

Strategic Management Planning Program (STMPP)

LOWER MAKEFIELD TOWNSHIP

Agenda

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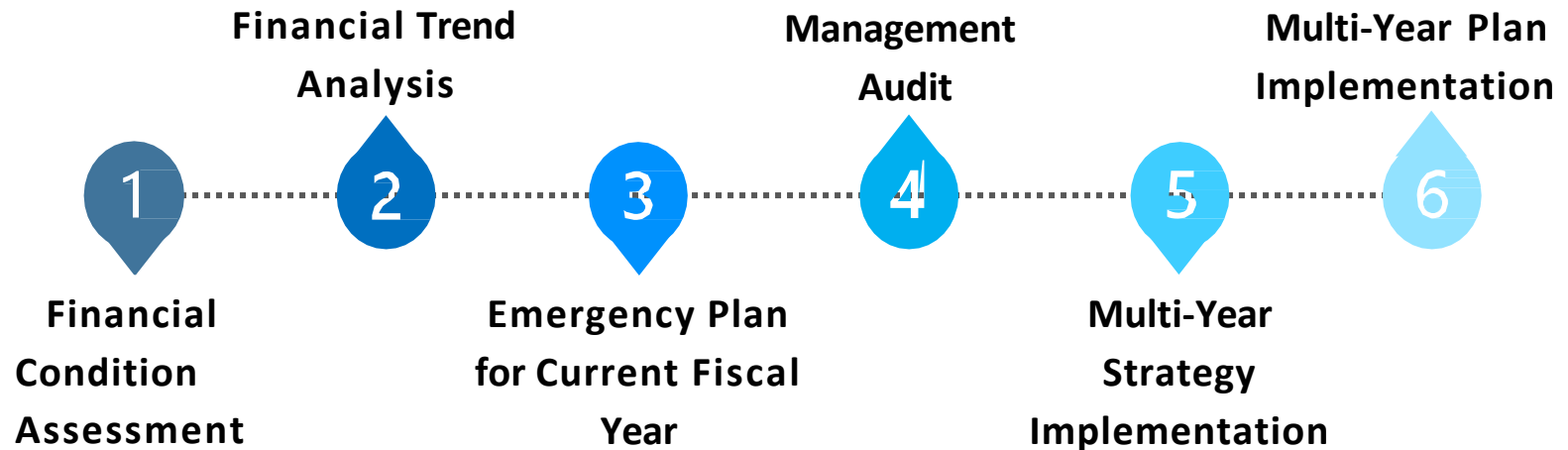


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STMPP Operational Approach



Introduction to Step 1 & 2

The **Financial Condition Assessment** evaluates the Township's ability to meet ongoing obligations while maintaining service levels and capital needs. The **Financial Trend Analysis** projects future revenues and expenditures, incorporating economic and demographic trends to anticipate the financial position from 2025 to 2029.

Financial Condition Assessment

The Financial Condition Assessment provides Lower Makefield Township a detailed review of historical financial performance from 2020 through 2024. This analysis focuses on revenue sources, expenses, and fund balances, providing clarity on the Township's current financial standing and highlighting areas requiring immediate attention to maintain fiscal stability. The analysis of the Township's financial condition shows a mixed picture:

Revenue Sources

- Real Estate Taxes dominate revenues (79%) but lag inflation.
- Real Estate Transfer Taxes fluctuate (~\$1.8M average).
- Charges for Services steady; minor contribution (~6%).
- Licenses & Permits revenue declining due to industry changes.
- State Shared Revenues increasing primarily due to pension aid.
- Leaf Assessment fees increased, generating stable revenue.

Expenses

- Personnel costs steadily increasing due to contractual obligations.
- Limited but variable impact from capital project expenditures.
- Significant use of inter-fund transfers affecting General Fund stability.

Fund Balances

- General Fund balance consistently declining since 2020, with the exception of ARPA funding activity.
- Funds carrying negative balances (Special Projects, Parks & Rec).
- Sewer Sale Proceeds Trust Fund provides strong reserve (~\$27M).
- Liquid Fuels and certain developer-funded funds maintain stable positive balances.

Revenue Sources

Real Estate Tax: The largest revenue source at around 79% of the tax revenue. The Township's current Real Estate Tax rate is 23.05 mills, which has increased 2.04 mills since 2020. This increase, when compared to inflation over the past 5 years, is much lower, approximately 10% real estate tax increase to an inflation rate of approximately 24%.

