

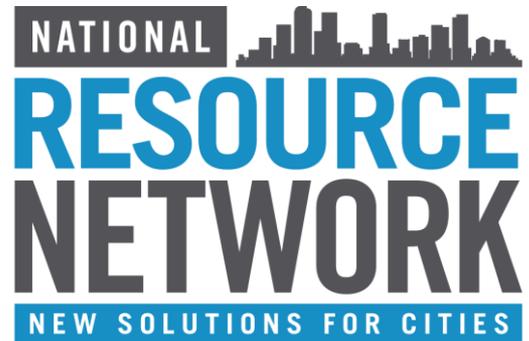
# Municipality of Norristown Five-Year Financial Plan

## Final Report

March 2019

# Norristown's Five-Year Financial Plan

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# Introduction

# The National Resource Network

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- The National Resource Network, a core component of the federal government's Strong Cities, Strong Communities initiative, develops and delivers innovative solutions for American cities to help them address their toughest economic challenges.
- Since its launch in 2013, the Network has worked with more than 50 cities nationally. Local governments apply to the Network for assistance, the Network conducts an assessment to determine key challenges and opportunities, and the local governments and the Network work together to identify direct assistance.
- In 2017, the work of the Network was continued with a \$4 million grant from the Laura and John Arnold Foundation to help economically challenged communities develop multi-year financial plans.

# Norristown's selection for assistance

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- The Network developed a set of criteria to qualify communities for assistance based on their population, poverty rate and unemployment rate. Norristown qualifies on the basis of its poverty rate rising from 16.6 percent in 2010 to 22 percent in 2015, according to US Census data.
- The Network also prioritizes assistance to communities where local leaders are ready to develop and willing to implement a multi-year financial plan. The Network invited 58 communities including Norristown to submit applications for assistance in 2017.
- In September 2017, the Municipality of Norristown submitted its application for assistance, citing “a population that is getting less affluent” and three specific challenges that hurt Norristown’s efforts to attract and retain residents and businesses:
  - A decrease in home ownership and concurrent rise in transient rental housing;
  - A persistent stigma of being a crime-ridden community, despite falling crime levels; and
  - More than normal littering and poor property maintenance in certain areas, which exacerbates the perceived lack of safety.

# What is multi-year financial planning?

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A multi-year financial plan helps local leaders think through their financial position, resource allocation decisions and community goals in a quantified, logical way and communicate their vision and priorities to different audiences. It includes:

- The **baseline assessment** is a diagnostic exercise where thousands of lines of financial data are distilled to a limited number of core trends that drive the government's financial performance. The assessment includes a projection showing the government's likely financial performance in a *status quo* scenario absent corrective action.
- In response to this diagnosis, the multi-year plan recommends "treatment" in the form of **an action plan** with a series of prioritized initiatives that will change the government's financial trajectory and ensure that it will have the resources it needs on a sustainable basis to advance the community's goals.
- For this particular engagement, the Network developed a **dynamic budget model** to help Norristown's leaders update their baseline financial trajectory and anticipate how discrete operational and budgetary decisions and changing circumstances can impact Norristown's future financial position.

# Project timeline

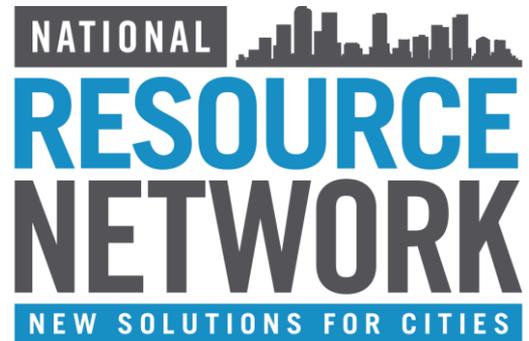
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- Network representatives scheduled a phone interview with Norristown officials in October 2017; conducted a site visit to the Municipality in January 2018; and conducted a follow-up phone interview in February 2018. Based on the information provided, the Network accepted Norristown's application for assistance.
- In April 2018, the Network issued an assessment report outlining Norristown's challenges and opportunities and a recommended course of action. The Network and Municipality signed a Memorandum of Understanding outlining this engagement in May 2018.
- After the early June kickoff, the Network started three concurrent processes:
  - **Financial analysis** to assess the Municipality government's financial condition and develop a baseline projection of its revenues and expenditures in a diagnostic *status quo* scenario (June through September 2018);
  - **Operations analysis** including interviews with department leadership and data review to develop a deeper understanding of the government's most significant challenges related to staffing, facilities, equipment and service demands (June through October 2018); and
  - **Economic and community development analysis** to review Norristown's programs and policies related to neighborhood stabilization, economic development and youth development (June through November 2018).
- Network representatives attended Municipal Council meetings during the summer; participated in departmental budget review sessions during the fall; and convened Advisory Committee meetings to gain additional input on Norristown's needs during the process.

# A Plan for Norristown

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- In recent years, the Municipality's elected and appointed leaders have worked hard to erase the negative perception that its own residents and the region at-large has held of Norristown's local government.
- They have shown that Norristown government is not corrupt or incompetent, that it is stable from a cash perspective, credible in the eyes of rating agencies, and capable of providing the core municipal services, like police patrol, fire suppression and road maintenance.
- As a community Norristown does face challenges related to concentration of poverty and low home ownership rates. But Norristown Municipal government itself is not deeply distressed. The Municipality has cleared a six-year backlog of missing audits, returned to the credit market, built a meaningful cash balance and adopted its first five-year capital improvement plan.
- While there is still work to do to ensure that local government has a structurally balanced budget, and the Municipality needs to make investments in core infrastructure, Norristown can set its sites on something beyond competency and credibility.
- If Norristown's leaders make smart, hard decisions over the next couple years, their local government will have a chance to be creative, cooperative and capitalize on its opportunities. Norristown can be a vital urban hub within Montgomery County that is a source of pride for its current residents and an attractive destination to new residents and businesses.



# Norristown's Story

# Hard-earned progress

Norristown is a Home Rule Municipality with a Council-Manager form of government. In April 2004, voters abolished the mayor's position and two days later federal authorities conducted a raid that ultimately resulted in the mayor being convicted of bribery, bank fraud and tax evasion. Since then, Norristown's elected and appointed leaders have worked hard to erase the negative perception that its own residents and the region at-large had of Norristown's local government.

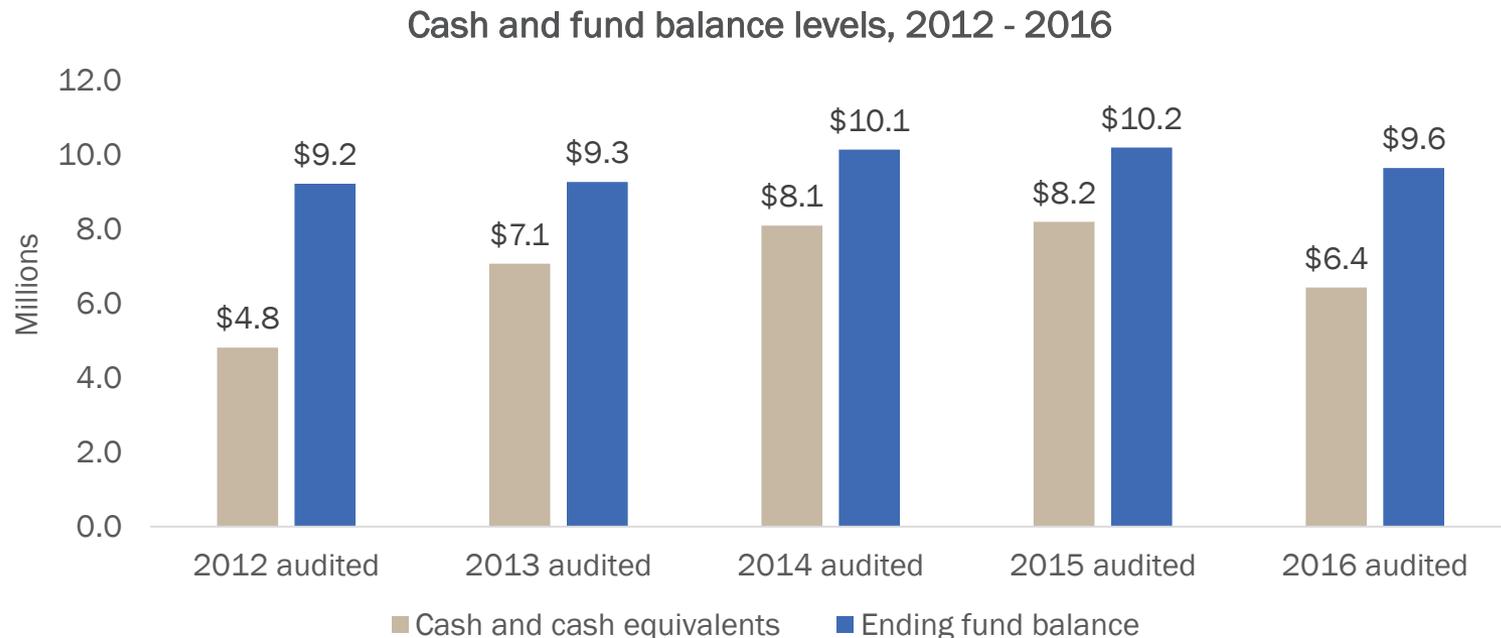


From a financial perspective, the Municipality cleared a six-year backlog of missing audits, returned to the credit market, built a meaningful cash balance and adopted its first five-year capital plan.

S&P Global Ratings evaluated Norristown's financial position in March 2017 and assigned the Municipality the credit rating "AA-" with a "stable outlook." S&P acknowledged Norristown's demographic challenges but cited its positive budget performance, ample flexibility and strong reserve levels as factors in the rating that sits in the high grade of S&P's scale.

# Financial progress

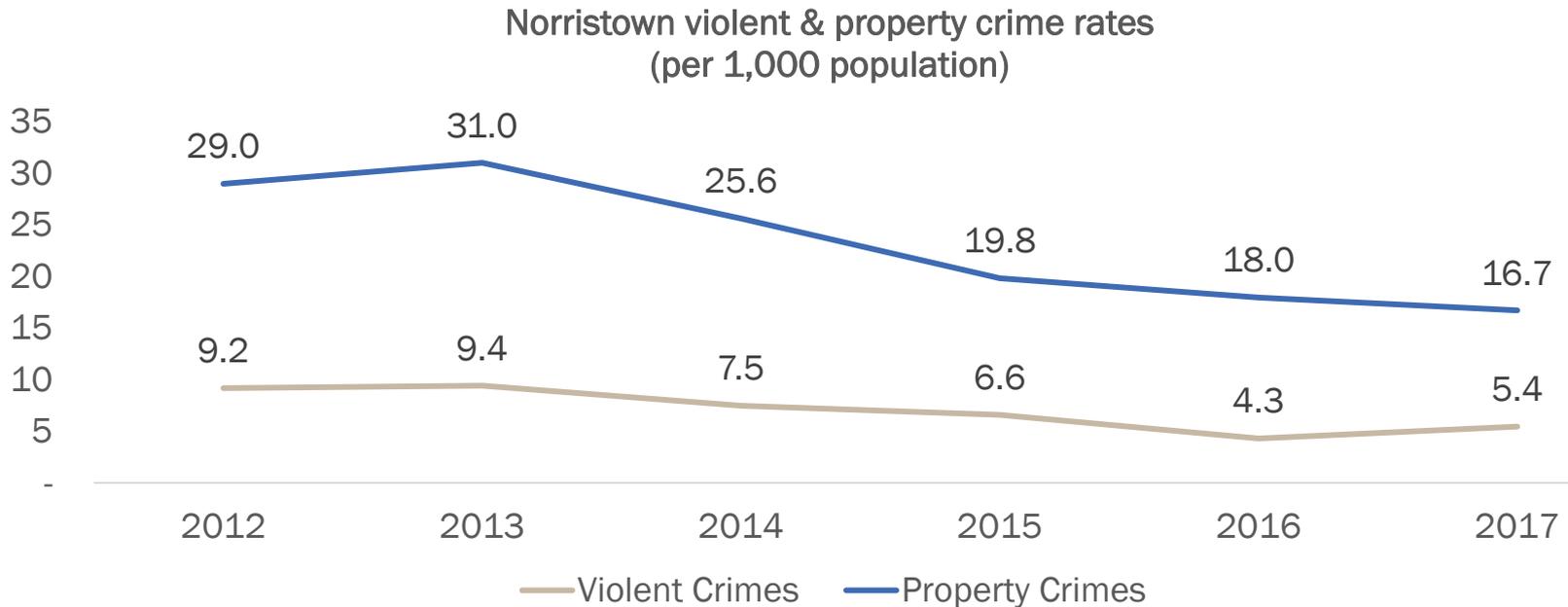
Norristown's financial progress is reflected in its annual financial reports. From 2012 to 2015, Norristown's fund balance increased from \$9.2 million to \$10.2 million and its cash balance increased from \$4.8 million to \$8.2 million. Even though the Municipality had a General Fund deficit of \$456,000 in 2016, it still finished the year with \$9.6 million in year-end fund balance (equivalent to 30 percent of its annual expenditures) and over 70 days' worth of cash on hand.



