



PUBLIC FINANCE & TAXATION

Presented by:

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October 3, 2019



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MUNICIPAL CLASSIFICATIONS

- The Pennsylvania General Assembly enacts the statutes that govern the structure and operations of municipalities.
- There are 67 counties and 2,562 municipalities in PA.
- Municipalities are governed by one of the following codes: City Code, Borough Code, First Class Township Code or Second Class Township Code.
- East Bradford, East Goshen, Thornbury, West Goshen, West Whiteland, and Westtown are Townships of the Second Class. West Chester is a Borough.
- The code designates the structure of the local government – Supervisors, Commissioners, Council Members. May have to enact through Ordinance vs Resolution for certain items.
- All have similar regulations regarding finances.

MUNICIPAL ANNUAL BUDGET REQUIREMENTS

- The Board of Supervisors must prepare a proposed budget for the upcoming year.
- The proposed budget must be advertised for inspection by the public for a minimum of 20 days before the budget may be adopted.
- The budget must be adopted by December 31st.
- The total appropriations may not exceed the estimated revenues.
- In the January following a municipal election, if the Board of Supervisors has prepared an amended budget, the township must publish a notice once in the newspaper that the proposed amended budget will be available for inspection 10 days prior to adoption. An amended budget may be adopted on or before February 15th.



MUNICIPAL BUDGET

- All municipalities must prepare an annual budget which is a detailed financial plan for the coming fiscal year reflecting proposed expenditures balanced against anticipated revenues.
- Some municipalities prepare a multi-year year budget to project out the probability of their financial outlook.
- Capital planning is essential to incorporate into the budgeting process.
- Proposed expenditures must also be allocated among the specific functions and services of the government. (Chart of Accounts)
- The budget must be kept on file, made available for public inspection, and then adopted by the governing body of the municipality, together with a tax-levying ordinance designed to raise the amount of money necessary to balance the budget. (Transparency)
- The governing body often holds public hearings before final adoption of the budget to which the taxpaying public is invited.





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Why BUDGET

- Sets Goals and Communicate them to the Public
- Balancing the needs of the community financially
- Informing Citizens and including them in the process
- Authorizes expenditures through appropriations.
- Performance evaluation during the year.

Talking points why BUDGET

The budgeting process should allow the elected governing body to express its goals for community services for the coming year in a single document that is readily understandable by the citizens.

The budget allocates revenues among various municipal service needs. Careful decisions on what is most important must be made in determining where the limited amount of money available will be spent.

The budget provides citizens information on how their tax dollars will be spent and the process allows citizen input in the making of these decisions.

The budget document authorizes expenditures for the budgeted items by making appropriations. Expenditures during the year can only be made if sufficiently appropriated funds are available.

The budget provides a framework for monitoring the performance of revenues and the accumulation of expenditures during the year. If revenues do not match estimates, or if expenditures are significantly higher than planned, quick action must be taken during the year to adjust the budget and bring expenses in line with income.

OTHER MUNICIPAL REQUIREMENTS for Second Class Townships

THORNBURY TOWNSHIP Chester County, Pennsylvania Summary Financial Statement For the Year Ended December 31, 2013	
This presentation is published in accordance with Section 904 of the Township Code. A complete copy of the audit report for the year ended December 31, 2013 is on file and available for inspection at the Township office.	
FUND BALANCE, All Funds, January 1, 2013	\$1,502,771
REVENUES AND OTHER FINANCING SOURCES	
Taxes	1,299,826
Licenses & Permits	78,961
Fines & Forfeits	18,658
Interest, Rents & Royalties	140,510
Intergovernmental Revenues	634,754
Charges for Services	110,324
Unclassified Operating Revenues	24,013
Other Financing Sources	71,401
Total Revenues and Other Financing Sources	2,378,447
EXPENDITURES AND OTHER FINANCING USES	
General Government	420,070
Public Safety	961,631
Public Works	
--Sanitation	209,289
--Highway, Roads and Streets	241,285
--Other Services	22,304
Culture and Recreation	109,012
Community Development	62,399
Debt Service	261,677
Miscellaneous Expenditures	20,110
Insurance	11,980
Unclassified Operating Expenditures	235
Other Financing Uses	4,981
Total Expenditures and Other Financing Uses	2,324,973
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	53,474
FUND BALANCE, All Funds, December 31, 2013	\$1,556,245
The Gross Debt of the Township at December 31, 2013	\$
The Assessed Valuation of the Township at December 31, 2013	\$308,467,096