Year	Tax Millage
2020	21.01
2021	21.01
2022	20.51
2023	20.51
2024	23.05

Real Estate Transfer Tax: The second-largest tax source, representing approximately 14.5% of the Townships tax revenue. From 2020 to 2024, this tax revenue has averaged around \$1.8 million, with the highest being \$2.3 million in 2022 and lowest being \$1.4 million in 2024.

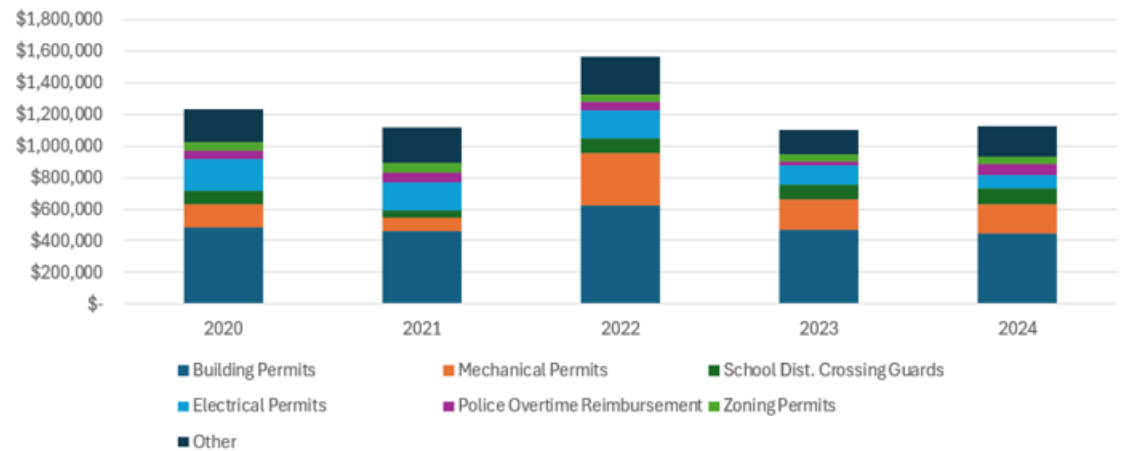
Revenue Sources

Local Services Tax: Local Services Tax represents around 4.5% of the tax revenue of the Township and averaged \$400,000 per year from 2020 to 2024. Fluctuations are minimal year to year, based on the nature of the tax (flat rate, per person tax).

Per Capita Taxes: Per Capita Taxes represent the remaining 2.2% of the tax revenue of the Township and averaged \$200,000 per year from 2010 to 2024. Fluctuations are minimal year to year, based on the nature of the tax (flat rate, per person tax).

Revenue Sources

Charges for Services: The largest charges for service consist of payments from building permits and mechanical permits.



Licenses & Permits: The majority of this revenue consists of Cable TV Franchise Fees. This revenue has been trending downward and will continue with that trend due to residents using streaming services instead of cable. Other fees making up the remainder of this revenue line consist of police service licenses and permits, alarms, amusement permits, and sign permits. These revenue sources make up less than 6% of the Township's total revenues.

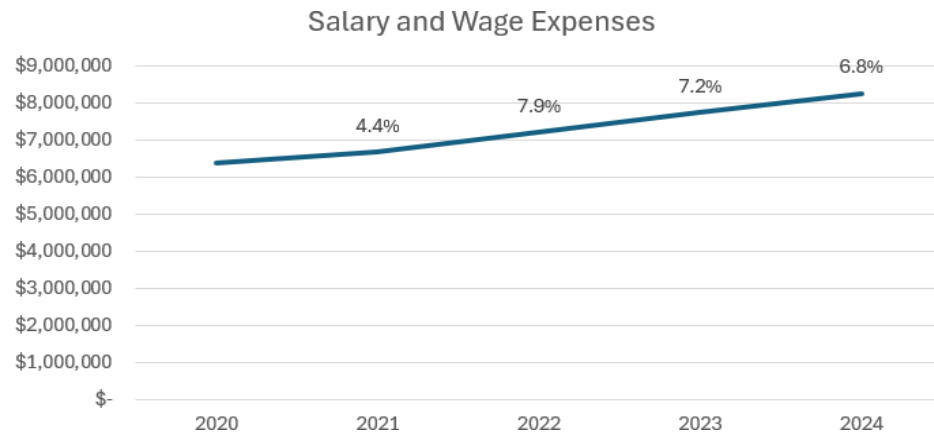
Revenue Sources

State Shared Revenues: The majority is received through the General Municipal Pension System State Aid Program. The amount received from 2020 through 2024 ranged from approximately \$527,000 in 2020 to approximately \$736,000 in 2024. Other revenues included in this category include PURTA Entitlement and PA Liquor Control Board License revenues.