Source: Norristown annual financial reports (includes General and Debt Service Funds)

# Public safety progress

Norristown's progress extends beyond measures of financial stability. The rates of violent and property crimes have dropped since 2012. In a comparative context, Norristown's property crime rate in 2017 was lower than those of similarly sized Pennsylvania county government seats in Easton, Williamsport, Wilkes-Barre and York, and its violent crime rate ranked in the middle of that group.



Source: FBI Uniform Crime Reports (UCR)

# Optimism and opportunities

Harder to quantify but equally as important, we noted optimism in Norristown's potential to become a unique, vital, urban hub within Montgomery County, both from local government officials and community members who participated in this process. Some of the assets and opportunities mentioned include:

- Parks and recreational facilities, including the Elmwood Park Zoo and biking and walking trails
- Convenient access to the Philadelphia job market via the Norristown Transportation Center
- Opportunities for commercial and residential development along the Schuylkill River water front
- Montgomery County government's planned investment in a \$281 campus redevelopment project
- Pennsylvania Turnpike Commission's planned construction of a \$66 million slip-ramp interchange that will improve highway access to downtown Norristown
- Potential for redeveloping the 198-acre Norristown State Hospital site



# Norristown's challenges

The Network developed a set of criteria to qualify communities for assistance based on their population, poverty rate or unemployment rate. Norristown qualified due to its poverty rate rising from 16.6 percent in 2010 to 22 percent in 2015 according to US Census data. Compared to the county, state, and nation, Norristown's poverty rate was significantly higher and its growth steeper during the five-year period from 2010 to 2015.

	2010 Poverty Rate	2015 Poverty Rate
Montgomery County	4.7%	5.9%
Pennsylvania	10.8%	11.9%
United States	12.2%	13.7%
Norristown	16.6%	21.9%

Norristown's leaders acknowledged this issue in their application for assistance and cited three specific challenges that hurt their efforts to deconcentrate poverty.

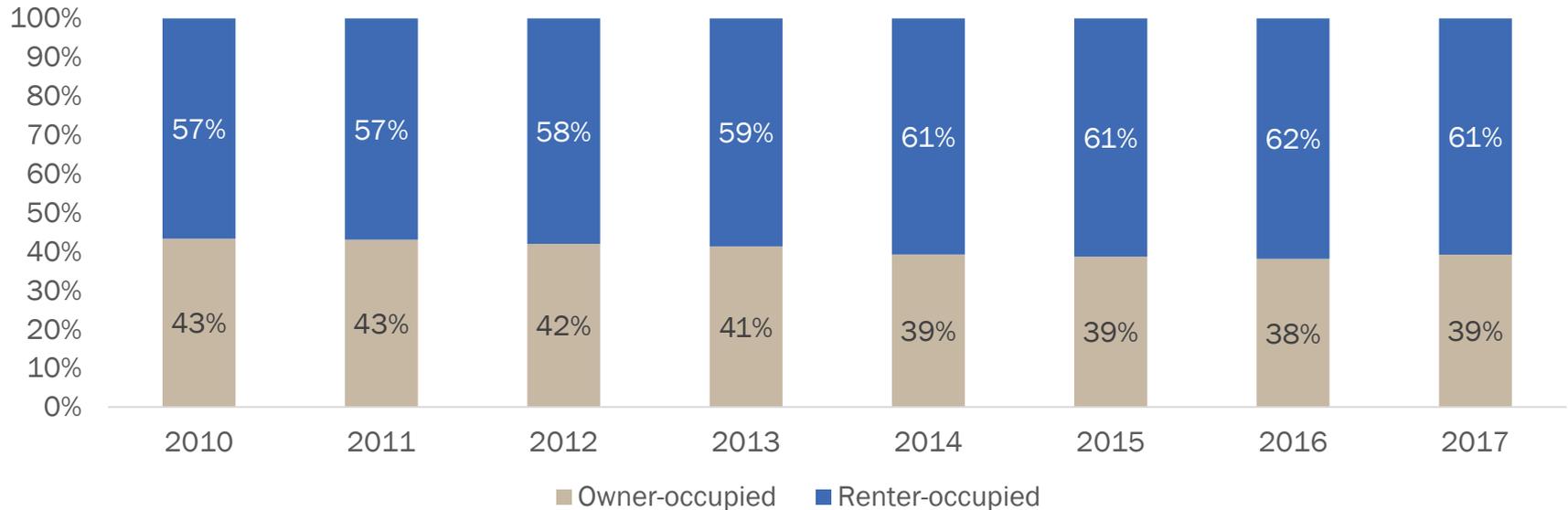
- A **decrease in homeownership and concurrent rise in transient rental housing**, resulting in the destabilization of neighborhoods;
- A persistent **stigma of being a crime-ridden community**, although crime has been significantly reduced over the past four years; and
- More than normal **littering and poor property maintenance** in certain areas of the community, exacerbating the perception of being crime-ridden.

# Decreased homeownership

Federal census data validates the concerns about the decrease in home ownership. From 2010 to 2016, the total number of housing units in Norristown remained the same but the number of owner-occupied housing units dropped by 14 percent from 5,450 to 4,682. The graph below shows this shift toward more renter-occupied housing units from 2010 to 2016.

Municipality officials are concerned that the rise in rental housing units may result in the destabilization of neighborhoods if renters are less likely to maintain the upkeep of the properties. This is true based on the data as shown on slide 18. Rental properties account for a disproportionate number of exterior violations cited by the Code Department.

Owner-occupied vs renter-occupied units



# Crime stigma

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Norristown's application for assistance referenced "a persistent stigma of being a crime-ridden community, although crime has been significantly reduced over the past four years." Analysis of Norristown's Uniform Crime Report data confirms that violent and property crime rates have declined since 2012.

Quantifying the degree to which there is a stigma that Norristown is crime-ridden and diagnosing the cause of that stigma is much more difficult. The officials interviewed during our process agreed that there is a stigma and questioned whether it is more prevalent among non-residents.

Advisory Committee members believed that to be the case and suggested that solving the first problem related to the decrease in home ownership and concentration of low quality rental units would help mitigate the crime stigma.

The Norristown Police Department has taken measures to improve the perception of safety in the Municipality, in addition to its efforts to lower the actual crime rate. The NPD Crime Analyst runs Norristown's New Horizons program that works with residents and businesses in targeted neighborhoods (generally four or five adjacent blocks) to address concerns about crime, blight and property maintenance.

Defining and measuring the stigma – particularly who holds the concerns about safety, what their specific concerns are and how they translate to tangible changes in behavior – is the first step to addressing it.

# Littering and property maintenance

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The Municipality currently collects valuable information that is used to quantify its problems related to littering and poor property maintenance, while also tracking its progress in response to those problems. The new Code Director provides monthly reports to Council that include the following key performance indicators:

- Number of violations found through proactive code enforcement at owner-occupied and rental properties
- Top violation types for owner-occupied and rental properties
- Number of citations issued
- Number of vacant buildings and lots
- Geographic concentration of violations by severity throughout Norristown

Separately, the Department of Public Works has started to track the amount of time its staff spends on street cleaning and related activities. This will provide another indirect measure of the cleanliness of Norristown's public spaces.

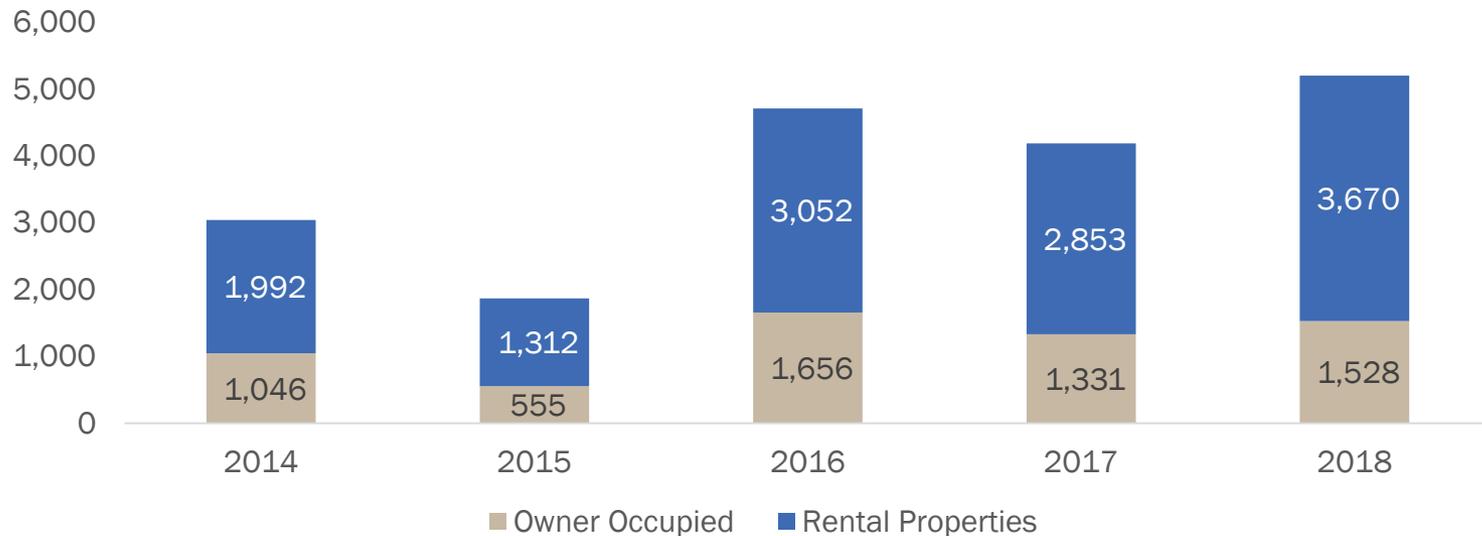
The Municipality should track the success and timeliness of its efforts to remedy the problems – *What percentage of violations is corrected after the first citation? What percentage ends up in District Court? Is compliance with property maintenance codes improving?*

Tracking these measures will help Norristown's elected and appointed leaders understand the extent and geographic concentration of these problems and should also inform the Municipality's strategy in response to them.

# Quantifying the problem

Proactive property inspections yielded 5,198 violations through November 2018, about 70 percent of which occurred at rental properties. The most common violations at rental properties were related to litter (892 or 24 percent). The most common violations at owner-occupied properties were high grass/weeds (29 percent) and litter (26 percent). The increase in violations shown below is driven at least in part by the Department performing more inspections during 2018. Once department leaders are comfortable with the quality and consistency of its data collection, they can set a baseline level against which they can measure progress.

Exterior violations, January – November YTD



# Why does public finance matter?

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Communities that are striving to be more economically competitive – to successfully attract and retain more residents and businesses – seldom face a single obstacle to revitalization. There are often interconnected challenges related to housing, equity, workforce development, education, transportation, business development and public safety

Norristown's local government cannot solve these problems on its own, but it should be a constructive partner in the effort to do so. This depends on the Municipality's ability to allocate resources effectively to this purpose. The level and quality of local government's primary resources – its employees, facilities, public infrastructure, programmatic offerings – all depend in part on the local government's financial position.

Conversely, the relationship between these types of problems and local government finance also works in the opposite direction. A rising concentration of poverty and unabated concerns about safety and cleanliness will eventually make Norristown a less attractive place to live. Since Pennsylvania local governments primarily tax residents based on where they live, these problems can translate to a declining tax base and a worsening financial situation for the local government.

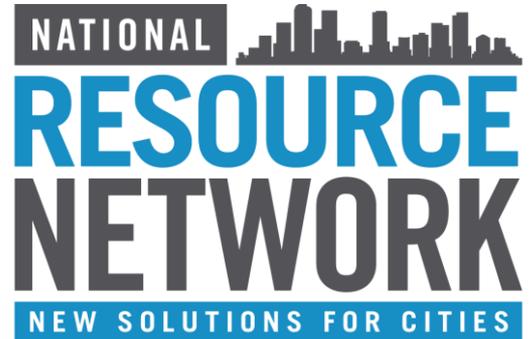
Norristown's economic vibrancy as a community and the financial performance of its local government are connected to each other. In order for the Municipality to thrive, its financial outlook should show that it is capable of providing core municipal services while bolstering its ability to sustain Norristown as a great place to work, live, and play.

# The importance of fiscal sustainability

Multi-year plans are designed to help local governments achieve four levels of fiscal sustainability, where success at each level over the long term is a prerequisite for success at higher levels.

<p><b><u>Service stability</u></b></p> <p>The ability to deliver desired services over time at a price the community is willing to pay for them, even as the community's needs and preferences change</p>
<p><b><u>Structural stability</u></b></p> <p>The ability to ensure that recurring revenues meet recurring expenses from year to year</p>
<p><b><u>Budgetary stability</u></b></p> <p>The ability to balance revenues and expenditures without incurring a deficit at year's end</p>
<p><b><u>Cash stability</u></b></p> <p>The ability to generate enough cash to pay liabilities when they are due</p>

Norristown's local government cannot achieve the highest level of performance (service stability) if it does not achieve stability in the other areas first. Thus, our analysis begins with a review of the Municipality's recent and projected financial performance. The ultimate goal is not to simply balance the budget. **Rather, it is to ensure that Norristown's local government has the resources it needs to be a constructive partner in tackling the bigger challenges related to housing, crime and cleanliness.**



# Financial Assessment

# Baseline Projection

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*“...the Network will develop a baseline projection of Norristown’s revenues and expenditures in a diagnostic status quo scenario. The Network team will use historical data, the FY2018 budget and management insight to build the baseline forecast.” – Assessment Report, p. 14*

There are two very important contextual points to understand the baseline projection presented here:

- **The baseline projection presents a status quo scenario**

Conceptually, the baseline projection is intended to represent a “carry forward” or “current services” set of projections – such that no reduction or enhancement in services, headcount or tax rates are generally assumed, except in cases where already adopted into current law or consistent with existing policy.

