example, the school district decided to levy an EIT under the 2006 property tax relief act.

## Impact on residents

A person's EIT bill depends on the EIT rate where that person lives *and* the EIT rate where that person works.

East Whiteland residents pay a 0.5 percent EIT to the Township. They may also pay an additional non-resident (or commuter) EIT to the municipality where they work depending on whether that municipality has that tax<sup>2</sup>.

According to information provided by the Township's third party collector, about 7600 East Whiteland residents paid \$2.0 million in EIT revenue to the Township in 2016<sup>3</sup>. About 2200 of those East Whiteland residents worked in the Township, so their tax bill was straightforward – they just paid 0.50 percent of earnings to East Whiteland Township.

Another 2000 residents worked in a place where the non-resident EIT was 0.50 percent or less, and in many cases it was zero. That group of residents also just paid the 0.50 percent to East Whiteland Township with no additional tax bill where they worked.

**Most Common Workplace Locations for Township Residents in 2016**

| Place of employment          | 2016 Count   | East Whiteland EIT payment | Additional Non-Resident tax? |
|------------------------------|--------------|----------------------------|------------------------------|
| East Whiteland Twp.          | 2,173        | \$589,611                  | No                           |
| Tredyffrin Twp.              | 709          | \$268,393                  | No                           |
| West Whiteland Twp.          | 500          | \$71,596                   | Yes: 0.50%                   |
| Upper Merion Twp.            | 346          | \$125,050                  | No                           |
| West Goshen Twp.             | 306          | \$63,254                   | Yes: 0.50%                   |
| Malvern Boro                 | 295          | \$36,443                   | Yes: 0.50%                   |
| Willistown Twp.              | 240          | \$50,891                   | Yes: 0.375%                  |
| Radnor Twp.                  | 182          | \$54,095                   | No                           |
| Uwchlan Twp.                 | 179          | \$35,153                   | Yes: 0.50%                   |
| West Chester Boro            | 171          | \$27,138                   | Yes: 0.50%                   |
| East Goshen Twp.             | 127          | \$25,890                   | Yes: 0.50%                   |
| Upper Providence Twp.        | 122          | \$62,028                   | Yes: 0.50%                   |
| Lower Merion Twp.            | 121          | \$35,192                   | No                           |
| Newtown Twp.                 | 112          | \$53,563                   | No                           |
| Easttown Twp.                | 101          | \$13,047                   | No                           |
| <b>Total (All Residents)</b> | <b>7,603</b> | <b>\$1,998,959</b>         | <b>N/A</b>                   |

The first two groups paid \$1.25 million total to East Whiteland Township in 2016. We assume 5 percent of the total came from delinquent accounts that would not recur each year<sup>4</sup>. Removing that revenue from the total leaves \$1.19 million in recurring revenue. Doubling the tax rate would have resulted in \$2.37 million in revenue assuming for now that higher tax rates do not create any disincentive for residents to earn money.

As described in the Fiscal Condition Assessment chapter, the baseline assumes that EIT revenues grow by 4 percent annually as earnings and employment rises. If we apply that growth rate to each year between 2016 and 2019, it yields the following projections for EIT revenues at different levels of tax increase.

<sup>2</sup> The Pennsylvania Department of Community and Economic Development (DCED) provides guidance on how the non-resident EIT is applied to people who work in one location but the employer is located elsewhere. <https://dced.pa.gov/local-government/local-income-tax-information/local-withholding-tax-faqs/>

<sup>3</sup> Unless otherwise noted, all information comes from the Keystone Collections Group. These figures may differ from those reported in other chapters of this report depending on the accounting method used (cash versus modified accrual), how the payments to Keystone for tax collection service are recorded and other factors.

<sup>4</sup> Delinquent taxes accounted for 4.3 percent of the total EIT paid by non-residents in 2016. The projection assumes a similar percentage of resident EIT revenue came from delinquent accounts.

**Projection A: Additional Resident Revenue from Tax Increase  
(EIT from residents who pay all EIT to East Whiteland Township)**

|                                      | 2019        | 2020        | 2021        | 2022        | 2023        |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| If resident EIT was 0.5% (no change) | \$0         | \$0         | \$0         | \$0         | \$0         |
| If resident EIT was 0.6%             | \$267,000   | \$278,000   | \$288,000   | \$299,000   | \$311,000   |
| If resident EIT was 0.7%             | \$533,000   | \$555,000   | \$577,000   | \$599,000   | \$623,000   |
| If resident EIT was 0.8%             | \$800,000   | \$832,000   | \$865,000   | \$899,000   | \$935,000   |
| If resident EIT was 0.9%             | \$1,067,000 | \$1,110,000 | \$1,153,000 | \$1,199,000 | \$1,247,000 |
| If resident EIT was 1.0%             | \$1,333,000 | \$1,387,000 | \$1,442,000 | \$1,499,000 | \$1,559,000 |

For residents who only pay EIT to East Whiteland, increasing the resident EIT means increasing their total tax bill. There is another group of residents for whom increasing the resident EIT will result in a tax *shift*, but not a tax increase.

In 2016 there were about 3400 residents who worked in places where the non-resident EIT rate was higher than 0.50 percent. They paid \$751,000 to East Whiteland and an additional amount to the municipality where they work. In most cases these residents would have paid the same amount to the municipality where they work as East Whiteland. This would've been the case for residents who work in places where the non-resident EIT is 1.0 percent, like West Whiteland Township, West Goshen Township and Malvern Borough. If East Whiteland Township increased its resident EIT to 1.0 percent, then those residents would have paid all of their EIT bill to East Whiteland, with no change in the total amount billed. Tax increases of a lesser amount also would have shifted tax revenue from the municipality of employment to East Whiteland.

Using the same baseline assumptions noted above, the table below shows the projected increase in East Whiteland's EIT associated with this tax shift.