Leaf Assessments: This fee increased from \$75 per lot to \$95 per lot in 2024. Revenues from this assessment averaged around \$650,000 through 2023. Once the fee increased in 2024, revenues increased to approximately \$875,000.

Expenses

Personnel: This is the most significant Township expense. Personnel costs are driven by both the number of employees and wage rates. The employee count has remained fairly stable except for seasonal workers which has experienced larger increases recently. Personnel expenses are on an upward trend despite no clear overlap in employee duties.



Capital Projects: Although historically not a significant portion of the General Fund expenses, the Township should be aware of how upcoming capital projects may impact the General Fund.

Expenses

Transfers: Funds have historically been budgeted and transferred from the General Fund to supplement operating deficits in other funds, pay debt service, and create reserves to be used for future capital projects. In addition to transfers out of the General Fund, the Township has had activity in other funds that have been transferred to the General Fund to be used for general Township purposes. Historical transfers also relate to the payback of funds the General Fund had previously transferred to a different fund to cover a deficit.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Parks & Rec Capital Reserve	\$ -	\$ 205,000	\$ -	\$ -	\$ -
Golf Course	597,055	-	-	-	-
Special Projects	18,000	48,624	125,000	-	-
Debt Service	98,593	74,600	500	-	-
Capital Reserve	194,826	115,771	734,108	-	-
9-11 Memorial Fund	26,650	40,000	58,000	40,000	51,150
GOR Capital Reserve Fund	-	-	5,000	-	5,000
	<u>\$ 935,124</u>	<u>\$ 483,995</u>	<u>\$ 922,608</u>	<u>\$ 40,000</u>	<u>\$ 56,150</u>

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Sewer	\$ 300,000	\$ 400,000	\$ 100,000	\$ -	\$ -
American Rescue Plan	-	-	786,692	200,000	184,916
Sewer Sale Proceeds	-	-	3,000,000	-	1,285,166
Golf Course	-	-	531,896	455,000	455,000
	<u>\$ 300,000</u>	<u>\$ 400,000</u>	<u>\$ 4,418,588</u>	<u>\$ 655,000</u>	<u>\$ 1,925,082</u>

Fund Balance

General Fund: The fund balance is classified as restricted, committed, assigned, and unassigned.

The balance has declined since 2020, except for 2022, which is attributable to the sale of the sewer system and the American Rescue Plan Act. The overall source of this decline can be attributed to expenses increasing at a higher rate than tax revenues received. This trend is consistent with what similar local governments are experiencing.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Total revenues	\$ 13,310	\$ 13,879	\$ 15,546	\$ 14,614	\$ 14,735
Total expenditures	(12,950)	(13,815)	(15,819)	(16,436)	(16,640)
Total transfers in	300	400	4,419	655	1,925
Total transfers out	(935)	(484)	(923)	(40)	(56)
Net increases (decreases) in fund balance	(275)	(20)	3,223	(1,207)	(36)
Fund balance, beginning	1,828	1,553	1,533	4,756	3,549
Fund balance, ending	<u>\$ 1,553</u>	<u>\$ 1,533</u>	<u>\$ 4,756</u>	<u>\$ 3,549</u>	<u>\$ 3,513</u>