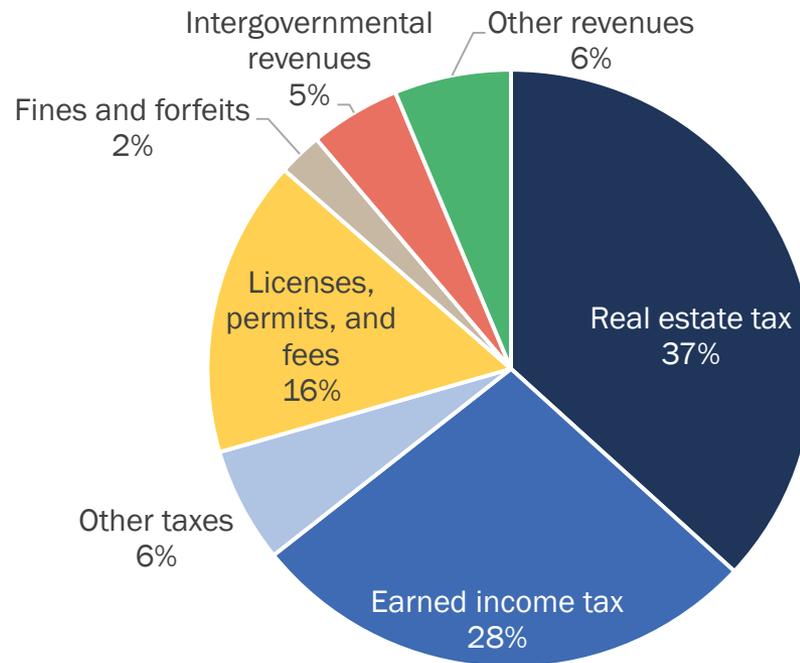
- **The baseline projection is not a prescription for Norristown’s financial policies, nor is it a prediction of future annual results**

The baseline projection shows the Municipality’s finances absent corrective action. The Municipality is statutorily required to pass a balanced budget each year and it could not sustain the projected deficits in the baseline without depleting its reserves. Practically speaking, Norristown will have to take corrective action.

# Revenue drivers

Like many Pennsylvania local governments, Norristown's revenues are primarily driven by its real estate and earned income taxes, which when combined, represent two-thirds of total revenues. Licenses, permits, and fees account for the next largest revenue category, and the trash collection fee accounts for about half of the revenues received from these sources.

2019 General Fund Revenues (\$34.5M)



# Trend #1: Real estate tax revenue grows when rate does

Norristown's real estate tax base has been flat, growing by just 0.1 percent per year from 2012 to 2017, and then losing even that minimal growth in 2019. Historically, real estate tax revenues have only increased when the tax rate itself did, as seen in 2014 and 2018.



So...the baseline projection assumes that real estate tax revenues will remain flat, consistent with historical trends.

## Trend #2: Moderate EIT growth in recent years

Norristown levies a 1.6 percent earned income tax (EIT) on its residents and the school district levies another 0.5 percent for a total EIT rate of 2.1 percent. In most cases, people pay EIT based on where they *live*, not where they *work*.

Norristown's earned income tax revenues declined from 2013 to 2015 by 1.2 percent annually. This decline is due, in part, to a decrease in the number of people employed, which dropped from 16,802 to 15,857 during this time frame. However, this trend began to reverse in 2015. According to data from the US Census Bureau, both the number of people employed and their earnings grew by at least two percent annually between the next three years.

Although the Municipality's earned income tax revenues grew at a lower pace, increasing by 1.7 percent on an annual average basis during the three-year period from 2015 to 2017, there are signs that the positive trends (shown in the table below) will continue. 2018 preliminary results show EIT collections (on a cash basis) of \$9.5 million, which is almost four percent higher than 2017 year-end actuals, although some of that increase may be due to timing.

	2013	2014	2015	2016	2017	2013-15 Annual Growth	2015-17 Annual Growth
EIT revenues (on a cash basis)	\$9.1M	\$8.9M	\$8.8M	\$9.0M	\$9.1M	-1.2%	1.7%
Median household income	\$43,536	\$42,296	\$41,856	\$44,168	\$45,071	-1.9%	3.8%
Per capita income	\$21,748	\$21,369	\$21,045	\$21,986	\$23,453	-1.6%	5.6%
Mean earnings	\$57,299	\$55,807	\$56,260	\$61,486	\$65,124	-0.9%	7.6%
Population employed	16,802	16,232	15,857	16,175	16,713	-2.9%	2.7%

Source: Norristown's EIT cash receipts; American Community Survey 5-Year Estimates

So...the baseline projects EIT revenues to grow at 2.0 percent annually based on 2015-2017 EIT revenue trends and Census data.

# Trend #3: Flat fee and fine revenues

License, permit, fee and fine revenues remained flat from 2012 to 2016, with falling fine revenues offsetting the growth in fee revenues. Trash fee revenues grew by 3.8 percent per year from 2012 to 2017, while building permit revenues were volatile since they are dependent on the occurrence of large projects. In an effort to reverse the declining trend in parking fine revenues, the Municipality began working with an outside vendor, which accounts for most of the fee revenues budgeted for this category (\$560,000 in 2019).

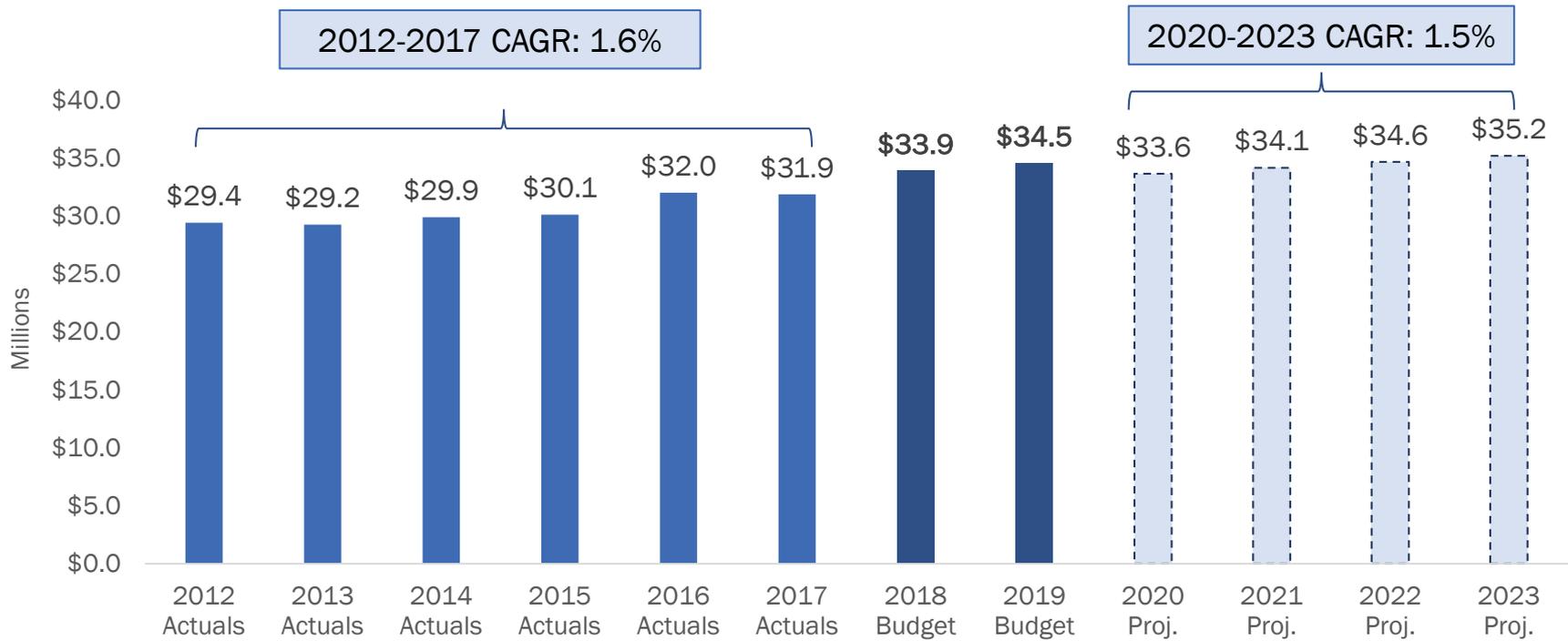
Fee and fine revenues, 2012 - 2018



So...the baseline projection assumes the declining trend in parking fine revenue will flip to 1 percent annual growth because of the changes that are already underway. Trash fee revenues are projected to grow by 5 percent with offsetting growth in expenditures. Building permit revenues are held flat at 2019 budgeted levels.

# Revenue projections

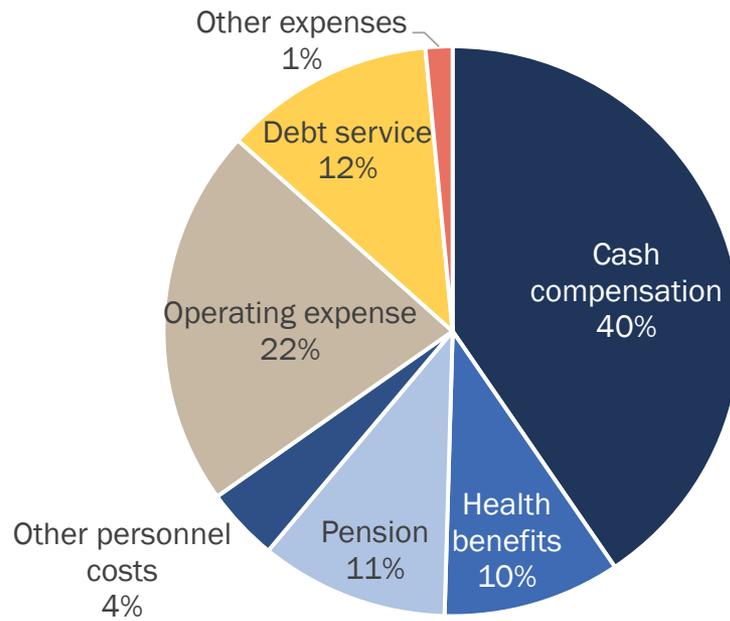
- The 2019 budget uses \$1.4 million in reserves to balance the budget, so the 2020 projection removes this use of reserves in future years.
- Overall revenues are projected to grow at an annual average rate of 1.5 percent from 2020 to 2023, driven primarily by the 2.0 percent projected growth in earned income tax revenues.



# Expenditure drivers

Like most municipal governments, Norristown's General Fund budget is primarily comprised of personnel costs (salaries, health insurance, pension). Total personnel costs were \$22.4 million in 2019, which is almost equivalent to the aggregate of Norristown's real estate and earned income tax revenues (\$22.2 million). Another \$7.6 million (or 22%) was spent on the day-to-day operations of local government, including utilities, maintenance, and supplies.

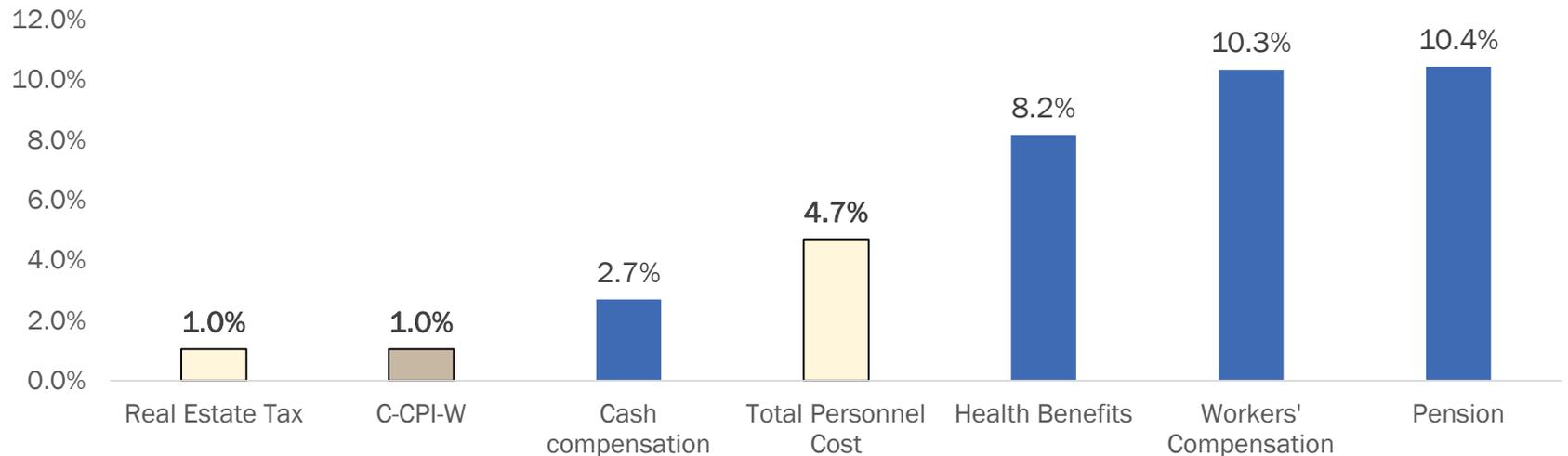
## 2019 General Fund Expenditures (\$34.5M)



# Trend #4: Personnel cost growth outpaces inflation

From 2013 to 2017, the national inflationary index for urban wage earners and clerical workers grew at an annual average rate of 1.0 percent. Norristown's spending on total cash compensation grew at 2.7 percent annually during the same period, and other benefits, including health benefits, pension, and workers' compensation all grew at a significantly higher rate.

