TOWNSHIP OF DERRY
BOARD OF SUPERVISORS
PUBLIC MEETING MINUTES
OCTOBER 11, 2016 – 5:30 PM

CALL TO ORDER

Chairman Marc A. Moyer, called the October 10, 2016 Public Hearing of the Township of Derry Board of Supervisors to order at 5:30 p.m. in the meeting room of the Township of Derry Municipal Complex, 600 Clearwater Road, Hershey, PA. A roll call was performed after the Pledge of Allegiance.

IN ATTENDANCE:

SUPERVISORS	ALSO PRESENT:
Marc A. Moyer, Chairman	James N. Negley, Township Manager and Treasurer
John W. Foley, Jr., Vice Chairman	Jill Henry, Assistant Township Manager
Justin C. Engle, Secretary	Jon A. Yost, Township Solicitor
Matthew A. Weir	Julie Echterling, Recorder
Susan M. Cort-*Arrived at 5:35*	

Attendance:

Charles Huth, Chuck Emerick, Brandon Williams, Thomas Clark, Robert Piccolo, Lauren Zumbrun, Terry Weinhold, Cheryl Lontz, Garth Warner, Matthew Mandia, Barbara Ellis, Marie Sirkot, Zach Jackson, Leslie Fuller, Timothy Roche, Brian Blahusch, Jay Ziegler, Sandie & Carl Pharmza, Sandy Cappelli, Sandy Ballard, William Thurman, Michele T, and Barb Miller.

INTRODUCTION:

Chairman Moyer stated this is a public meeting for the purpose of discussing the Township's multi-year financial planning.

PRESENTATION

Mr. Gordon Mann, Public Finance Management Group (PFM), stated PFM was hired in June to look at the Township's financial situation. He spoke about his firm (PFM) and some of their recent clients including Cumberland County and Derry Township School District. He spoke about three tools they used for their review, which were cash flow projections, annual budgets and multi-year plans. He stated the goal of government is not to make money and this needs to be kept in mind during these discussions.

Multi-Year Planning

He explained a multi-year financial plan can help keep or attain a higher credit rating and lower the cost of borrowing. Three questions need to be asked with these plans:

1. Structural position – Are we structurally balanced such that recurring revenue will continue to meet recurring expense?
2. Sensitivity analysis – How would key changes in key variables impact out projected financial performance?
3. Community Goal – How well do our financial plans align with our broader goals to make this an attractive, high quality place to work and live?

He stated multi-year planning can be an extension of the Comprehensive Plan. The Comprehensive Plan, which was just updated this year, recommended projects and plans for the next 10 years. Multi-year planning can outline strategies for funding these projects.

As part of the review, PFM built a financial planning model projecting the Township's revenue and expenditures in the General and Capital Project Funds for the next 10 years. He showed the Board an excerpt from the Model Growth Rate Table. This table showed the income sources and the expected growth for the next five years. These levels are projected to remain the same over the next five years.

Capital Funds

He spoke about how governmental accounting is broken down into different funds. He explained the General Fund is the operating fund for the day to day operations. The Capital Project Fund is used to acquire, build/improve facilities, infrastructure (roads, bridges, storm sewers) and vehicles. The Township has spent $1.0-$3.5 million per year on these type of projects. He showed the Board a graph illustrating the amount of debt and projects from 2005-2015.

He stated the 2016 Capital Project Fund contained the following items: $305,000 for special projects (Cocoa Castle $275,000), $303,000 for vehicles (Public Works $217,000), $210,000 for building repairs and renovations (Library $110,000) and $202,000 for other items. He stated the 2016 Capital Project Fund budget was $2.9 million for 2016 which included $1.9 million in debt services.

