



## **Borough of Ridley Park Finance Subcommittee Report**

*June 18, 2024*

### **Committee Members:**

Dane Collins, Esq. (Council President)  
Kimberly Collins, Esq. (Council Member)  
Leonard Pinto (Council Member)  
Brian Mossor (Resident)  
Aaron Powley (Resident)  
Joseph Timlin (Resident)

## **I. INTRODUCTION**

This Report is the result of the cooperative effort of Ridley Park Borough Council's Finance Committee and Volunteer Residents of Ridley Park Borough (collectively, "the Subcommittee") "to review and analyze the Borough's finances and provide a recommendation via a report to the Council for the long-term prosperity of the municipality." The Subcommittee convened twice a month from March through May 2024.

### **A. Background**

The Borough of Ridley Park ("Borough") through the Ridley Park Borough Council ("Council") holds meetings open to the public on the first and third Tuesday of each month, a "regular meeting," which is broadcast live and a "workshop meeting."<sup>1</sup> All members of the seven-member body are required and do live in the Borough. The meeting agenda is advertised in advance of the meetings, and minutes of the meeting are posted publicly following the meetings by the Borough Manager.

The Borough's fiscal year begins January 1 and ends December 31, coinciding with the calendar year. 8 Pa.C.S. § 1301. The Borough is obligated, by law, to adopt a budget no later than December 31 for the following fiscal year. 8 Pa.C.S. § 1310.

### **B. Ridley Park's 2024 Budget**

By fall of 2023, the parcel of property owned by an entity within the Borough, which generates the most tax revenue had an outstanding tax bill. This entity historically has always paid the taxes due.

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<sup>1</sup> Council consolidates the regular and workshop meetings in the months of July and August. The Borough Code requires meetings be held at least once per month. 8 Pa.C.S. § 1006(2).

On November 8, 2023, Council discussed and passed the preliminary budget for the following year. Shortly after the passage of the preliminary budget, it became apparent that the Borough could not rely on tax revenue from that entity for the following year. The Borough Residents, understandably, had questions about the process.

Council was scheduled to vote on the final budget on December 19, 2023, in order to comply with its obligation under law to pass the budget before December 31. The meeting was highly attended. Council President Dane Collins gave a power point presentation in which he identified the sources of Borough Revenue, by category, and identified the various obligations and considerations that must be factored in to constructing a balanced budget.

Approximately 15 to 20 taxpayers of the Borough offered public comment. Residents offered comments and questions generally in the nature of: budgetary questions related to specific financial obligations (e.g. collective bargaining agreements (“CBA”)/pensions); frustration and anger at the corporate entity’s apparent decision to not meet its tax obligation and the unfair impact on residents; and/or outrage directed at Council. In addition, many commenters asked Council for more involvement and/transparency in the Borough’s financial affairs.

At the conclusion of the public comment portion, Council voted to postpone voting on the final budget.

On December 28, 2023, Council held a Special Council Meeting at which it passed a final budget, as required by law.

At the January 16, 2024, Regular Council Meeting, President Collins announced the intent to re-open the budget for amendment and passage, prior to February 15, 2024, as permitted by law. 8 Pa.C.S. § 1310.

At the February 6, 2024, Workshop Meeting, President Collins provided additional information to the public on the budgeting process in general and the 2024 budget specifically. The Council passed an amended budget, and President Collins announced the intent to create a Finance Subcommittee, consisting of 3-5 residents of the Borough, to work with the Finance Committee in review of past budgets and provide recommendations for the Borough in financial matters moving forward.

### **C. Finance Subcommittee is Established**

At the February 20, 2024 Council Meeting, President Council formally announced the formation of a finance subcommittee and asked for letters of interest from Residents.

The formation of this subcommittee was in direct response to requests of residents at public meetings for more direct input into the Borough’s finances and budgeting process. The subcommittee’s objective was to:

- a. Review Borough budgets going back to 2015.
- b. Analyze revenue and expenses of the Borough.
- c. Evaluate revenue streams for the Borough and other municipalities.
- d. Present to the Council a final report with recommendations for long-term fiscal prosperity.