**Projection B: Additional Resident Revenue from Tax Shift  
(EIT from residents who currently pay non-resident tax elsewhere)**

|                                      | 2019      | 2020      | 2021      | 2022      | 2023      |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|
| If resident EIT was 0.5% (no change) | \$0       | \$0       | \$0       | \$0       | \$0       |
| If resident EIT was 0.6%             | \$161,000 | \$167,000 | \$173,000 | \$181,000 | \$188,000 |
| If resident EIT was 0.7%             | \$321,000 | \$334,000 | \$347,000 | \$362,000 | \$376,000 |
| If resident EIT was 0.8%             | \$482,000 | \$501,000 | \$521,000 | \$542,000 | \$564,000 |
| If resident EIT was 0.9%             | \$643,000 | \$668,000 | \$694,000 | \$723,000 | \$752,000 |
| If resident EIT was 1.0%             | \$803,000 | \$835,000 | \$868,000 | \$904,000 | \$940,000 |

## Impact on commuters

If the Township chooses to increase its resident EIT rate, it could also choose to increase the non-resident (or commuter) EIT rate paid by people who work in East Whiteland and live elsewhere. That rate is currently 0.5 percent. By Pennsylvania law, East Whiteland could increase the non-resident EIT by the same or a lesser amount as the resident EIT increase<sup>5</sup>.

As with the residents, the amount of revenue that East Whiteland would receive from a non-resident EIT increase depends on the EIT rate where the commuters live. East Whiteland only receives commuter EIT revenue if the commuter's home municipality does not have a resident EIT or has one at a rate lower than East Whiteland's non-resident tax rate.

According to information provided by the Township's third party collector, East Whiteland received \$2.9 million in non-resident EIT from about 8100 commuters in 2016. About 30 percent (or 2400) of those commuters lived out of state and they paid \$841,000 in 2016. Commuters from five communities – Tredyffrin, Upper Merion, Upper Darby, Haverford and Radnor – generated another \$1.0 million and the remaining \$1.0 million was spread across more than 40 other municipalities in the region.

**Most Common Home for EIT-Paying Commuters in 2016**

| Home municipality (County)       | Count        | East Whiteland EIT payment |
|----------------------------------|--------------|----------------------------|
| Out of State                     | 2,357        | \$840,699                  |
| Tredyffrin Twp. (Chester)        | 1,025        | \$441,676                  |
| Upper Merion Twp. (Montgomery)   | 627          | \$211,610                  |
| Upper Darby Twp. (Delaware)      | 559          | \$102,638                  |
| Haverford Twp. (Delaware)        | 424          | \$153,511                  |
| Radnor Twp. (Delaware)           | 324          | \$154,861                  |
| Lower Merion Twp. (Montgomery)   | 294          | \$156,177                  |
| Marple Twp. (Delaware)           | 259          | \$80,025                   |
| Easttown Twp. (Chester)          | 253          | \$136,403                  |
| Springfield Twp. (Delaware)      | 199          | \$63,326                   |
| Ridley Twp. (Delaware)           | 172          | \$36,911                   |
| Newtown Twp. (Delaware)          | 169          | \$100,683                  |
| Concord Twp. (Delaware)          | 134          | \$62,979                   |
| Middletown Twp. (Delaware)       | 112          | \$34,517                   |
| Upper Providence Twp. (Delaware) | 106          | \$42,067                   |
| <b>Total (all commuters)</b>     | <b>8,052</b> | <b>\$2,942,837</b>         |

If East Whiteland doubled the non-resident EIT from 0.5 to 1.0 percent, the revenue received from most of these commuters could also double, assuming the higher tax rate does not create a disincentive for commuters to work in East Whiteland. This simple projection also assumes that the home municipalities for these commuters do not change their resident EIT rate. For example, if East Whiteland increased its non-resident EIT rate by 0.5 percent and Tredyffrin Township also increased its resident EIT rate by 0.5 percent, East Whiteland would not get more revenue from Tredyffrin commuters. Their total tax bill would double but East Whiteland's share would not change.

Using the same baseline assumptions noted above, the table below shows the projected increase in East Whiteland's EIT revenue from commuters who already pay non-resident EIT to the Township in 2016.

<sup>5</sup> Pennsylvania law prohibits East Whiteland from increasing the non-resident EIT more than the resident EIT. It also prohibits the Township from just increasing the non-resident EIT rate. There are a handful of Chester County municipalities, such as Willistown, that voluntarily set their non-resident rate lower than their resident rate.

### Projection C: Additional Revenue from Current Commuter Tax Payers<sup>6</sup>

|                                          | 2019        | 2020        | 2021        | 2022        | 2023        |
|------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| If non-resident EIT was 0.5% (no change) | \$0         | \$0         | \$0         | \$0         | \$0         |
| If non-resident EIT was 0.6%             | \$664,000   | \$691,000   | \$718,000   | \$747,000   | \$777,000   |
| If non-resident EIT was 0.7%             | \$1,328,000 | \$1,382,000 | \$1,437,000 | \$1,494,000 | \$1,554,000 |
| If non-resident EIT was 0.8%             | \$1,993,000 | \$2,072,000 | \$2,155,000 | \$2,241,000 | \$2,331,000 |
| If non-resident EIT was 0.9%             | \$2,657,000 | \$2,763,000 | \$2,874,000 | \$2,989,000 | \$3,108,000 |
| If non-resident EIT was 1.0%             | \$3,321,000 | \$3,454,000 | \$3,592,000 | \$3,736,000 | \$3,885,000 |

The 8100 people who paid non-resident EIT to East Whiteland Township in 2016 are not the only commuters who work in the Township. There is an unknown number of commuters who work in East Whiteland but do not pay anything to the Township because the resident EIT rate where they live is equal to or higher than East Whiteland's non-resident rate.

Besides East Whiteland itself, there are seven Chester County municipalities<sup>7</sup> where the total resident EIT rate ranges from 0.5 percent to 0.75 percent. Commuters who live in those communities could start paying EIT to East Whiteland if the Township's non-resident EIT rate increased, depending on how much the rate increased. Based on the 2016 data, East Whiteland would pick up an extra 500 commuter tax payers from six of the seven municipalities with any increase in its non-resident EIT and another 200 if the tax was increased above 0.75 percent and impacted London Grove residents.