Compounded Average Annual Growth, 2013 - 2017

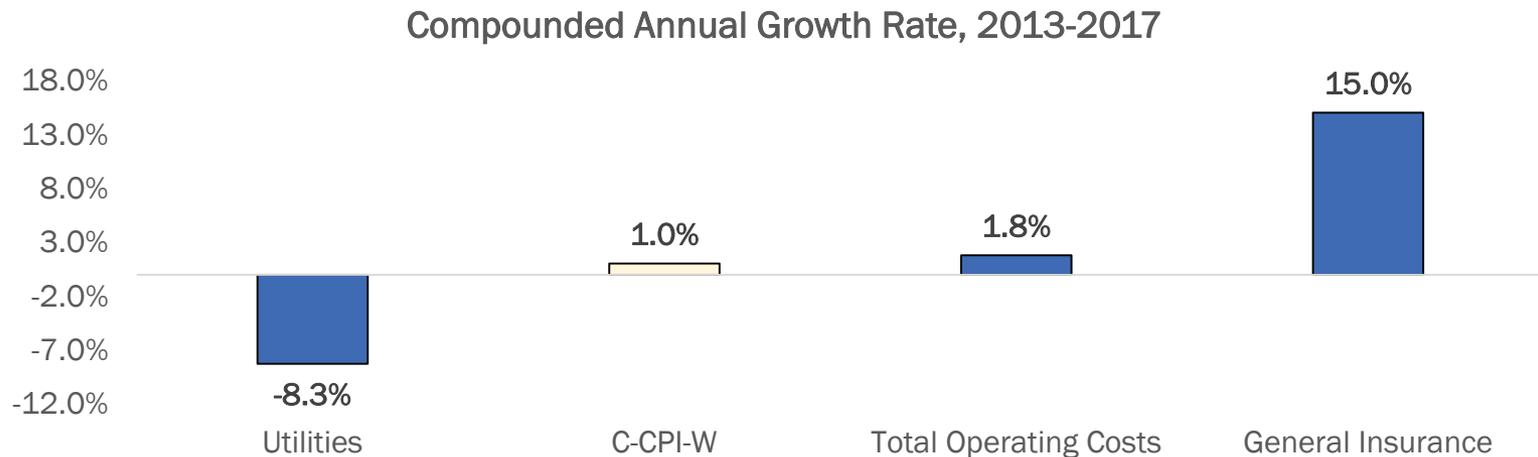


So...cash compensation is projected to grow according to the most recent FOP contract provisions (2.75% increase in 2020, 3.0% in 2021, and 2.5% in 2022 and 2023) while the cost of health benefits grows by 9.5 percent and pension contributions follow the actuaries' projections.

*Cash compensation includes base salaries, longevity, temporary salaries, overtime, buyback sick time, and any premium pay  
Total personnel costs include workers' compensation, FICA, uniforms, long-term disability, and unemployment.*

# Trend #5: General liability insurance cost almost doubled

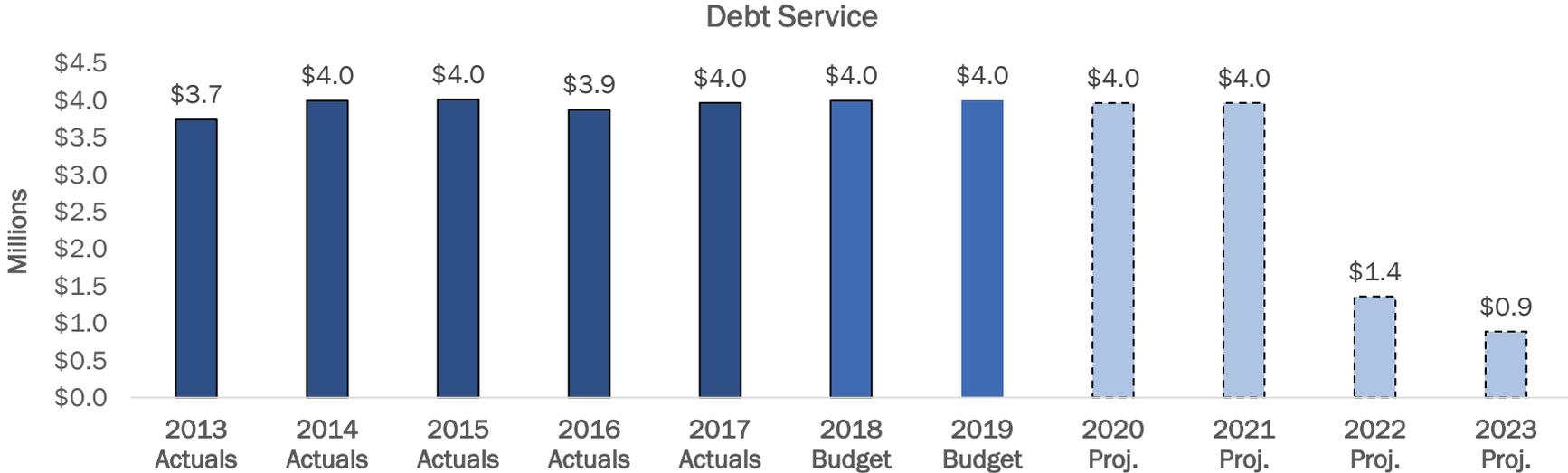
Norristown's non-personnel operating costs grew at an annual average rate of 1.8 percent from 2013 to 2017, exceeding the inflationary growth during the same period (1.3%). One expense with significantly higher growth was general liability insurance, which almost doubled during the five-year period from \$476,000 in 2013 to \$834,000 in 2017. Between 2010 and 2017, Norristown had several large property and liability claims that were over \$500,000, which in part led to the large annual premium increases in recent years.



So...most operating expenses are projected to grow at inflation. General Insurance is projected to grow at a higher rate (5%) given recent years' trends.

# Trend #6: Debt service scheduled to drop

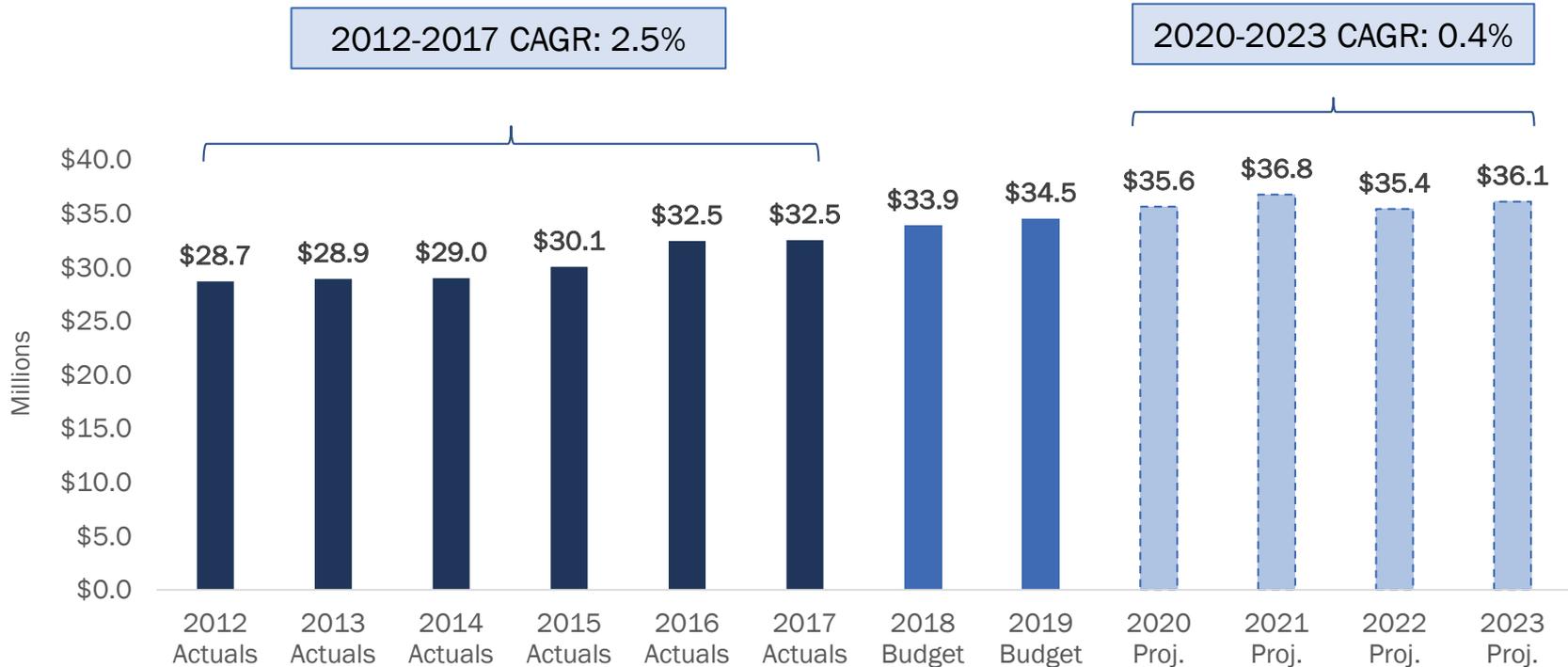
Norristown’s debt service payments have been approximately \$4.0 million annually, although the amount will drop significantly in 2022 as debt obligations retire. Representing 12% of total General Fund spending in 2019, the scheduled drop in debt service will have a significant impact on the five-year forecast.



So...the baseline forecast incorporates the scheduled drop in debt service in 2022 but does not reflect the likely need to issue new debt before 2022. That is addressed in the next section of the plan.

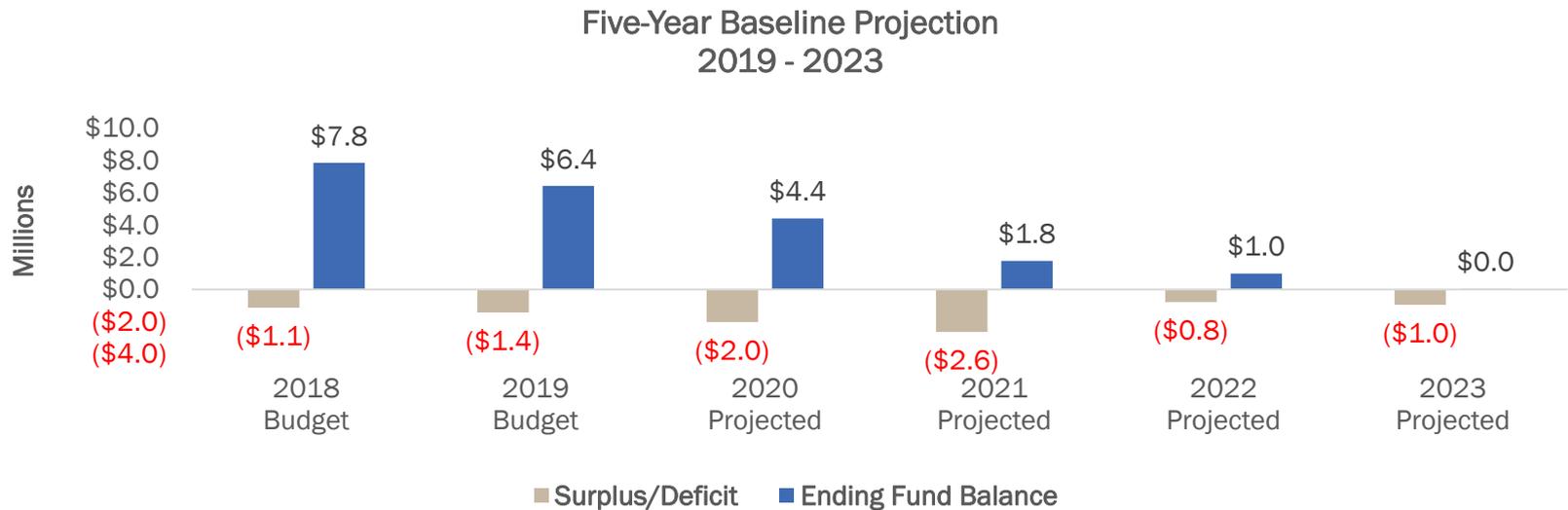
# Expenditure projections

Total General Fund expenditures are projected to grow at an annual average rate of 0.4 percent. Personnel costs are projected to grow by 3.8 percent annually and other operating expenditures are projected to grow by 3.3 percent, but the scheduled drop in debt payments flattens the total expenditure growth after 2021.