- In addition to the budget requirements, Municipalities are also required to:
 - Publish an annual **Concise Financial Statement**, which is prepared by the auditor, in a general circulation newspaper for the previous year on or before March 10th.
 - Prepare and file a **Survey of Financial Condition** with the Department of Community & Economic Development (DCED) on or before March 15th. This filing is required by Act 47, the Municipalities Financial Recovery Act, and assists in the identification of local governments which may be in financial distress.
 - Prepare and file the **Municipal Annual Financial Report** with the DCED on or before April 1st. This Report provides a variety of financial information such as: tax revenues, charges for service, state and federal revenue, police and fire expenditures, general government expenditures, general government costs, public works expenditures and debt.



Chart of Accounts

- Department of Community and Economic Development (DCED) Chart of Accounts is a numerical system for classifying financial transactions.
- For the purpose of accountability and reporting requirements, it is necessary to group similar transactions by like accounts. The numbering system make require as many as eight digits to correctly identify a given transaction. Each digit is a part of the identification process.
- Generally accepted accounting principles for governmental accounting and financial reporting are established by the Governmental Accounting Standards Board (GASB).

Chart of Accounts: Funds

- Funds: A fund is the way to identify revenues and expenditures in a segregated manner as prescribed by regulations, restrictions or other limitations.
- Types of funds include:
 - Governmental Funds
 - Proprietary Funds
 - Fiduciary Funds
- Using the DCED Chart of Accounts the first two digits identify the fund. (fund prefix numbers)
 - For example **01**.405.20 indicates a general fund transaction
 - Other examples of fund prefix numbers are:
 - 01. General Fund
 - 02. Street Lighting Fund (special revenue fund)
 - 08. Sewer Fund
 - 35. Highway Aid Fund
 - 60. Police Pensions Fund (trust fund)
 - 95. Operating Reserve Fund



Chart of Accounts: Revenues



- Focus on the General Fund (01.xxx.xx)
- Revenues are identified in the .300 series
 - The next two digits in the numbering system further identify the item
 - .301 identifies Real Estate Taxes
 - .321 Licenses and Permits
 - Further identify by utilizing sixth and seventh digits
 - 01.301.10 = general fund real estate taxes – current year
 - 01.301.20 = general fund real estate taxes – prior years

Chart of Accounts: Expenditures



- Expenditures are identified in the .400 series
 - The next two digits in the numbering system further identify the item
 - .400 identifies Governing Body
 - .410 Police
 - Further identify by utilizing 7 or 8 digits
 - 01.409.21 = general fund government building office supplies
 - May work best for smaller municipalities or programs
 - 01.409.210 = general fund government building office supplies
 - 01.409.211 = general fund government building paper products
 - May be necessary to track in greater detail
 - Program requires separation for future financial planning/tracking



SOURCES OF REVENUE

“Show me the money!”

- Real Estate Tax
- Earned Income Tax (EIT)
- Local Service Tax (LST)
- Franchise Fees
- Permits and Licenses
- Liquid Fuel Funds (State)
- Grants- County, State, Federal
- Interest
- Rent, Fees, and Fines

Real Estate Tax

- The tax on real estate is the most common of all local taxes followed by the earned income tax.
- The levy of local taxes is the function of the governing bodies. Action to raise taxes must be done in the form of an ordinance or resolution. The rates of real estate taxation are on the basis of the number of mills for each taxable dollar.



October 3, 2019

Real Estate Tax & Millage Rates

- Millage rate. Mills. Quarter mill. Half mill. You hear these words continuously every fall as local governments set the tax rates that'll decide how much property tax you'll pay the following year. But what does a "mill" mean, and why do local governments use this term?
- The millage rate in local government language is synonymous with the property tax rate. "Millage" is based on a Latin word that means "thousandth." So 1 mill is equivalent to 1/1000th.
- Applied to taxes, that means 1 mill is equivalent to \$1 in taxes per \$1,000 in taxable value. If your property has a *taxable* value of \$100,000, and you're assessed a 1 mill tax rate, you'll pay \$100 in taxes.
- The standard way to figure your actual tax bill based on the millage rate is to take that rate, multiply it by the taxable value of your property, then divide the result by 1,000.