Using the same baseline assumptions noted above, the table below shows the projected increase in East Whiteland's EIT revenue from these potential new commuter taxpayers.

### Projection D: Additional Revenue from New Commuter Tax Payers

|                                          | 2019      | 2020      | 2021      | 2022      | 2023      |
|------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| If non-resident EIT was 0.5% (no change) | \$0       | \$0       | \$0       | \$0       | \$0       |
| If non-resident EIT was 0.6%             | \$18,000  | \$19,000  | \$20,000  | \$20,000  | \$21,000  |
| If non-resident EIT was 0.7%             | \$36,000  | \$38,000  | \$39,000  | \$41,000  | \$42,000  |
| If non-resident EIT was 0.8%             | \$57,000  | \$59,000  | \$61,000  | \$64,000  | \$66,000  |
| If non-resident EIT was 0.9%             | \$79,000  | \$83,000  | \$86,000  | \$89,000  | \$93,000  |
| If non-resident EIT was 1.0%             | \$102,000 | \$106,000 | \$110,000 | \$115,000 | \$119,000 |

<sup>6</sup> In the previous projections for additional revenue paid by residents, we applied a 5 percent discount rate to remove non-recurring delinquent revenue from the base. In this case the data already excludes delinquent taxes paid by non-residents so no discount is needed.

<sup>7</sup> Franklin Township, New London Township, Newlin Township, Penn Township, Pocopson Township and West Marlborough Township have 0.5 percent resident EIT rates. London Grove Township has a 0.75 percent resident EIT rate.

## Thinking through the options

If East Whiteland Board of Supervisors is interested in increasing the earned income tax, the board will have two decisions.

- 1) Does the Township increase the 0.5 percent earned income tax on residents? If so, how much?
- 2) Does the Township also increase the 0.5 percent earned income tax on non-residents? If so, how much?

As noted earlier, the Township can only increase the non-resident EIT if it also increases the resident EIT by the same or a larger amount. The maximum EIT rate that the Township can charge for residents and non-residents is currently 1.0 percent.

The table below provides a sense of magnitude for potential revenue growth if the Township increases the resident EIT. This is additional revenue paid to the Township by residents who would be paying a higher tax rate (Projection A) and those who would pay a larger share of their existing tax bill to East Whiteland (Projection B).

### Additional Revenue from Resident EIT Increase (Projections A + B)<sup>8</sup>

|                                      | 2019        | 2020        | 2021        | 2022        | 2023        |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| If resident EIT was 0.5% (no change) | \$0         | \$0         | \$0         | \$0         | \$0         |
| If resident EIT was 0.6%             | \$428,000   | \$445,000   | \$461,000   | \$480,000   | \$499,000   |
| If resident EIT was 0.7%             | \$854,000   | \$889,000   | \$924,000   | \$961,000   | \$999,000   |
| If resident EIT was 0.8%             | \$1,282,000 | \$1,333,000 | \$1,386,000 | \$1,441,000 | \$1,499,000 |
| If resident EIT was 0.9%             | \$1,710,000 | \$1,778,000 | \$1,847,000 | \$1,922,000 | \$1,999,000 |
| If resident EIT was 1.0%             | \$2,136,000 | \$2,222,000 | \$2,310,000 | \$2,403,000 | \$2,499,000 |

A potential increase in the non-resident EIT rate has a much larger impact because it would have to be accompanied by a resident EIT increase of at least the same amount. East Whiteland's commuter tax base is also larger than its resident tax base in terms of tax payers (8100 versus 7600 in 2016) and dollars paid (\$2.9 million versus \$2.0 million in 2016). As described above, increasing the non-resident tax rate would also add 500 – 700 new commuters to the tax rolls, widening the gap between the commuter and resident tax base.

The table below provides a sense of magnitude for potential revenue growth if the Township increased the non-resident EIT and resident EIT by the same rate. As noted earlier, the Township could choose to increase the non-resident rate by a lesser amount than the resident rate.

<sup>8</sup> The Township could choose a resident EIT rate that is between the specific amounts shown on this schedule (i.e. a resident EIT rate of 0.75 percent).

**Additional Revenue from Resident and Non-Resident EIT Increase  
(Projections A, B, C and D)**

|                                                           | 2019        | 2020        | 2021        | 2022        | 2023        |
|-----------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| If the resident and non-resident EIT was 0.5% (no change) | \$0         | \$0         | \$0         | \$0         | \$0         |
| 1If the resident and non-resident EIT was 0.6%            | \$1,110,000 | \$1,155,000 | \$1,199,000 | \$1,247,000 | \$1,297,000 |
| If the resident and non-resident EIT was 0.7%             | \$2,218,000 | \$2,309,000 | \$2,400,000 | \$2,496,000 | \$2,595,000 |
| 1If the resident and non-resident EIT was 0.8%            | \$3,332,000 | \$3,464,000 | \$3,602,000 | \$3,746,000 | \$3,896,000 |
| If the resident and non-resident EIT was 0.9%             | \$4,446,000 | \$4,624,000 | \$4,807,000 | \$5,000,000 | \$5,200,000 |
| If the resident and non-resident EIT was 1.0%             | \$5,559,000 | \$5,782,000 | \$6,012,000 | \$6,254,000 | \$6,503,000 |

The projected impact of a resident and non-resident EIT increase under the assumptions outlined earlier is very large. Looking just at the table above, increasing the resident and non-resident EIT from 0.5 percent to 0.7 percent would generate enough revenue to cover the projected deficit in the baseline projection and provide some additional revenue for other strategic needs, like reinstating the contribution to the separate fund set up for retiree health insurance liabilities or capital projects.