Three (3) residents submitted letters of interest to be part of the committee. The following is a summary of the budgeting process and recommendations.

## II. BOROUGH REVENUE SOURCES

The Borough generates revenue from three (3) primary sources: Property Taxes; Trash and Recycling Fee; Sewer Fee.

### A. Property Taxes.

Delaware County (“County”) assesses and determines the value of property for the purpose of levying taxes. The Borough has no authority over the County assessment process.

Each year, Council sets a millage rate which is used to calculate any property’s given tax obligation. For 2024, the millage rate is 6.5 per \$100,000 of value. This revenue stream is estimated to generate \$3,481,218.

By way of example, in 2015, the Borough set the millage rate at 8.14 per \$100,000 of value. Council estimated that would yield \$2,445,208 in revenue for that year.

For purposes of this report, please note that the County, by court order, reassessed the value of all properties, effective January 1, 2021. This accounts for the reduction in millage but increase in tax revenue.

### B. Trash and Recycling Fee.

Council sets a trash and recycling fee annually. The purpose of this fee is to cover all expenses associated with the collection of trash, recycling and yard waste collected by the trash hauling company on behalf of the Borough.

This year’s trash and recycling fee was \$395 per property and is estimated to generate \$922,720. For the year 2015, the trash fee was set at \$220 per property and was estimated to generate \$510,000.

### C. Sewer Fee.

The Borough collects a sewer fee which is also set annually. The Borough collects this fee, but the amount is not within the discretion of Council. Rather, the Borough is bound by figures set by Central Delaware County Authority (“CDCA”). This year’s sewer fee is \$465 per unit and is estimated to generate \$1,762,000. For the year 2015, the sewer fee was set at \$363 per assessed property and was estimated to generate \$1,319,378.

### D. Revenue Estimates.

It is estimated that three (3) revenue sources discussed above will generate \$6,165,938 for the Borough in 2024. The estimated total revenue for the Borough, based on the same year’s budget is \$8,615,429.22.

In the year 2015, based on the budget, the estimated revenue generated from these three (3) revenues sources was \$4,274,586. The total revenue for the Borough based on the 2015 budget was \$6,512,700.66.

The additional sources of revenue include but are not limited to permits, licenses, fees, grants, transfer tax, emergency and local services tax, per capita tax and any state and federal funding received.

During the period examined by this subcommittee, Council did not raise millage rates from 2015 through 2018. Council raised the millage rate in the years, 2019, 2020, 2022, 2023 and 2024. There were increases to the sewer fee and trash and recycling fee throughout this time period. These two fees are viewed as pass throughs. Meaning, the Borough receives the cost for the services and sets the rate to the residents to cover those direct costs.

### III. EXPENSES

Over the time period reviewed for the purpose of this report, (2015-2024), the Borough has seen significant increases in operating expenses paid from the general fund, as well as increases in pass-through costs attributed to the sewer fee and the trash and recycling fee.

Expense increases paid from the general fund are primarily attributed to employment-related contracts negotiated as part of employees’ collective bargaining units. A comparison of the expenses from 2015 follows.

#### A. Personnel

	2015		2024		Increase
<b>Office Staff</b>	\$ 171,000.00		\$ 268,215.00		\$ 97,215.00
<b>Highway Dept</b>	\$ 241,000.00		\$ 260,745.00		\$ 19,745.00
<b>Police Dept</b>	\$ 1,019,255.00		\$ 1,897,146.00		\$ 877,891.00
<b>Library</b>	\$ 98,500.00		\$ 110,175.25		\$ 11,675.25
<b>Blue Cross Insurance</b>	\$ 642,982.00		\$ 690,000.00		\$ 47,018.00

#### B. “Pass Through” Costs

Expense increases paid by the Borough, viewed as pass-through costs, have increased over this same time. Significant increases can be seen in these costs particularly during the pandemic period.