Other Funds

Capital Reserve Fund

Intended for capital projects; minimal activity in recent years.
Closing soon, with \$39,389 to transfer to Special Projects Fund.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Revenues					
Interest, contributions, and miscellaneous	\$ 17	\$ -	\$ 21,502	\$ 11,290	\$ 9,178
Intergovernmental revenues	306,416	60,000	-	-	10,229
Total revenues	306,433	60,000	21,502	11,290	19,407
Expenditures					
General government	-	-	-	381,032	-
Public safety	-	-	-	30,498	-
Public works	-	-	-	76,196	21,009
Parks and recreation	-	-	-	288,988	171,905
Capital outlay	476,245	175,771	2,911,184	371,782	-
Debt Service	-	-	43,784	-	-
Total expenditures	476,245	175,771	2,954,968	1,148,496	192,914
Other Financing Sources (Uses)					
Proceeds from long-term debt and leases	-	-	1,989,142	-	-
Transfers in (out)	194,826	115,771	1,752,640	564,575	(22,789)
Net change in fund balance	25,014	-	808,316	(572,631)	(196,296)
Fund balance, beginning of year	(25,014)	-	-	808,316	235,685
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 808,316</u>	<u>\$ 235,685</u>	<u>\$ 39,389</u>

Bond Fund

Holds \$4.1 million restricted for future capital projects; minimal spending anticipated post-2025.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Interest income	\$ 47,263	\$ 14,953	\$ 10,993	\$ 171,450	\$ 240,715
Transfers in (out)	(32,139)	(657,345)	-	-	(534,927)
Net change in fund balance	15,124	(642,392)	10,993	171,450	(294,212)
Fund balance, beginning of year	4,905,060	4,920,184	4,277,792	4,288,785	4,460,235
Fund balance, end of year	<u>\$ 4,920,184</u>	<u>\$ 4,277,792</u>	<u>\$ 4,288,785</u>	<u>\$ 4,460,235</u>	<u>\$ 4,166,023</u>

Note: Debt service for the borrowing of \$15 million for open space preservation purposes assuming level debt service over 25 years equals ~\$1,035,000 per year. Assuming revenue generation of \$550,000 per mill, 1.88 mills would be needed to cover the annual debt service obligation through a special purpose debt service millage.

Other Funds

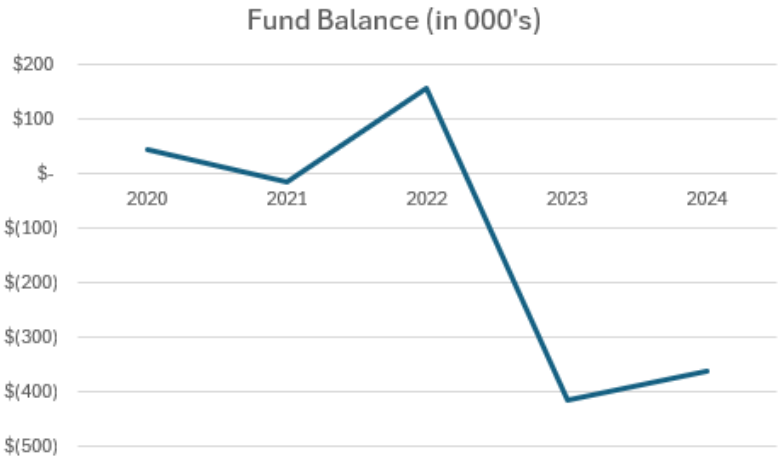
Debt Service Fund

Balances debt payments primarily via real estate taxes; fund balance stabilized post-2023 without transfers needed.

Year	Tax Millage
2020	2.79
2021	2.79
2022	2.09
2023	2.09
2024	2.63

Special Project Fund

Balances fluctuate due to capital projects; ended 2024 with negative balance (-\$362,000), requiring close monitoring and funding adjustments.



Other Funds

Sewer Sales Proceeds Fund

Established from sewer system sale; maintains approximately \$27 million, providing annual revenue distributions. Critical asset for future fiscal health.

Roadway Improvement Fund

New fund (2024); balances roadway projects via dedicated real estate millage; ended 2024 with approximately \$200,000.

Street Light Fund

Steady revenue and expenses; slight increases in expenses due to inflation; assigned balance stable annually.

Other Funds

9-11 Memorial Fund

Sustained annual maintenance deficit funded by cooperation agreement (up to \$40,000 annually), with a small negative balance by end of 2024.

Fire Protection Fund

Positive fund balance (\$170,000) as of 2024; sustained annual expenditures exceeding revenues from taxes and fees.