**As large as the projected impact of a potential EIT increase is, we caution the Township’s elected and appointed leaders against relying solely on an EIT increase to close the projected deficit and accomplish other financial goals.**

The forward-looking figures shown throughout this chapter are projections of what the Township’s revenues would be under a certain set of assumptions, not *predictions* of what they will actually be. Key assumptions underlying these projections include<sup>9</sup>:

- EIT revenues grow by 4.0 percent per year absent any tax change
- Increasing the EIT rate would not have a detrimental effect on employment or earnings
- Commuters’ home municipalities would not also increase their resident EIT rates

That final assumption is an important one because it speaks to the risk inherent in relying on commuter earned income tax. If any municipality with a large number of commuters working in East Whiteland Township increases its resident EIT rate, that would directly reduce the amount of revenue that East Whiteland receives. As a hypothetical example, if Tredyffrin instituted a 0.5 percent resident EIT and East Whiteland did not change its non-resident EIT rate, East Whiteland’s revenue would drop by close \$0.5 million per year.

That risk is present even if East Whiteland doesn’t change its tax rate. But the more East Whiteland relies on non-resident EIT to fund core services, the more vulnerable it is to revenue loss produced by decisions beyond its own control.

<sup>9</sup> Revenues could also be lower than projected in this chapter because of the timing lag between the effective date of the tax increase and the point at which the Township receives money from that increase. Changes to the Pennsylvania law governing how quickly employers remit the EIT have helped reduce that time lag in some instances, but it could still be a factor for the first year of tax increase, depending in part on the Township’s accrual practices.

## East Whiteland Township's unique opportunity

Frequently municipalities that participate in the Early Intervention Program have limited options for increasing tax revenue. Often the local government has already taken its earned income tax to the maximum level allowed under Pennsylvania law, setting aside the taxing authority provided in more extreme circumstances, like Act 47 oversight. In many cases the local government also levies the maximum 1.0 percent non-resident EIT allowed by Pennsylvania law, but so do many of the surrounding municipalities where commuters live. In those cases the non-resident tax generates very little revenue. In terms of revenue increasing options, local leaders are left with the choice of increasing the real estate tax rate – often more than once if total assessed value stays flat -- or trying to increase recurring revenues from smaller non-tax sources.

East Whiteland has a different situation because of its ability to raise the earned income tax rates on its residents and its non-residents and the amount of revenue those tax increases potentially generate, especially from non-residents. East Whiteland has the opportunity to move beyond questions about how to balance the annual budget and think more creatively about the right mix of services Township government provides and the revenues it uses to fund them. The three concepts described below are some of the tools that Township leaders should consider for that purpose.

### Real estate tax: Two options for consideration

The real estate tax generates a relatively small portion of the total revenue that funds daily operations in East Whiteland Township. The 2018 budget anticipates \$663,000 in real estate tax revenues, or less than six percent of the General Fund total. The Board may want to discuss two options related to this tax. One option would decrease the real estate tax revenue and the other would increase it:

- **Homestead exemption:** Pennsylvania municipalities are authorized to offer property owners this exemption on a portion of their real estate tax bill if they live on the property being taxed.<sup>10</sup> Functionally the homestead exemption provides a flat dollar amount that is deducted from the assessed value of each eligible property, lowering that value and the resulting tax bill. The specific dollar value of the exemption varies each year depending on the number of eligible properties. The exemption cannot be more than half of the median value for homestead properties. Home owners can have different homestead exemptions from each level of government such that, for example, the Township offers one level of exemption, the School District offers a second and the County does not offer one at all.

The homestead exemption effectively lowers tax bills for resident home owners and lowers tax revenue for the Township government. There are prohibitions on the Township explicitly increasing the earned income tax or real estate tax itself to offset the cost of the homestead exemption. But the Township is permitted to use budget surpluses, which assumedly could be caused by real estate or EIT increases, to pay for the exemption. The Township should consult with its solicitor on these restrictions.

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<sup>10</sup> Municipalities can also offer an additional farmstead exemption to farmers who live on a property that is at least 10 acres.

As noted above the real estate tax already accounts for a small portion of total Township revenue. However, since a resident EIT increase would impact several resident income earners who are also property owners, the homestead exemption appears to be an option for lessening the impact on the home owner's total tax burden.

- **Special purpose real estate tax millage:** East Whiteland's tax millage generates money that can be used for any purpose, whether it is to support daily operations, retire debt<sup>11</sup> or fund capital projects. Some Pennsylvania municipalities use special purpose real estate tax rates, in addition to their general purpose millage, to generate revenue for specific purposes, like public safety, capital projects, debt repayment or a contribution to the local library. In 2016 there were 21 Chester County municipalities using 43 special purpose real estate tax millage rates with some communities like East Marlborough, London Britain and West Whiteland using more than one. The table below shows some of these millage rates and purposes.

### Sample of 2016 Special Purpose Real Estate Tax Rates

| Purpose                | Tax rates         | Used by                                          |
|------------------------|-------------------|--------------------------------------------------|
| Ambulance, Rescue, EMS | 0.07 - 0.50 mills | London Britain, New Britain and Upper Uwchlan    |
| Capital Fund - Roads   | 0.76 mills        | London Britain                                   |
| Debt repayment         | 0.47 - 2.45 mills | Easttown, West Chester                           |
| Fire Equipment         | 0.07 - 1.1 mills  | East Marlborough, London Britain, West Whiteland |
| Library                | 0.02 - 0.45 mills | East Marlborough, Easttown, West Chester         |
| Recreation             | 0.05 - 0.35 mills | Easttown, Franklin, London Britain               |
| Street Lighting        | 0.002 - 0.45      | Avondale, West Whiteland                         |

The advantage of the special purpose real estate tax millage is it clearly ties the money that property owners pay to a service they receive. For services that are provided regionally, like a regional ambulance service, it also distributes the costs more clearly across the municipalities that receive the service. The real estate tax is also generally less sensitive to swings in the economy than the earned income tax, which means the revenue is less likely to fluctuate. This is particularly attractive for funding something like debt repayments where the amounts owed may be fixed over several years.