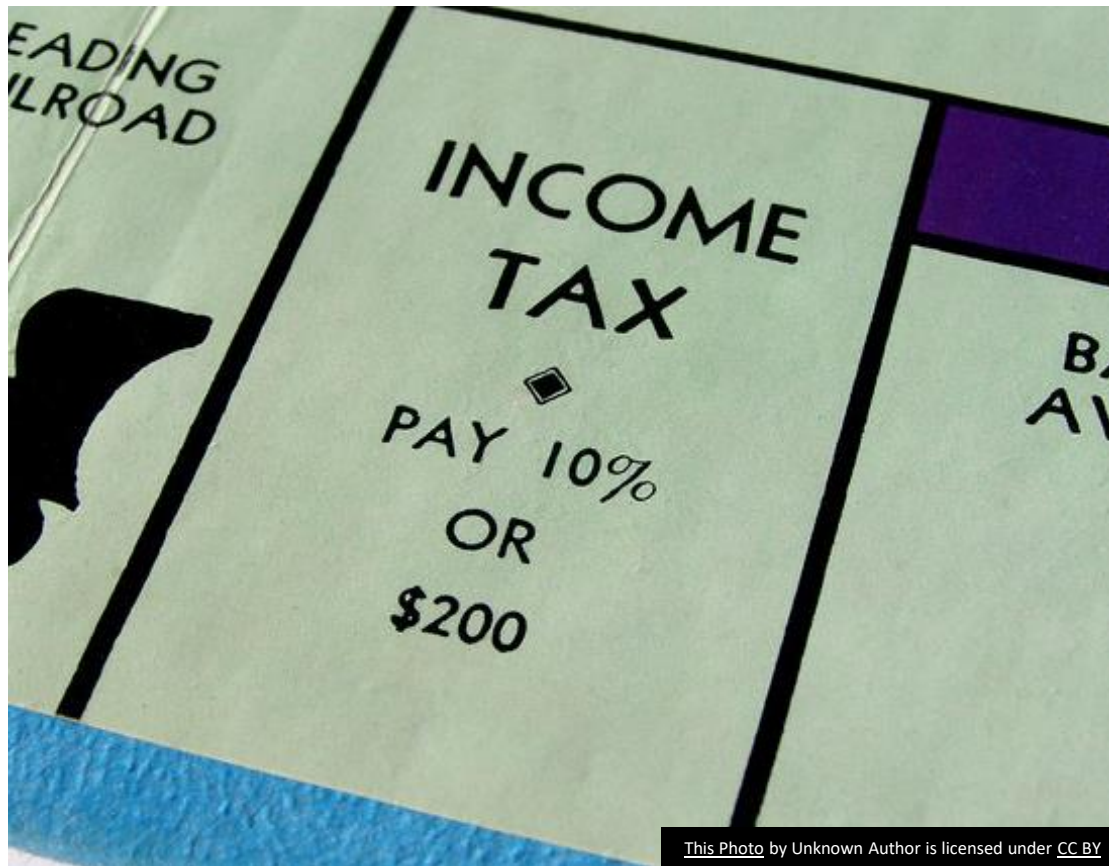


Real Estate Tax & Millage Rates

- Assume you have a house with an *assessed* value of \$150,000. The market value doesn't matter. It could be higher; it could be lower. The assessed value has been set by Chester County's Assessor Office. The millage rate for Thornbury Township is 0.9950, multiply it by 150,000. Equals 149,250. Divide that by 1,000 (because a mill is *one thousandth* of the value). The Township tax bill is \$149.25

- 2017 Municipal Tax Rates

- East Bradford 1.000 (\$150.00)
- East Goshen 1.2500 (\$187.50)
- West Chester 6.9600 (\$1,044.00)
- West Goshen 2.000 (\$300.00)
- West Whiteland 0.7190 (\$107.85)
- Westtown 3.5000 (\$525.00)



EARNED INCOME TAX (EIT)

- Act 32 EIT Tax revenue can be divided between the local school district and municipality depending on when it was enacted.
- New laws require PA businesses to process and maintain a Residency Certification Form; the employer must identify where the employee lives, determine if that employee's resident tax or the employee's non-resident tax is in effect; withhold the proper amount and remit on a quarterly basis.
- In many cases, the tax rate will be 1% of earned wages.
- School districts are not allowed to levy a nonresident earned income tax. Generally, municipalities cannot levy a nonresident tax in excess of 1%; only in very specific limited situations.
- An individual employee's local Earned Income Tax (EIT) Rate is determined by comparing the employee's "Total Resident EIT Rate" (for the municipality in which the employee lives) to the "Work Location Non-Resident EIT Rate" (for the municipality in which the employee works). The applicable EIT rate owed and to be withheld is always the higher of the two rates.