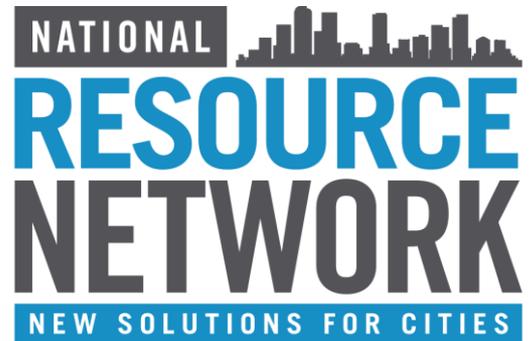
# Five-year financial projection

Norristown had a \$1.1 million deficit in 2018 and the recently adopted 2019 budget had another \$1.4 million deficit that is being filled using reserves. Absent corrective action, the deficit grows to \$2.0 million in 2020 and then \$2.6 million in 2021, before shrinking when debt payments drop in 2022. That assumes the Municipality does not issue new debt, though that is likely to happen.



	2018	2019	2020	2021	2022	2023
Debt service (in \$ millions)	\$4.0	\$4.0	\$4.0	\$4.0	\$1.4	\$0.9
Fund Balance as a % of Exp	23.1%	18.6%	12.3%	4.8%	2.8%	0.1%

\*Note: the \$1.1 million deficit in 2018 and the \$1.4 million deficit in 2019 are both reflected in the adopted budgets as a transfer from the reserves.



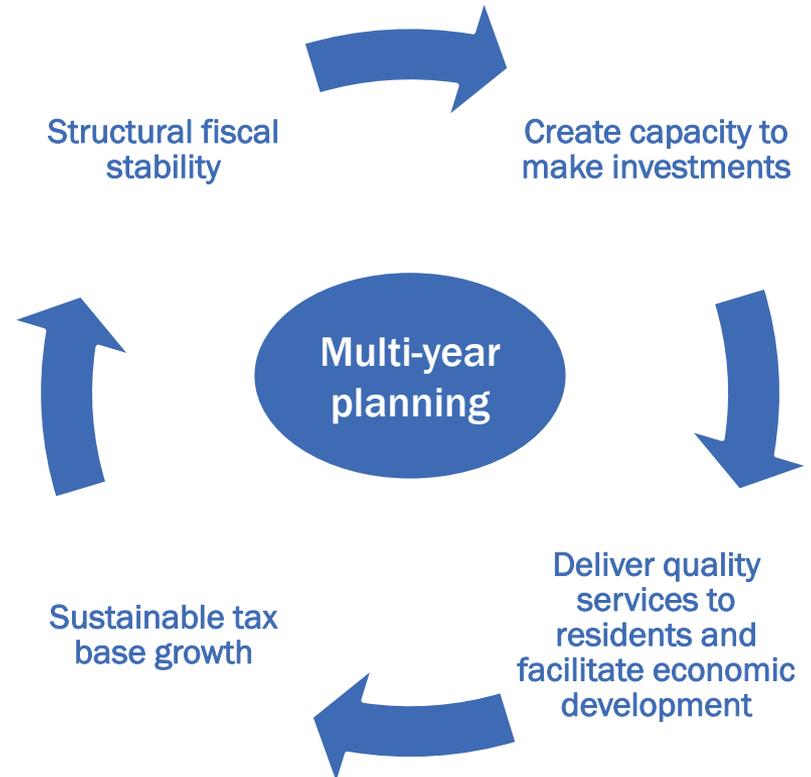
# Norristown's Goals

# The basic guiding principle

A multi-year financial plan takes a comprehensive look at a government's operations and finances projected over several years to identify future gaps in resources so that leaders can proactively identify and execute strategies to fill those gaps in a way that advances their vision for what the community should be.

Our analysis has three interrelated components – financial, operational, and economic/community development.

The basic guiding principle is that balancing recurring revenues against recurring expenditures will provide the money you need to make investments over time that will in turn improve the services government provides and facilitate tax base growth. That will strengthen Norristown's ability to retain and attract residents and businesses, build the tax base, grow your recurring revenues and start the cycle over.



# Plan goals

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We recommend Norristown's elected and appointed leaders focus on the following goals:

- **Fiscal sustainability (Finances)**
  - Eliminate structural deficit by 2021
  - Maintain fund balance level at 17% with the long-term goal of increasing it to 25%
  - Maintain current credit rating (AA-)
- **Safety, cleanliness and stable service delivery (Operations)**
  - Improve perception of Norristown as a safe, vibrant community
  - Improve quality of Norristown's public spaces and increase compliance with the property maintenance standards for private property
  - Invest in the facilities, technology and vehicles that Municipal government needs to deliver daily services
- **Tax base growth (Community/Economic Development)**
  - Position Norristown to attract investment in its Opportunity Zone
  - Invest in neighborhood redevelopment and improvement

# Three financial goals

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We used the financial condition analysis and baseline projection to facilitate discussion among Council about the Municipality's financial goals. **We recommend the following goals for the next five years:**

## 1. Eliminate Norristown's structural deficit by 2021

The 2018 budget relied on \$1.1 million in reserves to fill the budget gap, and the 2019 budget relied on another \$1.4 million to balance the budget. To achieve fiscal sustainability, Norristown must reduce the projected deficits over the next three years with the goal of balancing its budget without relying on reserves by 2021.

## 2. Maintain fund balance level at 17% with the goal of increasing it to 25%

The GFOA recommended fund balance is at least 16.7 percent (or two months) of operating expenditures. Norristown's estimated 2018 year-end fund balance is \$7.8 million, or 23 percent of operating expenditures. That fund balance will drop as the Municipality continues to lean on fund balance in 2019 and potentially 2020. Norristown should maintain its unassigned fund balance level at the GFOA recommended minimum with the long-term goal of increasing it to 25 percent over time.

# Three financial goals

## 3. Maintain current credit rating

Norristown’s most recent credit rating in 2017 was AA- (stable), which is in the “high grade” of S&P’s scale. The credit rating is a tangible sign of Norristown’s hard-earned progress. It also results in lower borrowing costs.

The 2017 rating greatly benefited from Norristown’s healthy fund balance at the time. The rating agency specifically referenced the risk associated with poor financial performance:

*“If future pension pressure were to cause budgetary performance to weaken, causing budgetary flexibility or liquidity to weaken to levels we no longer consider very strong, we could also lower the rating.”*

Local government needs to have annual surpluses (budgetary performance) and maintain its reserves (budgetary flexibility) to offset Norristown’s demographic weaknesses.

S&P Credit Rating	
AAA	High grade
AA+	
AA	
AA-	
A+	Upper medium grade
A	
A-	
BB+	Lower medium grade
BBB	
BBB-	
BB+ and below	Non-investment grade (aka “junk bond”)

# Three operational goals

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Based on our operational assessment and participation in the 2019 budget process, we recommend three overarching operational goals for the next five years:

## 1. Improve perception of Norristown as a safe, vibrant community

Municipal officials expressed concern that Norristown still has the stigma of being unsafe, even though crime levels dropped since 2012. There needs to be more quantified, specific understanding of who holds this stigma and why before Norristown can combat it. Expanding participation in recreation programs and increasing foot traffic downtown will also promote positive imaging to counteract lingering negative perception.

## 2. Improve quality of Norristown's public spaces and increase compliance with the property maintenance standards for private property

There is dissatisfaction with the residential trash collection system, which is a core service that the Municipality provides to its residents and impacts the cleanliness of Norristown's public thoroughfares. Municipal government is not responsible for cleaning or improving private property, but it can enforce compliance with the property maintenance standards in place. Improving neighborhood "curb appeal" would help attract new residents and could help alleviate some of the stigma referenced above.

# Three operational goals

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## 3. Invest in the facilities, technology, and vehicles that deliver daily services

To sustain core services and make targeted improvements, Norristown must find ways to invest in the infrastructure local government itself uses every day including:

- Seven facilities (Municipal Hall, Public Works Building, Recreation Center, four leased fire stations)
- 12 parks
- 40 police vehicles
- 18 fire vehicles
- 23 public works vehicles
- Computer hardware and information technology infrastructure

Some investments like vehicle replacement are necessary to maintain local government services as they currently exist. Others will strengthen local government as a service provider, like renovating Municipal Hall and improving the police station space. Others will help local government be more efficient, like consolidating fire stations and using electronic systems more for scheduling in police and code.

# Two economic development goals

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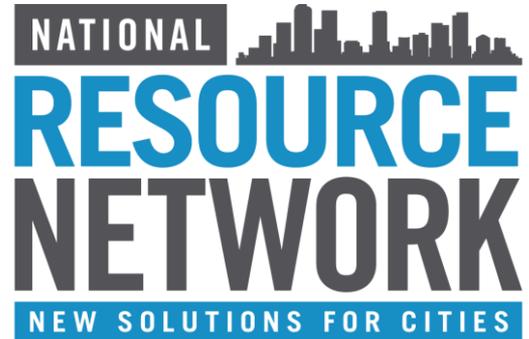
Based on discussion with departments and community partners, **we recommend two overarching economic development goals:**

## 1. Position Norristown to attract investment in its Opportunity Zone

Norristown's designated Opportunity Zone includes properties along the waterfront, the transit center and a substantial length of East Main Street. Norristown is reaching out to owners of re-developable properties and preparing a list of potential projects to attract Opportunity Fund investment. In thinking strategically about funding, Norristown should prioritize developments that have a maximum return on investment for the community. The biggest wins from the narrow but important perspective of local government finances are new residential units because they bring new earned income tax payers to town and eventually (once the abatement expires) add real estate tax revenue. While bringing businesses into Municipality is important to the downtown revitalization efforts, they do not have as much tax revenue impact as residential units.

## 2. Invest in neighborhood redevelopment and improvement

Norristown needs to grow its local tax base to sustain operations without continual tax increases. Given the residency-based taxing powers set by Pennsylvania law, this means Norristown has to attract more residents with higher incomes, either through homeownership or higher quality rental units. Norristown should capitalize on its affordability, walkability and rail access to Philadelphia. Recent development activity demonstrates the potential for infill development within existing neighborhoods. Norristown needs to focus on assembling and preparing suitable parcels to attract new development that can stabilize neighborhoods and grow the tax base over time. Norristown should also continue to support rehabilitation and improvement of existing housing to improve the quality of life and perception of the community.



# The Norristown Plan

# The Norristown Plan by category

**Corrective actions** focus on reversing problematic trends. These are areas where the Municipality needs to take corrective action, even if the strategic goals change.

- Increase non-tax revenues to improve revenue diversity and cost recovery
- Curtail rapid growth in spending on general liability insurance and workers' compensation

**Labor strategies** align growth in workforce expenditures with the growth in the revenues available to pay for them.

- Evaluate annual wage increases in context of long-term sustainability
- Reduce year-to-year growth in spending on employee health insurance
- Evaluate recent increase in police staffing levels from the perspective of growth in total spending on salaries and overtime
- Revisit scheduled changes to investment assumptions for police and fire pension plans

**Revenue strategies** help create room for strategic investments.

- Increase real estate tax revenues through economic development and/or rate increases
- Pursue parking-related revenue from visitors at Elmwood Park Zoo
- Execute sale/long-term lease of sewer system assets
- Levy a stormwater fee to provide a designated revenue stream for improving that system

**Investments** sustain and improve the services local government provides.

- Vehicle replacement plan
- Police and Fire facility upgrades
- Improve safety perception
- Improve trash collection operations
- Data and software enhancements

**Economic development strategies** help facilitate tax base growth.

- Make the most out of the Opportunity Zone
- Establish a land bank funded by the parking surcharge or sewer sale
- Targeted neighborhood redevelopment

Eliminate structural deficits and create room for investments

Investments that sustain & improve operations and create growth

# A phased approach

There is a limit to how many initiatives the Municipality can pursue simultaneously and still execute well, especially given all the other demands on the limited time that elected and appointed officials have. Even if the Municipality wanted to pursue all initiatives now, some can only be achieved through the annual budgeting or collective bargaining processes.

In recognition of these practical limitations, we recommend phasing the initiatives over a five-year period and present them as such in this Action Plan. Initiatives that would take multiple years – like renovating the Municipal Hall and repaying the associated debt – are generally shown in the year when their projected financial impact touches the General Fund, not in the year in which they would begin. Some initiatives are already underway, though their projected impact falls in later years.

The implementation timeline should not be read like a recipe, with strict limits on which step occurs first. Some initiatives have an externally driven timeline while others can be pursued as resources and opportunities allow.

2019: Maximize non-tax revenues	2020: Hard decisions close the gap	2021: Hard decisions create room for investments	2022-23: Invest in the future
Increase fine revenues	Curb fringe benefit cost growth	Targeted neighborhood development	Begin debt repayment for Municipal Hall/Police Station renovations
Pursue parking-related revenue with Elmwood Park Zoo	Use potential sewer sale proceeds	Improve stormwater management	Fire station consolidation and improvement
Leverage the Opportunity Zone	Increase tax revenues	Vehicle replacement	State hospital campus redevelopment
Improve trash collection	Establish Land Bank		

# 2019: Maximize non-tax revenues

Norristown should use this year to focus on maximizing non-tax revenues, make the most of its Opportunity Zone designation and direct resources to improving cleanliness.