There are also drawbacks to these special purpose millage rates. The Township would have less flexibility to use money from a real estate tax designated for recreation than it would from a general purpose real estate or earned income tax. Real estate taxes shift the cost of providing a service to property owners, even when the service is something used by broader segment of the population, like roads. Real estate tax revenues, which are tied to assessed taxable value, also grow less than earned income tax revenues, which are tied to earnings.

<sup>11</sup> Most of the Township's debt is related to the sewer system and covered by user fees.

Depending on the types of service under consideration and the demands on existing revenue sources, the special purpose real estate tax is an option worth considering.

### **A longer term option: Open space EIT**

Earlier in this Plan we suggested the following draft mission statement to provide a clear, aspirational statement of purpose for what East Whiteland Township government wants to achieve and why, based on the Board members' input:

*We strive to make East Whiteland a safe, prosperous, inclusive and **environmentally healthy** Township that capitalizes on its economic diversity, delivers quality-of-life amenities and strengthens resident pride in East Whiteland as a unique community.*

Environmental health refers in part to residents' interest in preserving open space within East Whiteland and guarding against an excessive amount of land development that causes pollution, congested roads or other damage to quality of life. Pennsylvania Act 153 of 1996 enables townships to seek voter approval through referendum for an earned income tax on its residents that generates money for purchasing property for open space preservation or repaying debt incurred for that purpose<sup>12</sup>. The law was subsequently amended to allow governments to use a portion of the tax revenue to prepare plans required under the law for open space acquisition or to maintain and improve the open space acquired<sup>13</sup>.

This Act gives East Whiteland Township the ability to increase its resident EIT rate above the 1.0 percent maximum described earlier, if the Township should decide to increase its resident EIT to that level. This additional open space EIT can only be levied on residents and could not be repealed until five years after it is imposed or until after the debt incurred to acquire open space is fully repaid, whichever comes last.

According to information compiled by the Trust for Public Land, more than a dozen Chester County municipalities adopted an open space tax through voter referenda and three other municipalities considered the tax but rejected it through that same process. The open space tax provision is also used by municipalities in Delaware, Montgomery, Bucks, Lehigh and Northampton counties.

The Board should first consider whether it wants to take its resident EIT rate to the 1.0 percent maximum described above and use any proceeds from that increase for open space acquisition. If the Township does take its resident EIT to 1.0 percent, then this open space EIT becomes an option for future consideration.

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<sup>12</sup> The Act also authorizes municipalities to seek a higher real estate tax than is otherwise allowed for the same purpose, which also must occur by voter referendum.

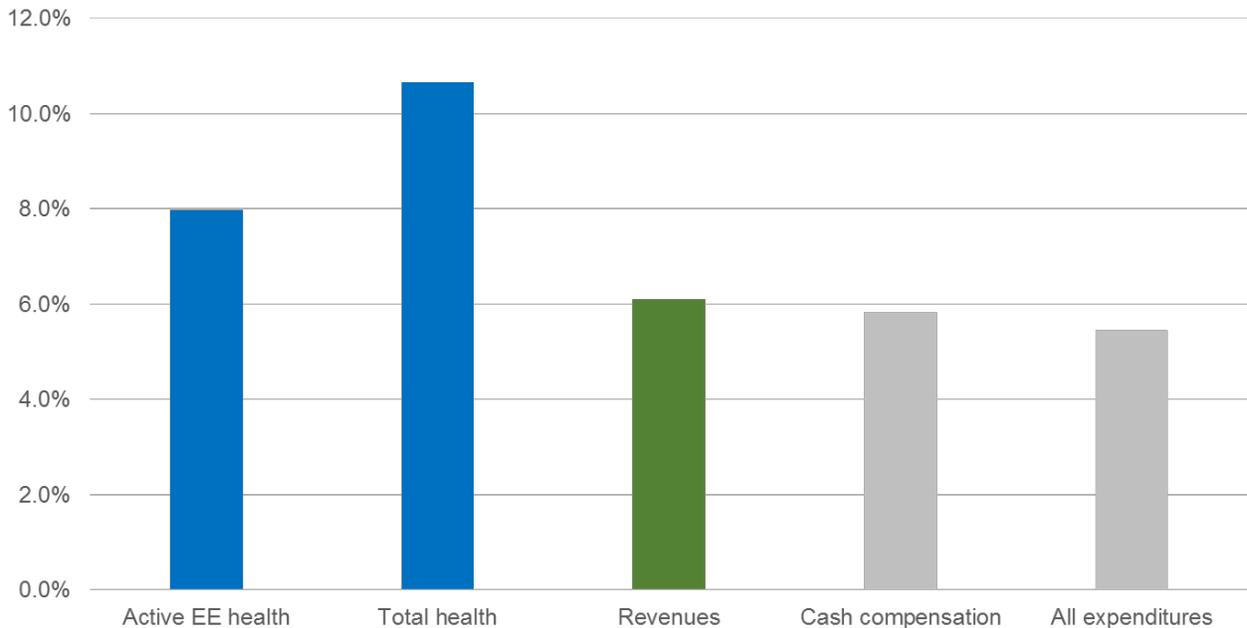
<sup>13</sup> See Pennsylvania Act 115 of 2013.

# Health Insurance Cost Control

The prior chapter describes options available to the East Whiteland Township Board of Supervisors for increasing revenues or changing the mix of them to fund services. A balanced Plan should also include strategies to control expenditure growth. Even a place like East Whiteland Township, which has natural revenue growth and a high credit rating, needs to be mindful of whether expenditures are growing at a rate its revenues can support.

From 2012 to 2016, the Township’s spending on health insurance for active and retired employees grew from \$1.2 million to \$1.9 million, for a compound annual growth rate of 10.7 percent. Spending on active employee insurance grew by 8.0 percent, which was faster than the growth rate in the Township’s revenues, cash compensation expenditures or all other expenditures.