He stated the two methods of funding capital projects are pay-as-you-go and debt financing. He went over the pros and cons and the ideal funding situation for each. He spoke about the ways to fund the Capital Project fund which include intergovernmental (County, State, grants), Recycling Fund, Real Estate Tax, and the General Fund transfers. He stated the portion of the real estate tax designated for debt repayment is not large enough to cover the existing debt. Transfers from the General Fund are needed to cover the shortage. He discussed a table in his presentation outlining the debt service versus the debt tax receipts for 2013 to 2026. The table showed real estate tax receipts are about one-half of the total debt services until 2023.

He reviewed the Capital Fund Baseline Projection for 2016 to 2026. The projection made the following assumptions: no changes would be made to the current tax rates, no new debt and a consistent level of spending on building repairs. The Township has been using its reserves to cover the annual deficits. The forecasted projection shows the Fund Balance reserves depleted by 2020. These reserves could be depleted faster if expenses were to increase.

General Fund

The general fund pays for most of the day to day operations of the Township. It also makes contributions to the employee's pension fund. He stated a few assumptions were made for the baseline projections. PFM assumed there were no changes in the tax rates or on the type of activities that would be taxed. He stated the baseline projections are not prescriptions for what should happen with taxes, wages or other decisions. These projections are also not predictions of what will happen. The analysis helps answer questions to help understand the Township's ability to fund new capital projects.

He discussed each of the revenue sources for the Township. For each of the revenue sources, he discussed the projected growth for the next 10 years. Below are the revenue sources and their projected growth rates:

- EIT=2.5%

- Real Estate Taxes =1%
- Occupation and LST taxes = 1% growth for both
- Amusement and Parking Taxes = 2% growth for both
- Service Charges = 1%

He discussed the top four expenditures for the Township. He discussed the method used for figuring the increase in expenses for each category. Below are the top expenditures and their projected increase over the next ten years:

- Wages = 3% increase
- Health Insurance = 10%
- Pensions=Police=.4% and Civilian 5.1%
- Vehicles =2%

He stated based on the current budget and projections discussed and listed above, the expenditures will be higher than revenues starting in 2017 through 2026. He stated these projections are based on making no changes to the current operations or taxes. He discussed a chart outlining the General Fund's annual results. He stated the trending is going in the wrong way (deficit). In 2012, there was a surplus of $1.2 million in the general fund. In 2015, there is a deficit of $500,000.

He stated there are things that can be done to reduce/eliminate the deficit. The Township will have to take corrective action to close the projected deficits and there are plenty of opportunities to do so with the 2017 budget process. The Township needs to address the deficits in the General Fund first to solidify its credit rating and will have to fund any "next level" capital projects through an increase in real estate tax which generates revenue for the Capital Fund.

He stated addressing the General Fund deficit is critical and doing so successfully will help the Township. The General Fund transfers to Capital Projects exacerbates the deficit in the General Fund. Further, the capital fund real estate tax, at the current millage level, isn't sufficient to cover existing debt service. As a next step, PFM first recommends Township officials discuss a strategy to close the projected deficit in the General Fund. They recommend Supervisors consider a tax increase in the Capital Fund to bring revenues equal to existing debt spending and then decide whether there are next level projects that are a priority for funding by issuing new debt.

He showed the Board the Excel model they used for the presentation. He showed the Board the baseline data. He went over the growth rate assumptions sheet. He stated as they change the assumptions, the model will change the projections. He went over examples of how to change the assumptions and what it does to the overall numbers. He went over the Capital Planning Module sheet. This sheet allows projects to be added or deleted to calculate the mileage tax rates needed to balance the funds. He stated projects can be added and the cost of financing will be calculated.

Chairman Moyer asked about reducing the health insurance expenses for the Township. Mr. Mann stated the Township's third party is better helping the Township save on these expenses. Supervisor Engle thanked Mr. Mann for the information and stated this is exactly what they needed. Chairman Moyer echoed his comments.

PUBLIC COMMENTS
Chairman Moyer asked if there were any public comments. There were no public comments.

ADJOURNMENT:
Chairman Moyer adjourned the public meeting at 6:33 p.m.

SUBMITTED BY:

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Justin C. Engle
Township Secretary