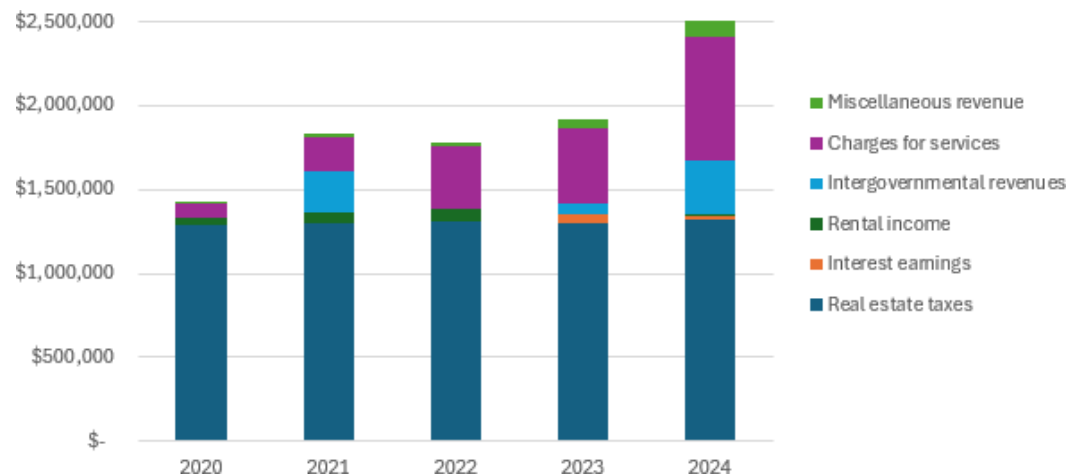
Hydrant Fund

Small, positive balance (\$38,000); expenses steadily rising due to inflation. Millage rates may require adjustment to maintain solvency.

Other Funds

Park and Recreation Fund

Recurring deficits from capital projects and transfers result in negative balance (-\$58,000); requires ongoing monitoring.



Park and Recreation Fee-in-lieu Fund

Strong positive balance (\$799,000); driven by developer fees; fund intended for maintenance and capital projects.

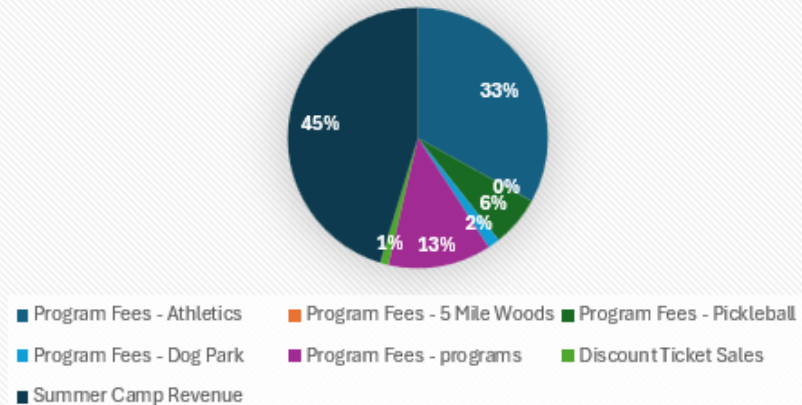
Parks & Recreation Fund

Charges for Services

Athletic Program Fees:

- Majority of revenue is generated from the Yardley Makefield Soccer Program and Lower Makefield Football Program.
- 2024 Revenue includes Pennsbury Athletic Association fee of approximately \$85,000, which is expected to be received in future years.
- Revenue generated supports the maintenance of the parks and facilities used by these participants, in addition to light usage (\$75K)

Charges for Services - 2024

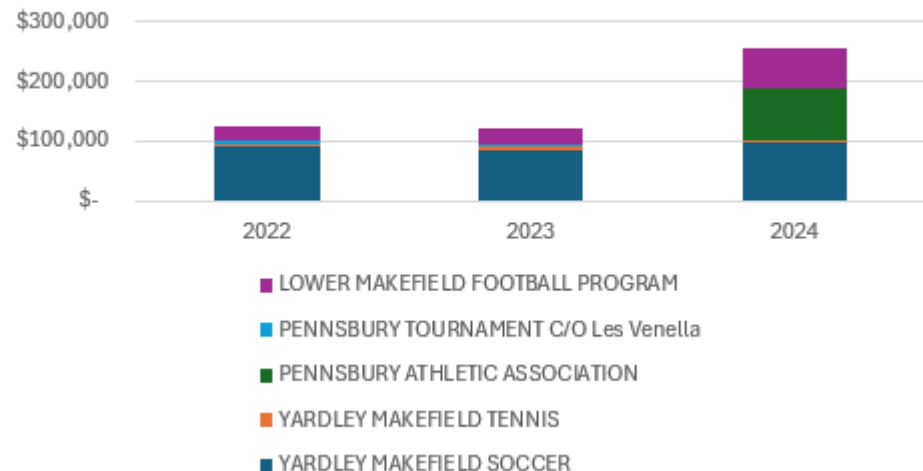


78% of Charges for Service revenue is generated from Athletic Program and Summer Camp Fees

Summer Camp Program has grown in the past 5 years. Averaged 151 participants per week in 2024, with a max of 160. Of the 151, approximately 21 and 30 participants also participated in the before care and after care programs, respectively.