**Compound Annual Growth Rate, 2012 - 2016<sup>1</sup>**



Beyond this high growth in recent expenditures, the Township’s health plan for firefighters and non-uniformed employees also exposes East Whiteland to potential liabilities under the “Cadillac Tax” provision of the federal Patient Protection and Affordable Care Act<sup>2</sup>. That provision levies a 40 percent excise tax on the cost of health benefits above a certain threshold that rises over time to account for inflation. The tax that was originally scheduled for implementation in 2018 has since been postponed to 2022.

<sup>1</sup> The active employee health insurance costs for 2016 exclude a one-time \$119,000 expenditure on a medical runout, which otherwise would take the compound annual growth rate to 10.7 percent. The “All Expenditures” category excludes those related to active and retired employee health insurance.

<sup>2</sup> This analysis related to the potential Cadillac Tax liability was presented by the Kapoor Company as part of the Township’s fire interest arbitration hearing in March 2017. That analysis only considered the tax liability associated with the plan covering the firefighters. It is unknown whether there are similar liabilities for the plan covering police officers.

In early 2017 the Delaware Valley Insurance Trust (DVIT) estimated that East Whiteland's plan for firefighters and non-uniformed employees would have been subject to the Cadillac tax generating a new \$652,000 expense in 2020. The federal government pushed the tax's implementation back to 2022, but to date that only postpones the arrival of a liability that will continue to grow unless the Township takes corrective action to control the cost growth for employee health insurance<sup>3</sup>.

East Whiteland Township employees also make very minimal or no contributions to the cost of their health insurance. Firefighters and employees not represented by a union contribute \$12.50 per pay period for single coverage and \$22.50 per pay period for any other level of coverage. That translated to an employee premium contribution of 1.7 percent for single coverage and 1.5 percent for family coverage in 2015<sup>4</sup>. East Whiteland police officers and AFSCME employees do not make any monthly premium contribution toward the cost of their health insurance. In contrast the national average employee premium contribution for single coverage was 17.7 percent (or \$1,218 per year) percent and the average contribution for family coverage was 40 percent (or \$7,535) in 2017<sup>5</sup>.

## Recommendations

The Township could reduce the cost growth for its health insurance plans and still provide quality coverage to its employees by changing the plan design. The Township proposed one plan that would achieve these goals during its March 2017 fire arbitration hearing. The proposed plan would have been a PPO with a health savings account<sup>6</sup>; a deductible (\$1300 individual/\$3000 family); no monthly premium contributions; and higher copayments for office visits and prescription drugs.

Depending on any new health care plan design, the Township should also establish a more meaningful level of employee cost sharing. If the current plan design is maintained, the employee premium contribution should be raised above the very small contribution level and indexed to the premiums, instead of being a flat dollar amount. The Township could also move to a plan with a deductible and no premium contributions, such as the one described above.

In either case the Township needs to reduce the growth in its health insurance costs and distribute more of those costs to the employees who use the coverage, as opposed to letting them be shouldered almost entirely by the taxpayers who may already be paying higher taxes, depending on the Township's decisions regarding a potential EIT increase.

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<sup>3</sup> It is also possible that the federal provision governing this tax will change or its implementation be postponed again.

<sup>4</sup> The COBRA rates for the DVIT PPO were \$18,639 for single coverage and \$39,298 for all other levels of coverage in 2015. Any premium increases after 2015 would result in even lower employee contribution percentages since the employee contributions are set at a flat dollar amount.

<sup>5</sup> Employer Health Benefits - 2017 Annual Survey, Kaiser Family Foundation, page 82. These contribution rates apply to Preferred Provider Organization (PPO) plans since that is what East Whiteland Township offers. They also apply to "small firms" which are those with fewer than 200 employees.

<sup>6</sup> The Township proposed that it would fund the account at 25 percent of the deductible.

## Credit Rating Strategies

When local governments borrow money, one of the factors that determines their cost to do so is the government's credit rating – a measure of the government's ability to repay the debt in full and on time. Credit rating agencies evaluate the government's creditworthiness, assign a letter grade that ranks it and provide an outlook that indicates what direction the credit rating could go over the next two years.

Credit rating agencies issue new ratings when a government issues debt but they monitor the government's situation and performance on an ongoing basis and may offer "comments" on the Township's credit rating at any time. East Whiteland's last credit rating came in October 2016 when Moody's assigned an Aa1 score to the Township, which is the second highest level possible on Moody's scale. Only eight municipal governments in Pennsylvania held the highest rating on Moody's scale (Aaa) as of February 2018, including neighbors East Goshen, Tredyffrin and West Whiteland. Only 10 other local governments besides East Whiteland have the Aa1 rating, including neighbor Willistown.

East Whiteland is in a very favorable position already at Aa1, but it is possible for East Whiteland to do even better and take its credit rating to Aaa. If the Township does not address the financial challenges described in the Financial Condition Assessment section of this report, it is also possible for the credit rating to eventually slip in the opposite direction. While the Township's credit rating is very strong, Moody's cited the Township's recent draw on its fund balance in its last "public comments" issued November 2017:

*The Township's financial position is robust and is slightly favorable when compared to the assigned rating of Aa1. The fund balance as a percent of operating revenues (34.8%) is on par with the US median. However it declined materially from 2012 to 2016...*

*The debt and pension liabilities of the township are affordable overall. That said they are slightly weak relative to its Aa1 rating<sup>1</sup>.*

This section summarizes how municipal government credit ratings are determined and offers recommendations for how East Whiteland can shore up and possibly improve its already-strong position.