At public meetings, Council has attributed this increase to more residents working from home and generating more trash, recycling and sewage. In addition, cost pressures have resulted from increased pressure on Delaware County Regional Water Quality Control Authority (“DELCORA”) and their contract with the city of Philadelphia. As well as the County contracts with Covanta for the disposal of trash. These increases are outlined below:

	2015		2024		Increase
<b>Trash Recycling</b>	\$ 438,500.00		\$ 868,447.21		\$ 429,947.21

Sewer                                 \$    1,118,000.00                 \$ 1,772,000.00                 \$    654,000.00

The cost to the Borough budget for employees, trash and recycling and sewage has gone up from \$3,713,237 in 2015 to \$5,866,728 in 2024. Overall, the Borough’s budget has gone from \$6,169,438 in expenses to \$8,615,428.

#### IV. History of Taylor Hospital Property as a Taxable property

Prospect Medical Holdings, Inc. (“Prospect”) completed its acquisition of the nonprofit Crozer-Keystone Health System, in 2016. This acquisition included Taylor Hospital, a community hospital located in the Borough, long known for serving residents. After the completion of this acquisition, the hospital system was no longer tax exempt and was then considered a for-profit entity. In the same year, Prospect filed an appeal for tax year 2017.

On May 26, 2017, a law firm representing Prospect notified the Borough, along with other municipalities within the County, that the entity was making property tax payments “under protest” because it believed the assessed value of the hospitals within the system was in excess and under appeal.

The following year, on November 8, 2017, a stipulation to settle the appeal was filed with the Delaware County Court of Common Pleas. The fair market value of Taylor Hospital was agreed to by all Taxing Authorities to be \$16,488,300 down from the previous valuation of \$42,390,450. As a result of the decrease in the assessment, there was over payment of property taxes paid to the Borough. The settlement agreement dictated that overpayment of property taxes would be repaid to Prospect in the form of tax credits, without interest.

In 2019, the County completed a court ordered reassessment of commercial and residential properties. The reassessment was conducted by Tyler Technologies, which the County described as “*nationally recognized experts.*” All properties within the County were reassessed based on their July 1, 2019, values and this went into effect, January 1, 2021.

Then in 2020, Prospect again appealed the newly assessed value for tax year 2021. Prior to the resolution of the appeal, the Delaware County Court of Common Pleas stopped hearing cases due to the Corona Virus pandemic. Under the law, each following tax year becomes a part of the appealing appeal. Therefore, because the matter is still pending, the tax years 2022 and 2023 are subsumed within the appeal for 2021. Prospect then chose not to pay the Borough the property taxes currently owed, in the amount of \$363,473.62.

#### V. Path Forward

In meetings over the last several months, this Subcommittee has looked to identify areas of concern regarding the expenses of the Borough, as well as to identify additional or alternative methods to generate revenue. The following section of this report is an outline of these suggestions and alternative options that should be considered. Also included in this section is a forecast of what the path forward could look like without expense reductions and alternative methods to generate revenue.

##### Expense Reduction

The largest expense to the Borough that is not dictated by County, agency, or another external entity is the cost of maintaining the necessary staff to maintain day to day operations of the Borough. During the 10-year period reviewed, these costs increased as follows.

1. 86% Police Department
2. 57% Office Staff
3. 12% Library Staff
4. 8% Highway Department
5. 7% Health Insurance

### **A. Police Department**

The Police Department is the largest single expense incurred by the Borough. The cost to pay officers to patrol the streets in 2015 was budgeted at \$806,755. In 2024, this cost was budgeted at \$1,128,348. Included in this expense are the earnings of the full-time officers and overtime, as well as the earnings of the part-time officers.

Contributions to the Police Department pension is a significant cost the Borough incurs annually each year and one that has increased over the examined period, particularly in this past year. In 2015, the cost to the Borough as a municipal obligation was budgeted for \$115,501. The cost in 2024 was budgeted at \$648,798.

Members of the Finance Committee and the Borough Manager have had discussions with the actuary responsible for calculating the Borough's mandatory municipal obligation ("MMO"). Three (3) factors have contributed to this significant increase:

1. Underperformance of over 16% in the investment returns over the most recent 2-year valuation period.
2. Retirement of an injured officer on disability.
3. Wage increases, particularly for a newly hired officer, create a need for larger pension contributions to the plan's MMO to fund higher payouts in the future.