- **Financial:** The three priority financial initiatives focus on maximizing non-tax revenues by increasing fine collection; pursuing market-based revenue opportunities (MBROs); and pursuing parking-related revenue in concert with the Elmwood Park Zoo.
- **Economic Development:** Norristown needs to make the most of its Opportunity Zone designation. The current federal program guidelines create a one-year window in 2019 for certain critical actions.
- **Operations:** Since the budget is already in place, there is only one new initiative at a minimal cost to help improve the Municipality's trash collection program and address cleanliness issues.

Slide no.	The Norristown Plan (2019)	2019 Budget (in \$ millions)
	<b>Baseline projection for Surplus / (Deficit)</b>	<b>(\$1.4)</b>
46	Increase fine revenues	TBD
47-48	Pursue market-based revenue opportunities	TBD
49-50	Pursue parking related revenue with Zoo	TBD
51	Improve trash collection	TBD
52-54	Leverage the Opportunity Zone	TBD
55-56	Improved financial reporting	N/A
	<b>Total Initiative impact</b>	<b>TBD</b>
	<b>Surplus / (Deficit) after initiatives</b>	<b>(\$1.4)</b>
	Projected Fund Balance as a % of Expenditures	18.6%

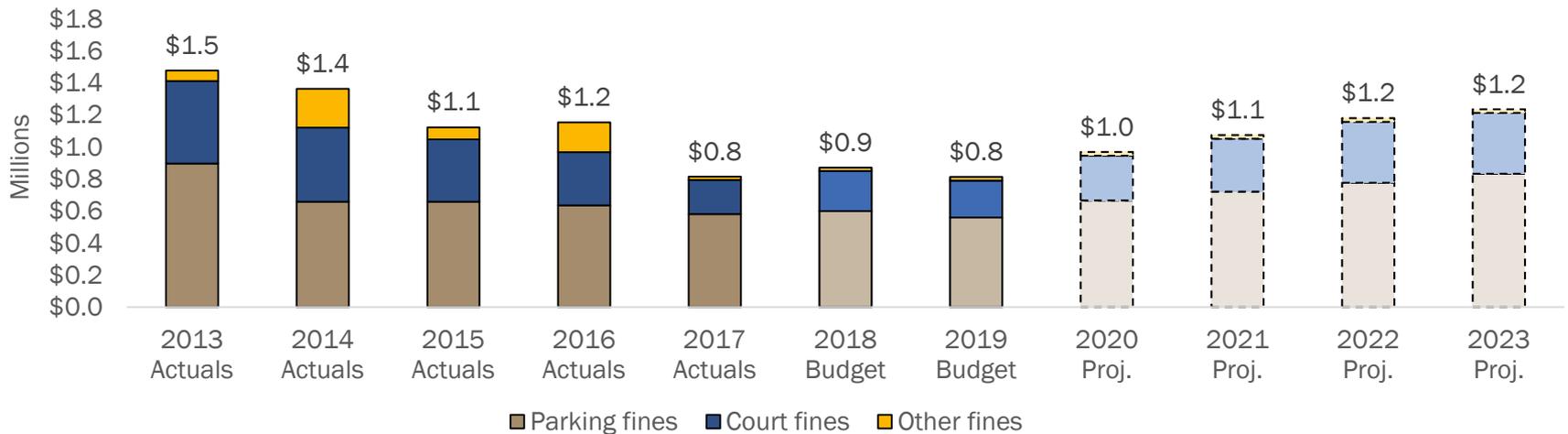
\*Note: the \$1.4 million deficit in 2019 is reflected in the adopted budgets as a transfer from the reserves.

# Increase fine revenues

<b>Goal</b>	Diversify revenue streams to help eliminate structural deficit
<b>Target</b>	Additional \$150,000 in 2020, growing to \$400,000 in 2023
<b>Strategies</b>	<ul style="list-style-type: none"> <li>• Increase parking fines (in progress)</li> <li>• Reverse declining trends in court fines</li> </ul>

The baseline assumes parking fine revenues will grow by 1 percent based on the Municipality’s ongoing work to improve revenue collection in that area. As the November 2018 code enforcement report notes, the Municipality needs to determine why the number of citations issued in a part of Norristown has dropped when the number of violations identified across the entire Municipality has increased. The Municipality should also review its citation and fine amounts to see if they need to be increased.

Fee Revenues (\$ millions) – Plan projections



# Market-based revenue opportunities (MBRO)

<b>Goals</b>	Diversify revenue streams to help eliminate structural deficit Improve perception of Norristown as a vibrant community
<b>Target</b>	Additional revenues of \$20,000 in 2020, growing to \$25,000 in 2023
<b>Strategies</b>	Develop a pilot program that maximizes the revenue-generating capacity of Norristown's parks and recreation system

The parks and recreation program is an important component of the strategy to show that Norristown is a vibrant, safe community. Norristown's leaders are working to change the perception that parks and recreation is a form of social service that local government provides out of charitable obligation, using whatever limited resources it has, to it being an amenity that improves quality-of-life for residents and recovers costs from non-residents who use the service. Right now the program is mostly funded from general resources (i.e. real estate and earned income taxes) with an estimated cost recovery rate of 18.5 percent as shown in the 2019 budget (see table to right). The actual cost recovery rate would be lower once employee benefits are taken into account.

Revenues	
Permits & fees	\$54,475
Donations	\$20,000
<b>Total Revenues</b>	<b>\$74,475</b>
Expenditures	
Salaries	\$219,893
Operating expenses	\$182,555
<b>Total Expenditures</b>	<b>\$402,448</b>
<b>Cost Recovery Rate</b>	<b>18.5%</b>

Council has followed the Recreation Manager's guidance in revising the fee schedule and she has other initiatives to improve the program's cost recovery. The revenue from these initiatives will either reduce the amount of tax subsidization and make the program more self-sufficient or provide more money that Norristown can re-invest in the programs.

# MBROs (cont'd)

Some of the concepts that the Recreation Manager has raised, like increasing the number and types of sponsorships, can be the launching point for a broader market based revenue opportunities (MBRO) program. This broad term encompasses various concepts, including advertising, naming rights, rental agreements and corporate sponsorships, which fit well in recreation but could also be applied to other parts of government.

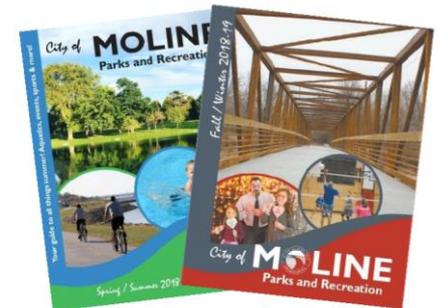
With the strong desire and need to invest in Norristown's recreation programs, we recommend the Municipality develop a pilot program that maximizes the revenue-generating capacity of its parks and recreation system. The new revenue generated by this program would be split between improving the cost recovery rate for the parks and recreation system and enhancing its programming, facilities, etc.

For example, the Parks and Recreation Department of Moline (Ill.) allows businesses (both corporations and non-profits) to advertise its parks and recreation activity brochure that is published online, posted on social media, and mailed to approximately 21,000 households and 1,300 grade school students. The City publishes two activity brochures annually (one for spring/summer and another for fall/winter).

Using the Parks and Recreation Department of Moline (Ill.) as an example and following the guidance of its own Recreation Manager, Norristown should continue to consider MBRO concepts such as:

- Corporate advertisements where appropriate
- Sponsorships/donations for park enhancement needs such as trees, benches, bird houses, playground equipment, picnic tables etc.
- Facility rentals for private events and activities

Over time Norristown could expand this program beyond parks and recreation and set a formal MBRO policy that outlines the guiding principles to ensure that revenue opportunities are consistent with local community values.



*Parks and recreation activity brochures in Moline, Ill.*

# Elmwood Park Zoo parking revenue

<b>Goals</b>	Diversify revenue streams to eliminate structural deficit Invest in the facilities, technology and vehicles that sustain local government services Invest in neighborhood redevelopment and improvement
<b>Target</b>	\$300,000 in 2020, growing to \$400,000 in 2023
<b>Strategies</b>	Pursue parking-related revenues in cooperation with the Elmwood Park Zoo

The Elmwood Park Zoo started in 1924 with the donation of property and white-tailed deer to Norristown. The non-profit Norristown Zoological Society took over zoo operations in 1977.

The Zoo is exempt from local property and business taxes and makes no voluntary payments to the municipality. It has doubled in size since 1977, now occupying 16 acres of Municipality property that would presumably generate some real estate tax revenue if it were used for other purposes.

In 2018, the Municipality donated a parcel of land to the Zoo for the addition of 222 parking spaces (a 70% increase), which the zoo estimates will grow attendance from 650,000 to 1,112,500 and attendance-related income from \$6 million to \$10.4 million in a single year.

While non-profits are generally exempt from real estate taxes, local governments can pursue payment-in-lieu-of taxes (PILOT) to partially recover part of the revenue waived by not using the land for taxable purposes, recover the cost of providing public services or just diversity revenue. **In this case we recommend Norristown pursue parking-related revenues in cooperation with the Elmwood Park Zoo, which would help the Municipality without requiring new expenditures by the Zoo.**

# Parking revenue (cont'd)

**Example:** Based on the zoo's attendance projections, and assuming three visitors per vehicle, a \$1 per vehicle parking surcharge would generate between \$300,000 and \$400,000 in annual revenue for the Municipality.

From a purely financial perspective, the ideal arrangement would create a revenue that is indexed to grow over time, without action from the Board or Council, and can be used flexibly for a variety of purposes. That would help with revenue diversification so the Municipality is less dependent on taxes.

However, if the Zoo Board is reluctant to support a general revenue, the Municipality could pledge to dedicate the revenue to strategic purposes:

- Vehicle replacement as a variation on the MBRO concept
- Debt service used for capital improvements
- General Fund spending used for neighborhood improvements or blight remediation (e.g. funding for the Planning and Code Departments)



# Trash collection: Better RFP, better service

<b>Goal</b>	Improve quality of Norristown's public space
<b>Target</b>	See below
<b>Strategies</b>	Rebid current contract with the help of an external subject matter expert

Norristown currently contracts out its trash collection, and the contract will expire on March 31, 2020. There are many benefits to contracting out trash collection services, including the avoidance of vehicle replacement costs and lower growth in expenditures. Norristown's spending on trash collection rose by 1.1 percent per year from 2013 through 2017, compared to 2.8 percent annual increases in employee salaries and 8.2 percent increases in employee health insurance over that same period.

That said, Norristown struggles under its current contract with issues related to litter, illegal dumping, and trash spilled during curbside collection. In response, DPW does supplementary collections in residential areas, alleys, medians, and other public spaces to improve their appearance.

Norristown should rebid the trash collection contract next year with the help of an external subject matter expert who can help the improve the bid and review proposals so that the future contract addresses issues regarding:

- Clear guidance related to service disruptions, missed pickups and responsibility for trash spillage
- Penalties/payment deductions for continual performance issues
- Clear outlines of schedules, procedures, and routes
- Clear service description for bulk trash collection

**We recommend Council hire an external subject matter expert for this purpose in 2019 using revenues generated through the initiatives discussed on previous slides. We also recommend that Norristown include a requirement in the bidding process that results in a new Municipality-controlled position to manage this contract and associated activities. The cost of that position would be covered by the collection fee.**

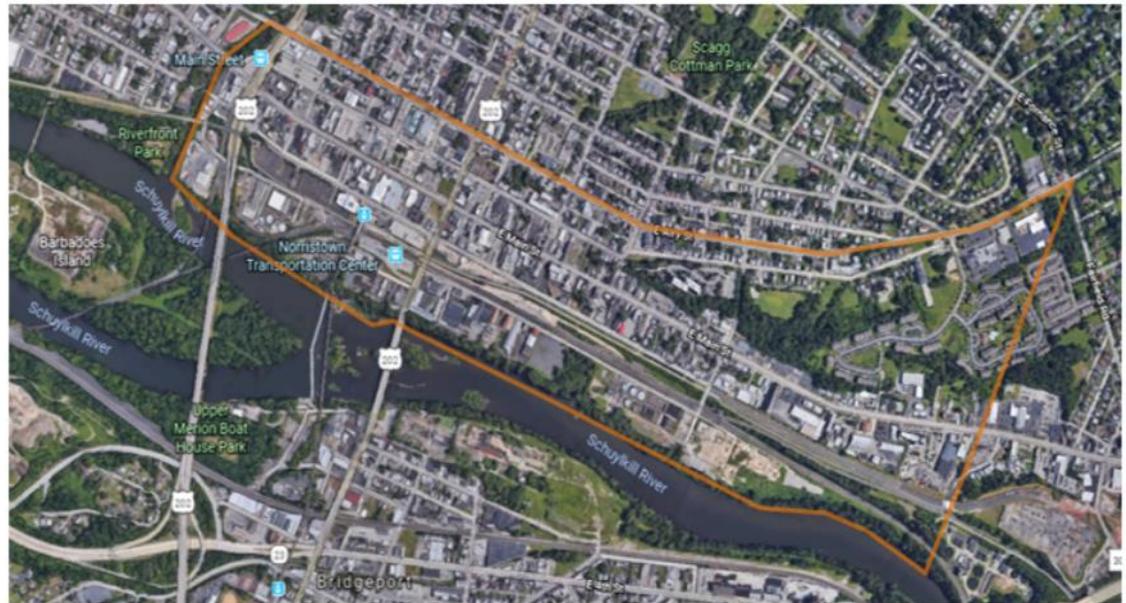
# Leverage the Opportunity Zone

<b>Goal</b>	Position Norristown to attract investment in its Opportunity Zone and grow its tax base
<b>Target</b>	TBD
<b>Strategies</b>	Begin outreach to local financing partners to create or identify an Opportunity Fund

Norristown has one census tract designated as a federal Opportunity Zone, which are economically-distressed areas where investors can receive federal tax breaks if they invest in eligible projects. Norristown's Opportunity Zone includes the riverfront area.