Summer Camp Fee per participant in 2024 was approximately \$225/wk, depending on the number of weeks the participant signed up for. Fees are used to cover the cost of running the summer camp, including summer camp employee payroll costs.

Athletic Program Fees



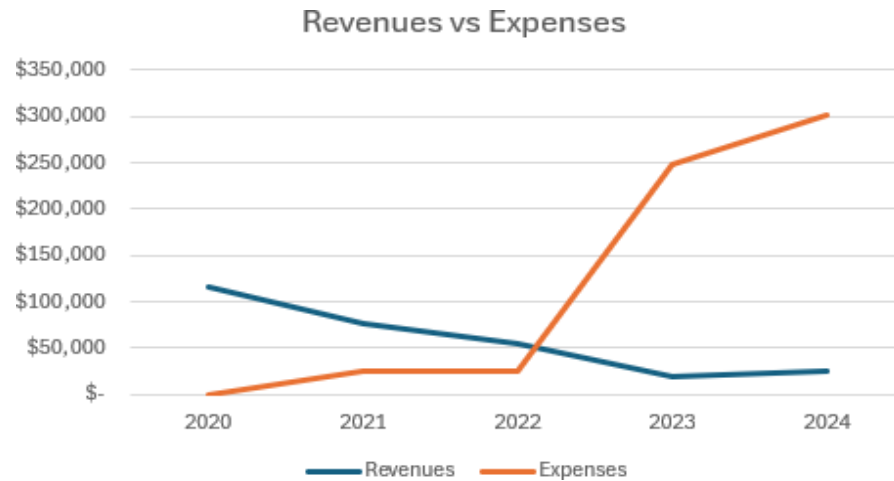
Other Funds

Traffic Impact Fund

Developer-funded with stable positive balance (\$212,698); fluctuations depend on specific traffic projects.

Regency Bridge Fund

Positive balance (\$155,085) despite declining revenues; significant capital expenditures occurred in 2023-2024.



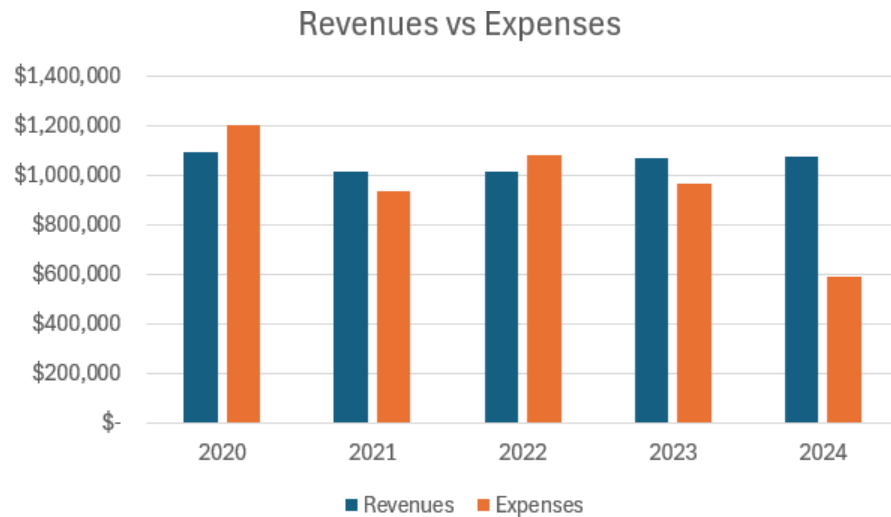
Tree Fund

Developer-funded, strong balance (\$321,662); recent significant revenue and expenses tied to landscape projects.

Other Funds

Liquid Fuels Fund

High positive balance (\$683,421), state-funded; expenses related strictly to road projects, with careful annual budgeting necessary.