Suggested Reduction Strategies:

Keeping the costs of over-time within reason by bringing in experienced officers in a part-time capacity could be beneficial to reducing further increases. Additionally, examining how many officers are designated to shifts and flexing schedules may lead to further reductions.

The Borough should take a more active role with the pension plans investment board to ensure that the assets in the plan are properly invested to minimize under performance and maximize opportunities of over performance. Additionally, Council has enacted an Act 44 Deferred Retirement Option Plan ("DROP"). This version of the DROP program locks in the payout of officers who opt into the program at 50% of their calculated earnings. This reduces the risk of higher payouts for injured officers in their last years of service.

### **B. Office Staff**

Expenses associated with the earnings of the office staff which manages the Borough on a day-to-day basis have increased by \$97,215 over the 10-year period examined in this report. That is attributed to (2) two factors:

1. One additional employee has been hired since 2015 taking the head count to (4) four.
2. Increase in salary of the Borough Manager.

The Borough has taken steps to reduce the head count of employees in the office. One employee resigned at the end of 2023 and that position has not been filled. Instead, job duties have been re-aligned

with the remaining office personnel. Some financial record keeping duties have been outsourced. This change has the potential to reduce expenses by over \$40,000.

In the last contract negotiations with the current Borough Manager, Council members reviewed the salaries of managers in neighboring municipalities based on the education level and experience. At that time the salary negotiated was commensurate to the Borough Manager's education and experience. Additionally, in previous years there had been rapid turnover in this position. The Council wanted to ensure consistency with that position.

### **C. Miscellaneous**

Expense increases associated with the Library, Highway Department, and Health Insurance are attributable to the general increase in the costs of services in ten years.

Line items within the budget that have been implemented for cost reduction include:

1. Negotiated contract with new trash and recycling hauling company.
2. Suspended the purchase of capital equipment.
3. Suspension of the road repaving program.
4. Negotiation of police CBA to minimize overtime costs.
5. Apply for additional grant funding for Library.

While these budget reductions listed for 2024 are worthwhile efforts to stabilize budget expenses in the short-term, this Subcommittee recognizes that they are not long-term solutions.

## **VI. SUBCOMITTEE RECOMENDATIONS**

Part of the Subcommittee's mandate was to evaluate additional sources of revenue that are available to the Borough. Specifically examined where a 1) Business Privilege Tax ("BPT") and 2) Earned Income Tax ("EIT"). Of the 49 municipalities in the County, 35 have instituted either a BPT or EIT. Of the 27 Boroughs in the County, 18 have instituted a BPT or EIT.

### **A. BPT**

Approximately 270 jurisdictions in Pennsylvania impose a BPT. This is a direct tax on a business for the privilege of doing business in a local jurisdiction. The BPT is measured by the amount of gross receipts earned by a business on its operations inside of a specific jurisdiction. The BPT is currently not an option for the Borough. In 1988, Pennsylvania enacted the Local Tax Reform Act. This removed the authority of any jurisdiction to adopt a new BPT measured by gross receipts.

### **B. EIT**

At the direction of the Finance Committee and recommendation of the Subcommittee, a request was made to Keystone Collections ("Keystone") to provide information on the revenue which could be generated by instituting an EIT in the Borough.

An EIT is a tax levied on an individual's gross earned income, compensation and net profits. The tax is based on the taxpayers' place of residence. Any resident or individual employed in a municipality or school district where the tax is imposed, who was employed during the calendar year or received taxable income is subject to the tax. Earned income is salaries, wages, commissions, bonuses, incentive payments, tips, fees and other income. Earned income is not considered to be interest earnings,

dividends, social security, capital gains, unemployment, 3<sup>rd</sup> party back pay, insurance proceeds, gifts, bequests, inheritances and active military duty pay.

In 2022, Keystone collected \$505,121.15 from 1,158 residents who live in the Borough but work in other municipalities that collect an EIT. Keystone estimates that based on W2s filed, there are approximately 3,289 individuals filing taxes within the Borough with a total earned income of \$209,845,636. If the Borough were to institute a 1% EIT, it would generate \$2,098,456.36.