Individuals and businesses are eligible to receive graduated tax benefits – temporary tax deferral, tax reduction, and/or tax exemption – when they invest capital gains from a prior investment into Opportunity Funds, a new class of investment vehicle created as part of the Tax Cuts and Jobs Act of 2017.

Investors will need to invest into an Opportunity Fund by the end of 2019, and funds are required to deploy funding by the end of June 2020.



Opportunity Zone: Census Tract 42091203902

# Leverage the Opportunity Zone (cont'd)

- Because this is a private and market-driven program, Norristown has already begun outreach to local financing partners to create or identify an Opportunity Fund to pitch potential investments in Norristown.
- Norristown should also develop a pipeline of projects based on the Municipality's needs and potential impact. At this point (while waiting for further federal guidance), projects should include both housing and economic development projects (see next slide for examples).
- Investors who invest in an Opportunity Fund can receive tax deferral of up to 15% on capital gains from that investment. If investors hold their investment for 10 years or more, they would receive permanent exclusion from taxable income of capital gains from that investment.<sup>1</sup>

The City of Erie, Pennsylvania has put together a very impressive “Investors Prospectus” which you can see here. A Norristown version would be a nice complement to this multi-year financial plan.

<http://www.erie.pa.us/Portals/0/Content/News/City%20of%20Erie%20Investment%20Prospectus.pdf>



<sup>1</sup> This exclusion only applies to gains accrued after an investment in an Opportunity Fund

# Potential Opportunity Zone projects

## Repurpose surface parking lots

- Prioritize redevelopment through a mix of uses that can attract residents and new businesses
- Seek larger development opportunities that may facilitate parking replacement

## Identify residential blocks for potential redevelopment (100 Block W Airy St, 300 Block E Penn St)

- These two blocks are characterized by high rates of vacancy and code violations
- There is common ownership of multiple properties on each block
- Seek parcel assembly opportunities to facilitate larger projects



## Identify commercial and larger industrial properties as redevelopment opportunity sites

- Highlight catalytic potential due to attractive location (e.g. E Main Street, waterfront, transit access)
- Contact owners of larger properties (e.g. Washington St) to begin dialogue and planning
- Seek parcel assembly opportunities to facilitate larger projects

## Identify potential projects on E. Main Street to strengthen downtown area

- Revitalize through investment in existing historic, walkable character
- Focus infill to create a unified frontage and support a pedestrian-friendly environment
- Seek parcel assembly opportunities to facilitate larger projects

# Improved financial reporting

<b>Goal</b>	Improved financial reporting to help eliminate structural deficits and maintain credit rating
<b>Target</b>	N/A
<b>Strategies</b>	Develop quarterly financial reports and update multi-year projections annually

Without a shared understanding of Norristown’s current financial position and its performance throughout the year, it is very difficult to build consensus to make difficult decisions to overcome the challenges ahead. Council, department directors, employees and the public at-large need relevant, timely and accurate financial information. We recommend two strategies for the Municipality to enhance its financial reporting functions:

## Develop Quarterly Financial Reports

Norristown should issue quarterly reports that show the revenues collected and expenditures incurred relative to budget throughout the year. These periodic progress reports should be presented in a summary format by category, with detail on key topics as needed.

Each report should answer the following questions in a way that is accessible to non-finance professionals:

- Is Norristown collecting revenue as anticipated in the budget, overall and for major categories? What are the major variances from budget? What are the areas where the Municipality anticipates a significant year-end shortfall or surplus?
- Is Norristown making expenditures as anticipated in the budget, overall and for major categories? What are the major variances from budget? What are the areas where the Municipality anticipates higher spending than budget and what are the areas where it anticipates lower spending than budget?
- Comparing revenues to expenditures, does the Municipality project a surplus or a deficit at the end of the year?

The reports should be released within 60 days of the end of each quarter and discussed during a Council work session.

# Improved financial reporting (cont'd)

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## Update multi-year projections annually

The second type report will be also be useful, though it can be produced less regularly. Norristown should take the multi-year projections described in this report and update them to track how recent decisions and financial performance change the longer term trajectory. Council members also emphasized the importance of updating the five-year projections annually during conversations with Network representatives.

Developing multi-year projections can also help the Municipality view its actions with a multi-year perspective. This is important for decisions that impact the government's obligations over several years, like the size of a new debt issuance or a collective bargaining agreement. It can also help guide near-term decisions, such as whether the Municipality should pursue a grant that provides funding for a new initiative and then expires a couple years later.

Two natural points for updating the figures are when the prior year's audit is released and when the next year's budget is released. Multi-year projections also provide an organized way to conduct sensitivity analysis and address issues related to long-term financial sustainability, like the appropriate size of financial reserves (i.e. "how does our financial picture change over the next five years if X changes?")

Accurate accounting will provide the building blocks for these reports, but these reports are not purely accounting exercises. Good financial reports are accessible and meaningful to people who are not accounting professionals and still need to understand the Norristown's financial position.

The quarterly reporting requirements can be fulfilled by one of the employees within the Finance Department, and the multi-year projection update can be part of the Municipality's annual budget process.

# 2020: Hard decisions to close the gap

To meet its fund balance goals and protect its credit rating, Norristown will have to make substantial progress in eliminating its structural deficit during the 2020 budget process. The initiatives in 2020 are a combination of revenue increases and expenditure reductions to achieve the Plan’s financial, operational and economic development goals. The Municipality would still use some of its fund balance to close the gap temporarily in 2020, but at a much lower level than in 2018 or 2019.

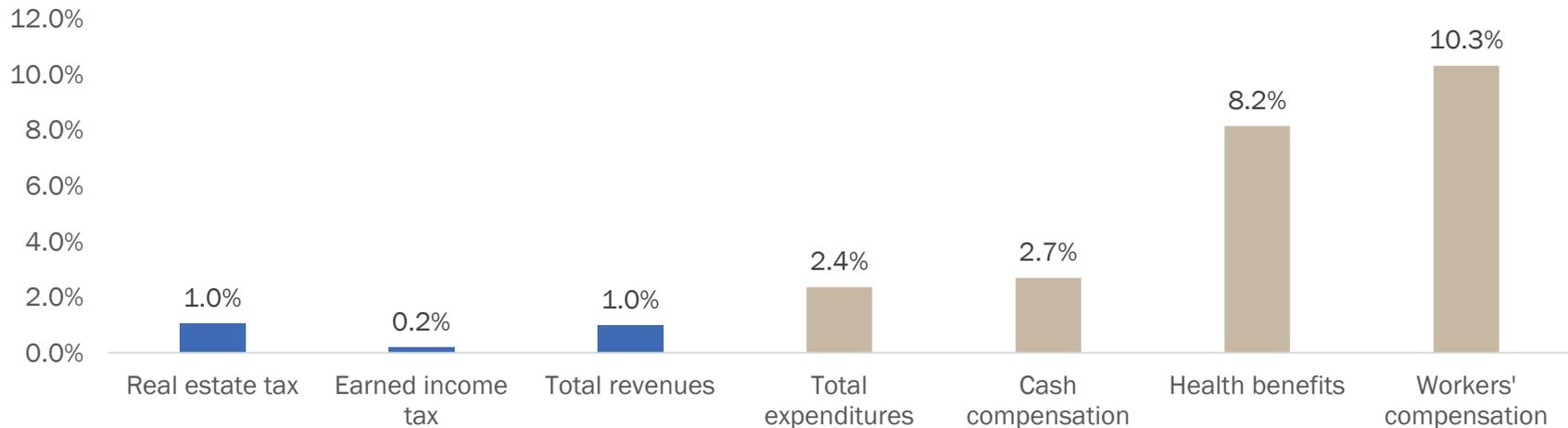
Slide No.	The Norristown Plan (2020)	2020 Projection (in \$ millions)
	<b>Baseline projection</b>	<b>(\$2.0)</b>
58	Control health benefit, workers’ comp, and liability growth	\$0.04
63	Offset police overtime spending growth	\$0.1
64	Increase EIT tax base	\$0.1
65-68	Increase tax revenues through rate increase or base growth - Establish a land bank	\$0.8
69	Improve safety perception	<b>(\$0.02)</b>
70-71	Potential sewer sale	TBD
	Impact of initiatives implemented in earlier years	\$0.5
	<b>Total Initiative impact</b>	<b>\$1.5</b>
	<b>Plan Projections</b>	<b>(\$0.5)</b>
	Fund Balance as a % of Expenditures	16.6%

# Reduce fringe benefit cost growth

<b>Goal</b>	Reduce fringe benefit cost growth to eliminate structural deficit
<b>Target</b>	Savings of \$24,000 in 2020, growing to \$245,000 in 2023
<b>Strategies</b>	See next slide

Norristown’s spending on employee health insurance from 2013 through 2017 grew at a much faster rate (8.2 percent per year) than its spending on employee cash compensation (2.7 percent) or total expenditures (2.4 percent). Those expenditures are also growing faster than the revenues available to pay for employee health insurance (see graph below). This trend is even more extreme for workers’ compensation (10.3 percent annual growth) where the Municipality’s spending increased by at least 10 percent three times in five years.

Compounded Annual Growth Rate, 2013 - 2017



\*Note that earned income tax growth in this chart is based on EIT revenues on a cash basis. Total revenues are also calculated using the cash EIT numbers.

\*Total expenditure growth excludes health insurance and workers' compensation spending.

# Health insurance cost control

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As shown in the baseline projection, the Municipality cannot afford 2 to 3 percent annual wage increases *and* rapidly rising fringe benefit costs *and* a rising contribution to the employee pension plans, unless it takes corrective action. Even if the Municipality is committed to regular tax increases to cover rising personnel expenses, that would not provide room to replace the vehicles and facilities that employees use every day to deliver service. The Municipality has historically provided regular wage increases to its employees so we recommend targeting corrective action on the fringe benefit growth.

Norristown receives its health insurance premium increases midway through the year, so it did not increase the allocation for employee health insurance in the 2019 budget. This partially masks the rising cost of health insurance, though it does not actually impact the premium rate increases that the Municipality will eventually pay. **The Municipality should increase its annual budget allocation for health insurance each year in anticipation of the likely premium increases to more clearly account for the actual costs.**

Norristown provides three health plans (HMO, QPOS, and PPO) to its employees who generally contribute a share of the premium, ranging from 7.0 percent (Police and Fire) to 15.0 percent (civilians). Police officers and firefighters' contribution will grow to 7.5 percent in 2020 and then to 8.5 percent in 2021 based on Norristown's current bargaining agreement with FOP.<sup>1</sup>

**We recommend that the Municipality meet with its third-party administrator to discuss strategies for reducing the growth in health insurance spending from the projected 9.5 percent in the baseline to 7.0 percent.** Potential strategies could include changing health plan design and/or increasing employee cost sharing.

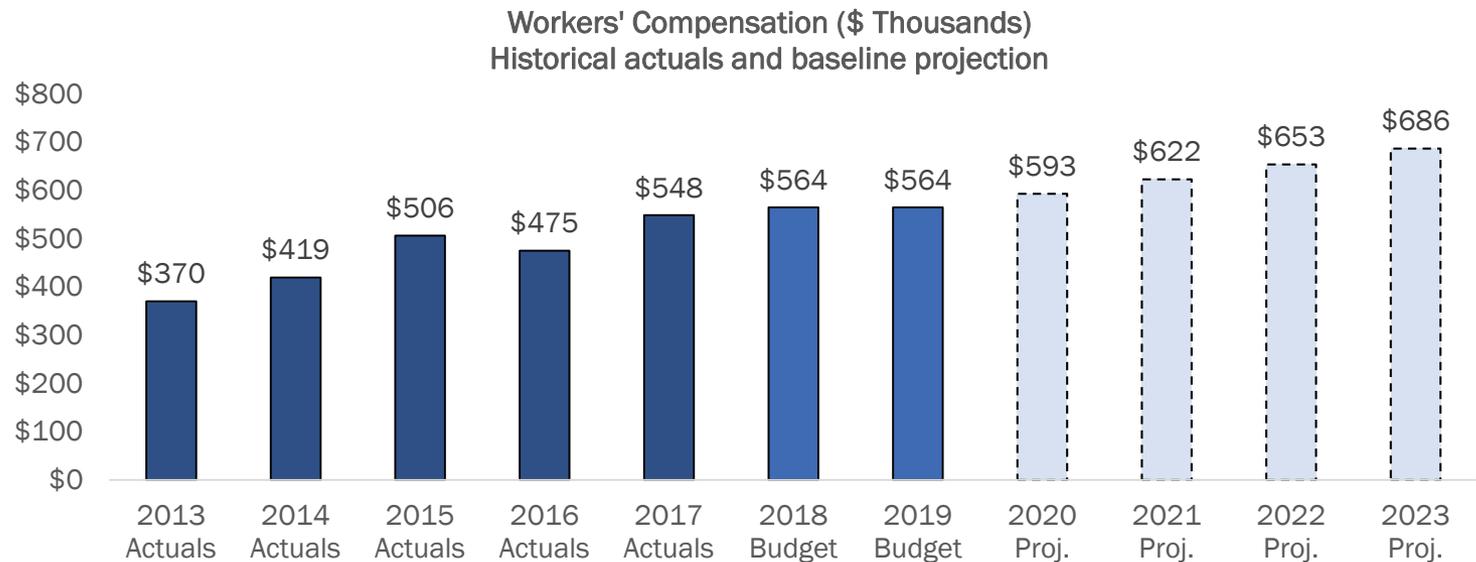
The Municipality will likely need to negotiate these changes during collective bargaining, starting with the civilian employee agreements that expire at the end of 2019 and then applying the changes to the uniformed employees in 2022. The Municipality should use 2019 to prepare its options for negotiation.