Ambulance Rescue Fund

Stable positive balance (\$14,379), consistent annual revenue and expenditures supporting local emergency services.

Other Funds

Road Machinery Fund

Positive balance (\$110,156), sustained by real estate tax revenue; covers equipment leases and purchases.

Patterson Farm Fund

Minimal positive balance (\$3,883), primarily rental income-supported; anticipating future capital improvement expenses.

Sidewalk Fee-in-lieu Fund

Positive balance (\$81,647), developer-funded; minimal expenditures thus far, designated for future sidewalk projects.

Financial Trend Analysis

The Financial Trend Analysis provides Lower Makefield Township with a comprehensive projection of revenues and expenditures through 2029. It evaluates key financial indicators, identifies potential fiscal challenges, and highlights areas of opportunity. The analysis serves as a critical tool for informed decision-making and strategic planning to ensure long-term financial stability and sustainability.

Revenue Projections:

- Limited real estate tax growth (~0.65% annually).
- Stable, yet stagnant, real estate transfer taxes (~1.8M annually).
- Leaf assessment revenue remains consistent (~\$875k annually).
- Other revenue sources projected at modest growth or flat rates.

Expenditure Projections:

- Personnel costs continue to rise significantly.
- Operating expenses increase with annual inflation (~3%).
- Limited capital expenses projected without multi-year CIP.

Potential Risks:

- Projected General Fund deficit by 2027.
- Negative balances in multiple funds requiring corrective measures.

Opportunities:

- Advocacy for County-wide reassessment.
- Advocacy for increase in millage rate cap for 2nd-class townships
- Transition to 1st-class township
- Implementation of an Earned Income Tax(EIT).
- Development of a Multi-Year CIP.

Revenue Projections

Real Estate Tax (RET)

Revenue from RET is projected to increase modestly (approximately 0.65% annually) based on historic assessment trends. Without reassessment or increased statutory flexibility relating to general purpose millage rates, revenue growth will not match expense growth.

	Projected RET Revenue (in 000's)				
	2025	2026	2027	2028	2029
General Fund	\$ 7,617	\$ 7,666	\$ 7,716	\$ 7,766	\$ 7,816
Debt Service	1,383	1,392	1,401	1,410	1,419
Fire Protection	603	607	611	615	619
Hydrant	174	175	176	177	178
Park and Recreation	1,332	1,340	1,349	1,358	1,367
Ambulance	212	213	215	216	218
Road Machinery	165	166	167	168	169
Roadway Improvement	2,172	2,187	2,201	2,216	2,230
	\$ 13,658	\$ 13,746	\$ 13,836	\$ 13,926	\$ 14,016

Revenue Projections

Real Estate Transfer Tax

Projected to remain steady, averaging about \$1.8 million annually. Dependent upon real estate market conditions, fluctuations are expected but not significant.

Leaf Assessments

Projected to remain stable at the recently increased rate (\$95 per lot), generating approximately \$875,000 annually.

Charges for Services & Permits

Projected to remain stable, reflecting the 2025 budget levels with limited increases anticipated.

Expenditure Projections

Personnel Costs

Personnel costs, driven by contractual agreements and inflation, will rise significantly faster than revenues, placing substantial strain on the Township's budget through 2029.

Capital Projects

Current projections do not incorporate significant capital expenditures beyond 2025 due to the absence of a multi-year Capital Improvement Plan. However, necessary capital projects will likely arise, requiring additional funding considerations.

Operating Expenses

General operating expenses are projected to increase at an inflation rate of approximately 3% annually, adding steady upward pressure on overall Township expenses.

Potential Risks

General Fund Deficit

A significant risk is projected deficits in the General Fund starting in 2027, driven by rapidly increasing personnel costs and limited revenue growth, potentially leading to service disruptions or necessitating urgent corrective actions.

Negative Fund Balances

Several funds already exhibit or will soon experience negative balances (e.g., Parks & Recreation, Special Projects), creating risks of service disruption and fiscal stress that will eventually require General Fund intervention.

Dependence on Sewer Sale Trust

The Sewer Sale Trust provides a critical recurring revenue stream (~\$1M annually). Over-reliance on this fund could compromise long-term financial stability if principal withdrawals become necessary.