### **C. Continuation of Property Tax as Main Revenue Source**

During the 10-year period examined by this subcommittee, total expenses have increased by 40%, \$6,169,438.89 to \$8,615,428.35. A significant proportion of this increase occurred during the pandemic (2020-2023). Projecting out a 40% increase over a similar 10-year period would put total Borough expenditures at \$12,061,599.70.

As noted, the Borough set the millage rate for 2024 at 6.5 mills per \$100,000 of assessed value. Based on this year's budget, that is estimated to generate \$3,481,218.00 of revenue. Projecting out a need for a 40% increase in revenue to match a similar expense increase, the Borough would require \$4,873,705.20. To generate that amount of revenue, millage by Council would need to be set at approximately 9.1 mills per \$100,00 of assessed value. This estimate assumes no further significant loss in property tax values by either tax appeals or significant changes in the common level ratio. It is difficult to accurately project this expense, given a number of variables impacting property values.

Of the 49 municipalities in the County, for 2024, Ridley Park ranks 29<sup>th</sup> in terms of the highest millage rate. Of the 27 boroughs within the County, Ridley Park ranks 13<sup>th</sup> in terms of the highest millage rate. As it currently stands, the revenue brought into the Borough is almost entirely allocated and accounted for in the budget. Meaning, the Borough is unable to build any form of a savings fund for any emergency that may occur. If the Borough continues with the current taxing scheme, there is limited opportunity for any meaningful increase to Ridley Park's ability to create a savings for capital expenditures and Fund Balance fund.

## **VI. Conclusion**

The Subcommittee sees two (2) paths forward.

### **A. Continue to Operate Budget Based on Property Taxes and Fees**

First would be to operate business as usual. The revenue generated from property taxes and fees would be allocated for expense line items in the Borough's budget. Future property tax increases would be proportional to expense increases in budget line items. If this path is taken the Borough could maintain incremental increases in property taxes. However, the Borough would run the risk of a significant tax increase in any given year should a fiscal emergency arise such as the need for significant infrastructure repair, or a change in property tax valuations and/or status.

Currently each property owner owes \$650 of taxes per \$100,000 of assessed value, at a rate of 6.5 mills. Forecasting this into the future over a similar period at a 40% increase, the mill rate would need to be set at 9.1 mills per \$100,000 of assessed value in 10 years. Meaning, each property owner could be responsible for \$910 of taxes per \$100,000 of assessed value.



The Borough relying strictly on property taxes and fees limits revenue increase to replenish the capital expenditures fund or create a fund balance fund, which other municipalities use to offset property tax increases.

### **B. Institute an EIT**

As outlined previously in this report, an EIT of 1% is estimated to potentially generate over \$2,000,000 in tax revenue to the Borough. This amounts to \$1,000 per year, per \$100,000 earned. Or roughly \$38.40 per bi-weekly paycheck.

If the Council decides to institute an EIT, it would be this Subcommittees recommendation to reduce the millage rate in the first year of implementation to below the 2023 rate, of around 5.00 mills. Doing this will alleviate all property owners of property tax increases experienced over the last 2- years, reducing property taxes by an estimated \$150 per \$100,00 of assessed value. Additionally, this would increase the Borough's tax revenue by over \$1,000,000.

These additional funds should be segregated from the general fund to build up the Borough's capital expenditures fund. In addition, the Borough should look to create a fund balance fund. With a purpose of additional revenue brought in from the EIT to be set aside to offset the need for future property tax increases. Additionally, the Borough can gradually bring down the millage rate in future years to a level that offsets the revenue generated from the EIT.

### **C. Decision for Council**

After experiencing several years of increased inflation and the likelihood of losing the largest valued property as part of the Borough's tax base, Council must make a decision as to what it feels is best for the financial future of the Borough. The decision is one that will have an impact on the quality of life of residents. Consideration of both the fiscal well-being of the residents, the Borough and the ability to provide quality services must be balanced for Ridley Park to remain a great place to live. <sup>2</sup>

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<sup>2</sup> All data and analyses provided within this report are based upon the Borough's annual budget, audit and additional material provided to the Subcommittee for the years 2015-2024.