EARNED INCOME TAX (EIT)

EMPLOYEES WHO LIVE AND WORK IN PA ...

- The employer must complete the Residency Certification Form for each employee in order to compare the “Total Resident EIT Rate” (for the municipality in which the employee lives) to the “Work Location Non-Resident EIT Rate” (for the municipality in which the employee works). The employer is required to withhold the higher of the two EIT Rates, as well as the Local Services Tax (LST), and make remittances to the local tax collector(s) for the worksite location(s).

EMPLOYEES WHO LIVE IN PA, BUT PHYSICALLY WORK OUTSIDE OF PA ...

- An out-of-state employer is NOT required to complete the Residency Certification Form or withhold the local Earned Income Tax (EIT) for a PA resident employee. However, the PA resident employee will still be subject to and owe the “Total Resident EIT Rate” based on their PA home municipality. Therefore an out-of-state employer may withhold the “Total Resident EIT Rate” as a courtesy to the PA resident employee and make remittances to the local tax collector for their PA home municipality.

EMPLOYEES WHO WORK IN PA, BUT LIVE OUTSIDE OF PA ...

- The employer must complete the Residency Certification Form for each employee. The out-of-state resident employee will still be subject to and owe the “Work Location Non-Resident EIT Rate,” as well as the Local Services Tax (LST), based on the PA worksite municipality.



LOCAL SERVICES TAX (LST)

- This tax may be used solely for the following purposes (1) emergency services, which shall include emergency medical services, police services and/or fire services; (2) road construction and/or maintenance; (3) reduction of property taxes; or (4) property tax relating to homestead property exclusion.
- Local Service Tax is collected from persons who work within the municipal limits most often at the rate of \$52 per year; one dollar per week.
- Individuals earning less than \$12,000 per year, and active duty military personnel, are exempt from paying this tax.
- You only pay in one locality - important if you have two or more jobs. LST should only be paid at the principal employment.
- School districts that did not levy an EMST/OPT as of June 21, 2007 are prohibited from levying a new LST.

LIQUID FUEL FUNDS

- The Liquid Fuels Fund is a State-mandated restricted account, into which is deposited an annual contribution made by the Commonwealth for the maintenance of municipal-owned roads. Every year each municipality receives Liquid Fuel Funds from the State which is primarily used for the maintenance of municipal-owned roadways.
- The State's Liquid Fuel Fund is funded by a portion of the state tax on gasoline and other fuels, a portion of the state tax on oil franchises, and an annual allocation. These monies are then distributed to Pennsylvania municipalities based upon a municipality's relative population and miles of municipal-owned roadways.
- Municipalities depend on this allocation from the State. For many municipalities the cost of maintaining the roadways far exceeds the annual allotment of Liquid Fuel Funds.





GRANTS

- DCNR
- William Penn Foundation
- DEP
- Chester County
- PECO
- Growing Greener II
- Keystone Historical
- H2O PA
- Community Development Block Grant (CDBG)
- FEMA/PEMA
- PennWorks
- Keystone Opportunity Zones (KOZ)

A blue sign with white text that reads "TAKE A BREAK". The sign is rectangular with rounded corners and a white border. It is set against a background of a blue sky with white clouds. The sign is slightly tilted to the right.

**TAKE
A BREAK**



LOCAL GOVERNMENT EXPENDITURE REGULATIONS

- Local government financial procedures are outlined by code. No expenditure is legal except upon appropriations by the governing body. Meaning, approved at a public meeting.
- No payment can be made, expense incurred, or contract awarded if it exceeds the approved appropriation.
- Budget control is exercised by submission of monthly reports to the governing body.
- Additional financial controls and policies are in place for each municipality. For example, segregation of duties; number of signatories on an account; required signatures per check; cash controls; receipts numbering; access to accounts
- An audit of all municipal finances at the end of the year is required. The annual audit and financial report of the municipality must be filed with the DCED.

EXPENDITURES – WHAT SERVICES ARE PROVIDED?