Revenue Diversification Initiatives

Amusement Tax (Enacted)

Estimated to raise ~\$500k annually through a 10% tax on admission charges for amusement operators within the Township

Parking Tax (Enacted)

This tax works in conjunction with the amusement tax as a safeguard to prevent operators from avoiding the amusement tax through parking charges

Stormwater Utility Fee (Potential)

Ongoing conversation regarding a Stormwater Utility Fee could shift up to \$283k expenses from the General Fund to a Stormwater Utility Fund

Proceeds from Sewer Sale Trust Fund

Annual distribution is 5% of the average aggregate fair market value of the trust's assets at the end of the immediately preceding 3 years. Projected to be nearly \$1.2 million for 2025

Opportunities

County-wide Property Reassessment

Advocating for a county-wide reassessment could significantly increase the assessed tax base, creating additional recurring revenue with the potential to increase millage rates.

If county reassessment is not addressed, additional tools are available:

Increase in Millage Rate Cap for 2nd-Class Townships

Supporting ongoing advocacy efforts for a state-wide legislative change to increase the statutory millage rate cap for second-class townships would open up additional taxation capability for Lower Makefield

Transition to First-Class Township

Lower Makefield meets the population density requirements to become a first-class township, which would increase the statutory millage rate cap to 30 mills

Opportunities (cont.)

County-wide Property Reassessment

Advocating for a county-wide reassessment could significantly increase the assessed tax base, creating additional recurring revenue with the potential to increase millage rates.

If county reassessment is not addressed, additional tools are available:

Multi-Year Capital Improvement Plan (CIP)

Developing a CIP will better position the Township to manage large capital expenditures, improve long-term budgeting accuracy, enhance transparency, and better leverage external funding opportunities.

Implementation of Earned Income Tax (EIT)

Introducing an EIT could significantly stabilize revenue growth, aligning revenues more closely with expenditure increases, and aligning with common practices among Pennsylvania municipalities.

Key Take Aways

The Township's financial stability is threatened by revenue growth lagging behind increasing operational expenses, highlighting the need for immediate corrective measures.

1

General Fund Sustainability: The General Fund is forecasted to encounter deficits by 2027 without corrective actions to revenue or expenditures.

2

Real Estate Tax Limitations: Current real estate taxes will not sustainably support future financial obligations without adjustments.

3

Potential Transition to First-Class Township: Becoming a First-Class Township would increase the maximum allowed millage rate from 14 to 30.

4

Importance of Capital Planning: Long-term capital planning is critical for transparency, efficiency, and securing external funding.

5

Earned Income Tax Consideration: Adopting an EIT could provide critical revenue diversification and mitigate fiscal risk.

Key Take Aways

6

Fund Balance Policy Adherence: Achieving compliance with the established fund balance policy is vital to sustaining financial health and resilience.

Note: Compliance will be achieved in 2025 through the transfer of the remaining \$3.4 million in the Sewer Fund to the General Fund

7

Sewer Sale Proceeds Management: Preserving the principal of the Sewer Sale Trust is essential to maintaining an important recurring revenue stream.

8

Personnel Cost Management: Personnel expenses dominate Township costs, requiring careful management to maintain fiscal balance.

9

Negative Fund Balances: Addressing multiple funds' negative balances is essential to avoid impacting overall financial health.

10

Pension & Long-Term Obligations: Continued monitoring and funding of pension and post-employment liabilities are crucial for future stability.

11

Enterprise Fund Stability: Enterprise Funds require strategic management to avoid operational deficits and to ensure long-term viability.

2026 Budget Considerations

To ensure financial stability, consider the following actions:

Stormwater Utility Fee

Introduction of a Stormwater Utility Fee will help to fund specific expenses and infrastructure needs that would otherwise need to be funded from the General Fund and/or debt service.

Real Estate Tax Rate Increase

Evaluate potential increases to offset rising costs.

Expense Control

Monitor and control personnel and capital expenditures.

Adherence to Fund Balance Policy

Develop specific budgetary practices to consistently achieve and maintain a 25%-40% fund balance reserve

Multi-Year Capital Improvement Plan

Create and publish a comprehensive CIP to prioritize future capital investments and pursue external funding opportunities

Fund Consolidation Strategy

Reduce redundant governmental funds, combining them to streamline operations, minimize administrative burdens, and correct negative balances.

Strategic Management Planning Program (STMPP)

LOWER MAKEFIELD TOWNSHIP