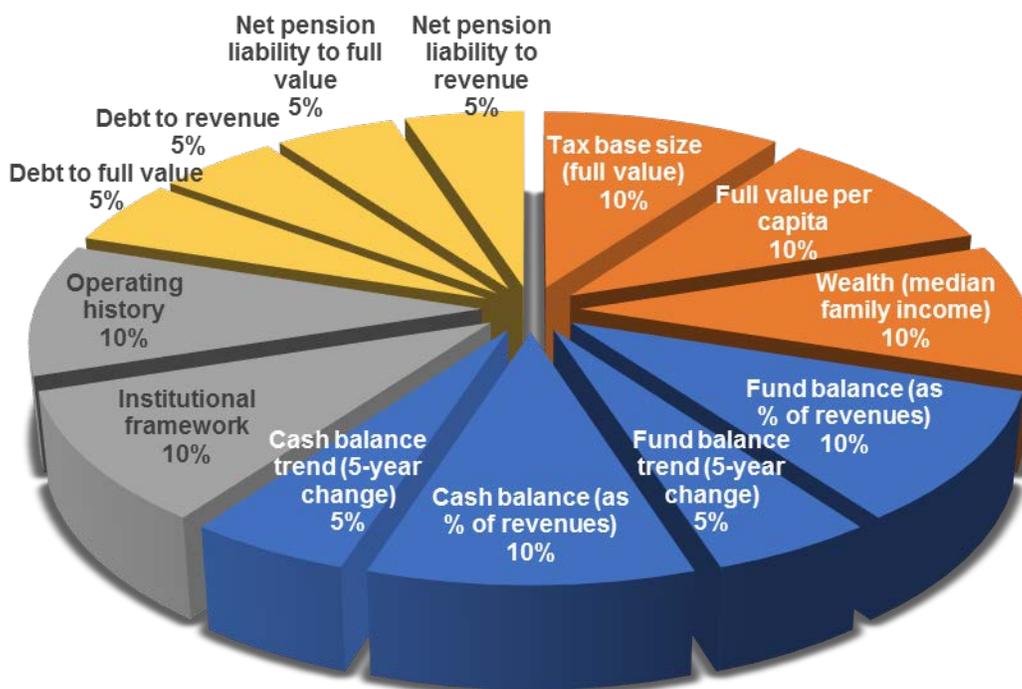
### Credit rating components

Credit rating agencies like Moody's have become more transparent in their methodology for assigning credit ratings. While there is still an element of subjectivity in how certain attributes are graded, the mix of attributes considered is explained in the chart and table below.

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<sup>1</sup> Moody's Investors Service – Annual Comment on East Whiteland Township. November 28, 2017.

### Moody's Scorecard Components<sup>2</sup>



Thirty percent of the credit rating pertains to the municipality's tax base as measured by its full value (a measure of the real estate tax base) and resident wealth. Those are the orange slices in the chart above. An equal amount of the credit rating is set by two lines in the municipality's annual audit – the cash balance and the fund balance – shown in the blue slices. Twenty percent is determined by Moody's assessment of the government's management (grey slices) and another 20 percent by the government's debt and pension liabilities (yellow slices).

Some factors are easier for local government officials to influence than others. East Whiteland Township officials cannot directly control the wealth of its residents or its tax base size. However, it can influence – or at least make decisions with an eye toward improving – the cash balance and fund balance.

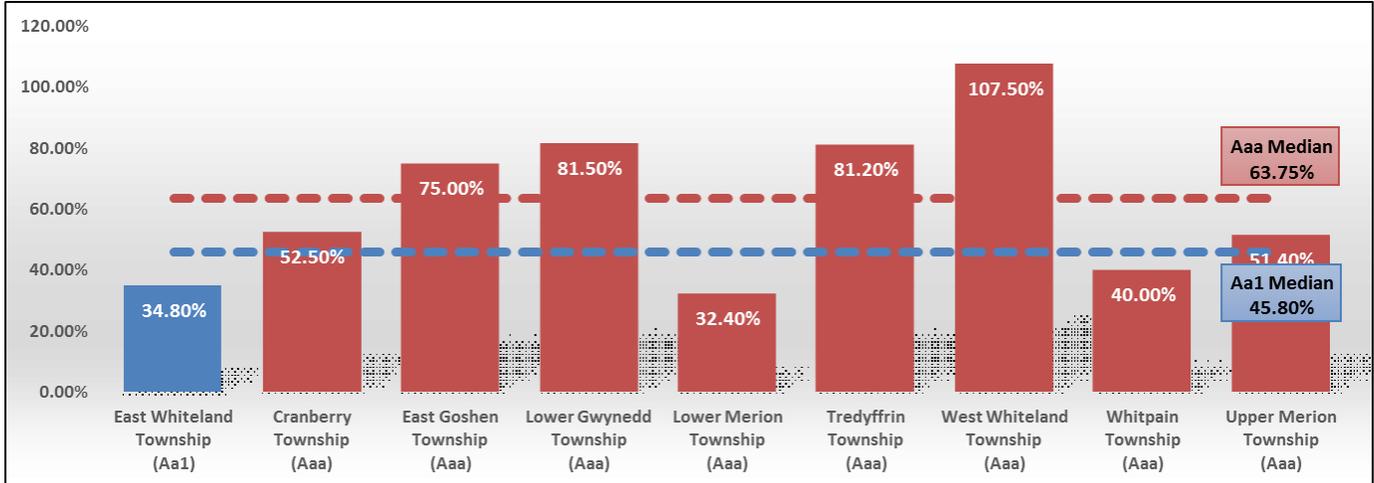
East Whiteland's fund balance, measured as a percentage of operating revenues, is low relative to the Aaa-rated Pennsylvania municipalities. At 34.8 percent in 2016, East Whiteland's fund balance is also low relative to other Pennsylvania municipalities at the Aa1 level that the Township currently holds.