- Road Maintenance
- Snow & Ice Removal
- Public Utilities
- Police Services
- Employee Benefits
- Solid Waste Disposal
- Storm Sewers (MS4)
- Auditing
- Recreation – Parks
- Engineering
- Fire
- Insurance
- Legal
- Recycling
- Tax Collection
- Planning & Zoning
- Code Enforcement
- Street Lighting
- Traffic Signals
- Libraries
- Shade Trees
- Community Development
- Senior Centers
- Animal Control

BUDGETING EXPENDITURES

- When preparing budget expenditures, some line items are easy to project. For example if the cleaning service costs \$200 per month it is a simple projection that the next year the costs would be \$2,400 plus any anticipated cost increase.
- Some expenditures are based on contractual agreements. For example: rental agreements, employee union contracts, and service agreements.
- For stormwater maintenance and road maintenance, project lists are developed with corresponding cost estimates. This is accomplished with close relationships with the public works department and Township Engineer.
- For other expenditures, such as utilities, snow plowing, legal, engineering, and the like, many municipalities will annualize the costs and review past trends.



October 3, 2019

Neighborhood University: Taxation & Finance

Purchasing Materials, Services, and Contracts

- Effective January 1, 2019 contracts exceeding \$20,600 must be placed out to public bid.
- Advertisement requirements
 - Daily newspaper, 2 times at intervals not less than three days
 - First ad must not be 45 days before the date of the bid opening
 - Second ad must not be less than 10 days before the bid opening.
 - Must be also be posted at the meeting place of the BOS or conspicuous place at the Township building
- Wording requirements
 - Must contain date, time, and location for the bid opening; amount of the performance bond, and location where specifications may be obtained.
- Contracts that exceed \$11,100 to \$20,600 require at least three written or telephone quotes from qualified and responsible contractors.

Municipal Loans: Local Government Debt Act

- The PA General Assembly enacted the Local Government Debt Act that limits a municipality's ability to acquire debt and prescribes the manner in which it is done.
- Determining borrowing capacity:
 - Municipal indebtedness is the determination of the borrowing base and the preparation of the certification of the borrowing base.
 - The borrowing base is the arithmetic average of the total revenues for the three full fiscal years immediately preceding the incurring of nonelectoral debt or lease rental debt. The total revenue definition does have some exclusions.
 - From the borrowing base, calculate the borrowing capacity.
- A current debt statement must be filed with the Department of Community and Economic Development (DCED)
 - Statement must be prepared and verified under oath
 - Must be prepared within 60 days of filing with DCED

Local Government Debt Act

- No local government unit shall incur any new nonelectoral debt if the aggregate net principal amount with all other nonelectoral debt outstanding would cause the total debt to exceed 250% of its borrowing base.
- No local government unit shall incur any new lease rental debt or nonelectoral debt if the aggregate net principal amount along with any nonelectoral and lease rental debt to exceed 350% of its borrowing base.
- The maximum nonelectoral debt or lease rental debt is determined by multiplying the borrowing base by the limit.
- For example, Thornbury Township with a borrowing base of \$1,528,573.00 would have the following limits:
 - Nonelectoral debt $\$1,528,573.00 \times 2.5 = \$3,821,432.50$
 - Nonelectoral plus Lease Rental debt $\$1,528,573.00 \times 3.5 = \$5,350,005.50$

Lease Agreements

- Before issuing a lease rental agreement, local governments must also receive DCED approval. (Exceptions are Tax and Revenue Anticipation Notes; and small borrowings for capital purchases, less than \$125,000 or 30% of the nonelectoral debt limit and the principal matures 5 years from the issuance)
- Small borrowings are authorized by resolution without a need to publish any notice of adoption. No DCED approval is needed.
- All other debt must be authorized by Ordinance. Must be advertised. DCED approval must be obtained.



Bond Issuance

- Prior approval by DCED is required before the bond or note can be transferred to the purchaser.
- Municipal Bonds (MB) are tax-exempt. Investors don't pay capital gains taxes on interest payments.
- As a result, MB have lower yields than corporate bonds.
- Prior to borrowing, borrowers get a credit rating from a rating agency (e.g. Moody's, S&P & Fitch). The cost for this rating is about \$10,000.
- The higher the rating, the lower the interest rate
- Borrowers can sell bonds either directly to the market via an underwriter (e.g. Goldman Sachs or JP Morgan) or borrow money from a pool of previously issued tax-exempt bonds (e.g. Delaware Valley Regional Finance Authority).
- Consideration of purchasing Bond Insurance must be made. (+\$15,000)
- An independent financial advisor may be retained.
- Also requires the cost of Bond Counsel.



Pensions

- Defined Benefit Plans (DB)
 - A **defined benefit pension plan** is a type of **pension plan** in which an employer/sponsor promises a specified monthly **benefit** on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns
- Defined Contribution Plans (DC)
 - A **defined contribution (DC) plan** is a type of retirement **plan** in which the employer, employee or both make **contributions** on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits

Pensions

- With limited exceptions, police must be offered a DB pension by law (Act 600) minimum benefits are must be 50% of the final average pay over last 3-6 years of employment; 25 YOS, age 55
- Pennsylvania provides state pension aid to all local government entities
- Act 205 requires all municipalities cover their “Minimum Municipal Obligation”, an actuarially-determined funding level
- Non-uniformed pension benefits are diversified throughout the state.

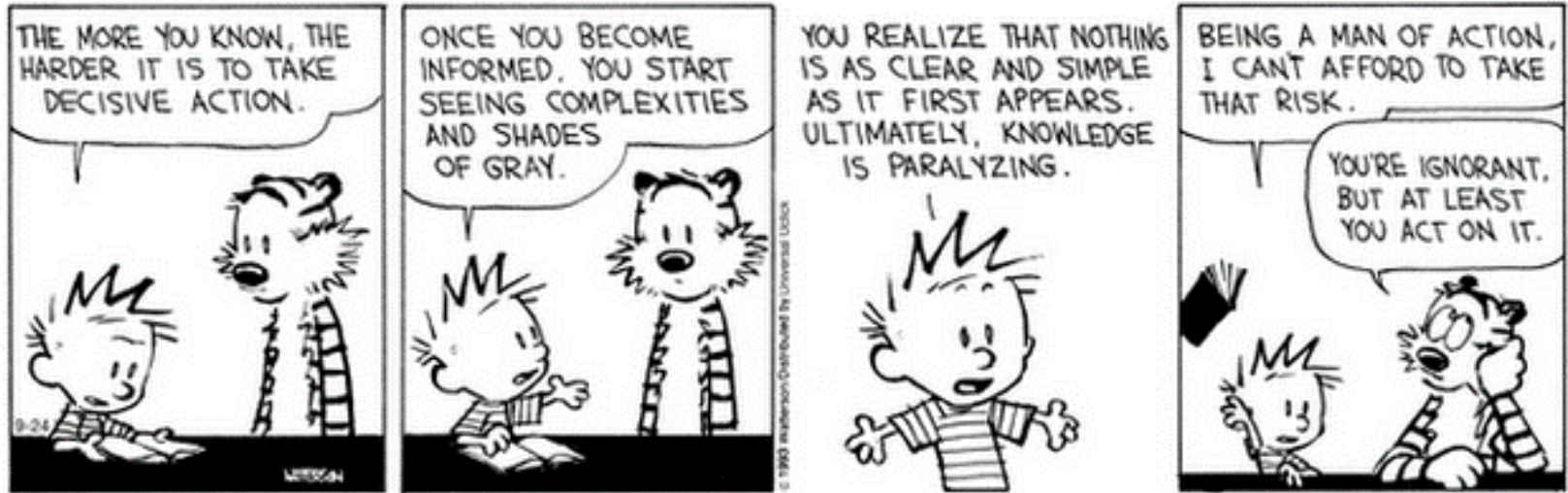


Pensions



- Act 205 requires all municipalities fund their “Minimum Municipal Obligation”- an actuarially-determined funding level
- Act 205 requires audits and evaluations every two years to determine MMOs
- **Status Report on Local Government Pension Plans**
<http://www.paauditor.gov>

A word cloud featuring various business and financial terms. The words are arranged in a roughly circular pattern and are color-coded. The terms include: integrity (purple), responsibility (green), audit (purple), measurability (purple), comparability (purple), creditability (purple), calculability (purple), ethics (brown), social (brown), visibility (green), compliance (green), and accountability (blue). The words are of varying sizes and orientations, with 'integrity' and 'responsibility' being the largest.



Watterson, Bill. *There's Treasure Everywhere: A Calvin and Hobbes Collection*. Kansas City: Andrews and McMeel, 1996. Print.