<sup>2</sup> Moody's Investor Services – Local Government Methodology

**FUND BALANCE AS A % OF REVENUES**

Available fund balance (operating funds assets minus operating funds liabilities, adjusted for other resources or obligations that are available for operating purposes) as a percentage of operating revenues.  
(10% weighting in Moody's Methodology)

| East Whiteland Township (Aa1) | Cranberry Township (Aaa) | East Goshen Township (Aaa) | Lower Gwynedd Township (Aaa) | Lower Merion Township (Aaa) | Tredyffrin Township (Aaa) | West Whiteland Township (Aaa) | Whitpain Township (Aaa) | Upper Merion Township (Aaa) |
|-------------------------------|--------------------------|----------------------------|------------------------------|-----------------------------|---------------------------|-------------------------------|-------------------------|-----------------------------|
| 34.80%                        | 52.50%                   | 75.00%                     | 81.50%                       | 32.40%                      | 81.20%                    | 107.50%                       | 40.00%                  | 51.40%                      |



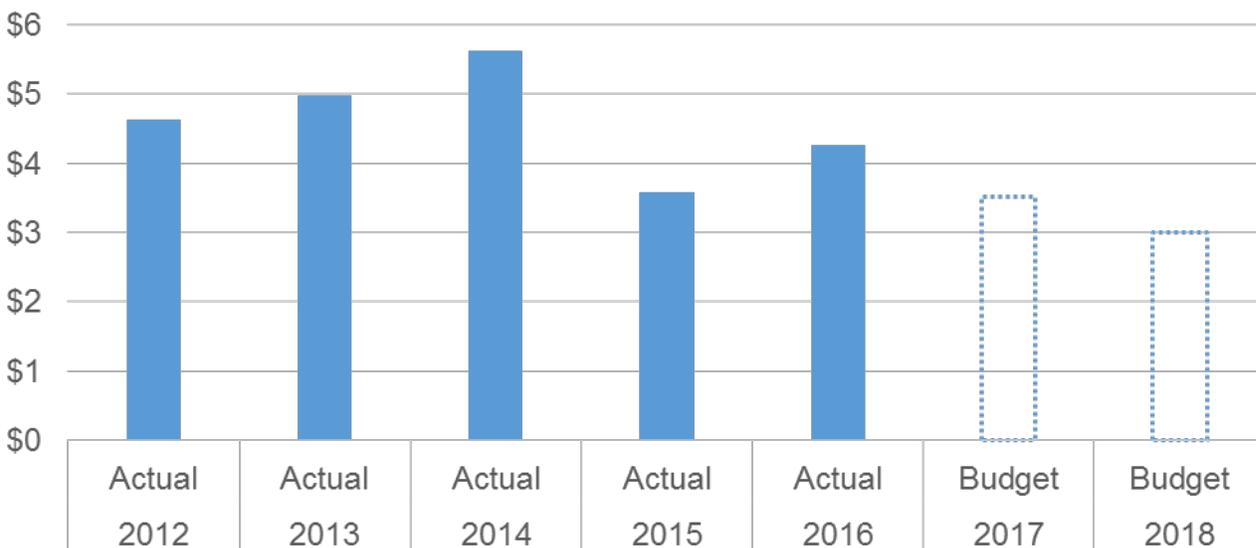
Source: Moody's MFRA

East Whiteland is similarly low in terms of its cash balance as a percent of revenues relative to municipalities at the current Aa1 credit rating level (median 39.5 percent) and the Aaa level to which East Whiteland aspires (median 55.1 percent). As described above, these are not the only factors in a municipality's credit rating. Whitpain Township in Montgomery County also falls below the median levels for Aaa credits in these categories, but still has the highest rating possible.

Nevertheless these are important criteria to address to improve East Whiteland's credit rating, not just in terms of where the cash and fund balance stand, but the direction they are moving. The figures in the Township's comprehensive annual financial report show spendable fund balance within the General Fund peaking at \$5.6 million in 2014 and then dropping to \$4.3 million in 2016<sup>3</sup>. The Township's last two budgets assumed the Township would use \$748,000 in 2017 and \$521,000 in 2018, though actual performance could differ from those figures.

<sup>3</sup> The numbers shown here and in the chart below are the General Fund balance minus the non-spendable balance. Moody's may use different numbers in its fund balance criteria.

### Spensible General Fund Balance (\$ Millions)



### Recommendations

As noted above, East Whiteland is working from a position of strength and trying to get stronger. It already has the second highest credit rating possible, though Moody’s has noticed the slipping fund balance.

We recommend the following steps to strengthen the Townships current rating and potentially raise it to Aaa:

- **Ensure ongoing communication with agencies:** Credit rating agencies rely on publicly available data, such as news reports and financial statements, for their monitoring activities. Those sources may not show all relevant information, particularly for factors that are not easily measured and reported in the financial statements. The Township should consider creating a ratings presentation that it can share with the ratings agency, including information on the potential property development at Vanguard and elsewhere<sup>4</sup>. That development may boost the “full value” measure that Moody’s uses in its criteria and the Township’s associated score in that category. The Township should also share this plan document with the agency once it has decided how it is going to implement it, particularly with regards to the tax policy options.
  
- **Formalize financial policies and share them with the ratings agency:** According to PFM’s scorecard model that approximates Moody’s process, the Township’s score in the Management category may be low relative to most of the other categories. The Township should be sure to share any formal policies on fund balance, debt management, investment, continuing disclosure, budgeting or post issuance compliance with the ratings agency so it gets full credit for its existing work and adopt formal policies where there are gaps.

<sup>4</sup> This development should also be incorporated in the real estate tax revenue projections, though the tax rate is so low that the impact is likely very small in terms of dollars.

- **Balance the cost of the tax options described earlier against the benefit of boosting the cash balance and fund balance:** As noted earlier, two lines in the Township's audit – cash balance and fund balance – have a large impact on the Township's credit rating, and the rating agency has noted their slippage in recent years. The Tax Policy Chapter describes the potential impact of increasing the earned income tax on residents and non-residents. Depending on the level of tax increase, the impact would be large enough to cover the deficit described in the Financial Condition Assessment and replenish the fund and cash balance. Township officials will have to weigh the benefit of a potential credit rating increase against other strategic priorities, like funding capital projects, and the cost to taxpayers of a higher tax burden. The Township could also consider increasing the EIT for a short period of time and then scaling that increase back once the fund balance is replenished.