<sup>1</sup> Even though the current IAFF expired at the end of 2018, the Municipality maintains parity between IAFF and FOP with respect to healthcare, so the baseline projection assumes that the IAFF would contribute the same percentage share to health premiums as the FOP bargaining unit.

# Workers' compensation cost control

<b>Goal</b>	Control cost growth to eliminate structural deficit
<b>Target</b>	Savings of \$6,000 in 2020, growing to \$45,000 in 2023
<b>Strategies</b>	Meet with the third-party administrator to discuss strategies to curtail the cost growth, like an improved employee safety program, more regular review of claims, or a program to settle long-term claims where it is financially beneficial to taxpayers.

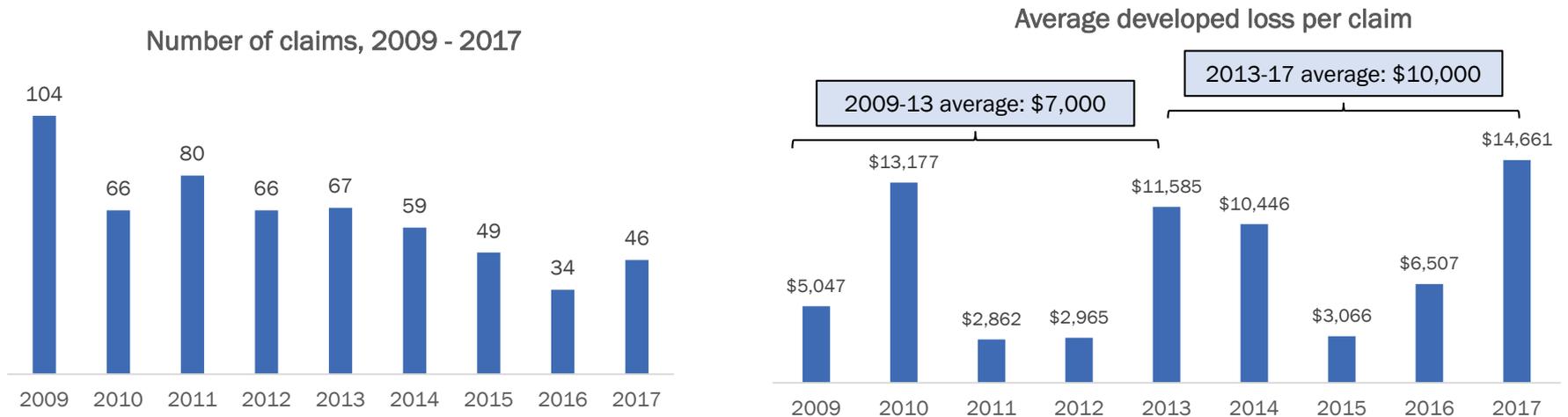
The growth in workers' compensation expenditures is even more pronounced as shown below, rising by 10.3 percent annually from \$370,000 in 2013 to \$548,000 in 2017.



# Workers' compensation cost control (cont'd)

Part of the reason for this growth is workers' compensation premiums are based partly on the Municipality's claim and loss history in the last five to ten years, depending on the size of the claims. So even though Norristown's number of workers' compensation claims dropped from 66 in 2010 to 46 in 2017, premium growth does not automatically stabilize unless Norristown can demonstrate that the decline is not short-term but rather a long-term, ongoing trend.

Furthermore, even though the number of claims have declined, the loss associated with those claims has increased. The average loss per claim during the five-year period from 2009 to 2013 was \$7,000, compared to \$10,000 during the five-year period from 2013 to 2017.



The Municipality needs to meet with its third party administrator to discuss strategies to curtail the cost growth, like an improved employee safety program, more regular review of claims or a program to settle long-term claims where it is financially beneficial to taxpayers.

# Control general liability cost growth

<b>Goal</b>	Control cost growth to eliminate structural deficit
<b>Target</b>	Savings of \$9,000 in 2020, growing to \$129,000 in 2023
<b>Strategies</b>	<ul style="list-style-type: none"><li>• Improved building safety enforcement (in progress)</li><li>• Increase awareness to the Municipality's risk exposure through risk and loss prevention training</li></ul>

Norristown's spending on general liability insurance coverage almost doubled during the five-year period from 2013 to 2017, growing from \$476,000 to \$834,000. The Municipality's spending increased by at least 10 percent each year from 2013 to 2017.

Over the last ten years, Norristown has incurred total property and liability claims of \$5.3 million. Almost half of the \$5.3 million total claims came from four large claims, two of which were related to code enforcement and building inspections. Another claim was due to the erosion of an underground culvert that led to property damages.

While liability claims can sometimes be unpredictable, Norristown needs to improve its risk management efforts to ensure the safety of its residents and control its liability insurance cost growth.

The Municipality is taking a step in the right direction as its Code Department has become more diligent in enforcing code compliance and ensuring building safety by issuing more citations in recent years (the number of citations increased from 241 in 2014 to 820 in 2017). Norristown's insurance broker is also currently working to deliver risk and loss prevention training programs to employees, but more should be done to manage the Municipality's risk exposure and avoid preventable incidents.

Because the liability premium is largely based on the loss history in the past five years, if Norristown can prevent large claims like the four mentioned above, there is a chance that the premium will grow at a lower rate. The savings target assumes the Municipality gradually brings annual spending growth in this area down to 3 percent.

# Offset overtime spending growth

<b>Goal</b>	Control cost growth to eliminate structural deficit
<b>Target</b>	Savings of \$128,000 in 2020, growing to \$280,000 in 2023
<b>Strategies</b>	Reduce overtime expenditures to cover the costs of two new police officer positions created in 2018

Norristown added two police officer positions in the 2018 budget with the goal of reducing overtime. The financial justification was that reduced overtime expenditures would offset the additional salary and benefit costs for the new positions.

Each new police officer (trainee) position costs approximately \$100,000, including fringe benefits. Those costs grow over time since police officers receive tenure-based step increases in addition to base salary increases in their first five years. So Norristown's overtime reduction would have to be substantial – \$244,000 or over 40 percent of the 2017 overtime spending – for the costs to truly offset each other.

The baseline projection assumes overtime spending continues at the pre-2018 levels with adjustments to account for annual wage increases. So the baseline shows police overtime spending growing to \$619,000 in 2023 versus the \$450,000 in the 2019 budget. If Norristown finds that increased headcount did not reduce overtime, then it should revisit the benefit of these two new police officer positions.

We note that there may be other strategies for reducing overtime expenditures so the Department can maintain the higher headcount. For example, if the Norristown Police Department could reduce the amount of time spent on prisoner transport, that would free up two officers currently required for that purpose so they could be assigned elsewhere.

# Increase Earned Income Tax (EIT) base

<b>Goal</b>	Eliminate structural deficit by growing the tax base
<b>Target</b>	Additional revenues of \$47,000 in 2020, growing to \$203,000 in 2023
<b>Strategies</b>	Prioritize economic development activities that attract working residents

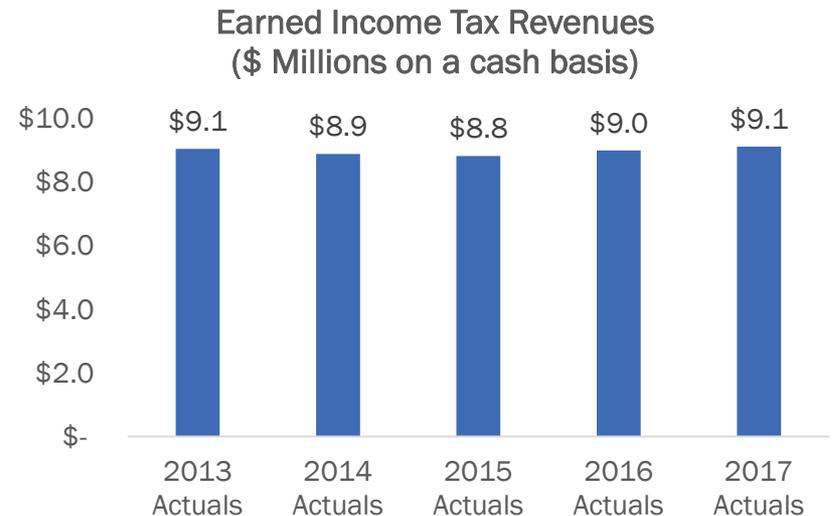
For most Pennsylvania municipalities, people pay an earned income tax (EIT) based on where they *live*, not where they work. Norristown levies a 1.6 percent earned income tax on its residents.

EIT revenues declined from 2013 to 2015 by 1.2 percent annually due in part to a drop in the number of people employed. However, since 2015, however, those trends have reversed and both the number of people employed and their earnings have been growing by at least two percent annually. EIT revenues as a result grew by an annual average rate of 1.7 percent from 2015 to 2017.

The baseline forecast assumes annual revenue growth of 2.0 percent, but, if annual growth can increase to 2.5 percent, Norristown will generate additional revenues of \$47,000 in 2020 that grows to \$203,000 by 2023.

This target should be achievable, as 2018 preliminary cash results already show that Norristown collected \$9.5 million in EIT revenues, almost four percent more than collections in 2017.

One way to boost EIT revenue growth is to prioritize economic development activities that attract working residents (e.g. new residents who work in Philadelphia but live in Norristown).



# Establish a land bank

<b>Goal</b>	Invest in neighborhood development and improvement and promote tax base growth
<b>Target</b>	TBD
<b>Strategies</b>	Partner with the Redevelopment Authority to establish and administer the land bank

Norristown currently uses a blight program to enforce code ordinances and engage property owners of substantially dilapidated properties. The blight program consists of the following three steps:

1. Identify unsafe, blighted structures – the Municipality has currently identified over 60 unsafe buildings
2. Notify owners and mandate code compliance – the Municipality sends letter to owners, requiring that they bring their properties up to code within a certain timeframe
3. Bring violations to the District Court if properties are not brought up to code

In cases where these properties are tax delinquent for multiple years, they can be sold at the County upset and judicial sales to potential investors. This process provides the Municipality little control over how these properties are repurposed, as it depends entirely on whether the investors who purchase properties at tax sales have the desire or ability to reinvest in these properties.

A land bank can help Norristown gain more control over how properties are repurposed and allow the Municipality to tackle its blight problems more strategically. Land banks are typically government entities or nonprofit corporations that focus on the converting vacant, abandoned, and tax delinquent properties (also known as “problem properties”) into productive use. To accomplish this goal, land banks focus on acquiring problem properties, aggregating those properties where possible and transferring them to potential owners or developers so that they can be repurposed in a manner consistent with the communities’ values and needs.

# Establish a land bank (cont'd)

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Since passage of the Pennsylvania Land Bank Act in 2012, 23 Land Banks have been incorporated, one of the most recent in nearby Pottstown. Land Banks require start-up capital and annual administrative funding. One potential funding source for the land bank and other neighborhood redevelopment activities is proceeds from the sewer sale (see pages 70-71).

Pennsylvania Act 33 of 2018 amends the Land Bank Act and allows counties and municipalities to designate redevelopment authorities (RDAs) as their land banks. Since Montgomery County also has a Redevelopment Authority, Norristown should consider partnering with it to establish and administer the Land Bank.

Land banks are tools to advance a community's land use goals, and not a goal in and of themselves. To be truly effective, Norristown's land bank should complement existing blight prevention and redevelopment efforts, including code enforcement, neighborhood investments, and community-based planning.

# Increase real estate tax revenues

<b>Goals</b>	Eliminate structural deficits by growing the tax base and/or increasing tax rate Maintain fund balance Maintain credit rating Invest in facilities, technology and vehicles needed to deliver daily services
<b>Target</b>	Additional revenues of \$846,000 in 2020, growing to \$1.7 million in 2023
<b>Strategies</b>	Grow tax base through economic development efforts (see next slides) and increase tax rate if those strategies do not generate enough revenues in the near-term

As described earlier in this plan, the Municipality needs its revenues to grow to achieve fiscal sustainability, which in turn will put Norristown in a stronger position to invest in the core infrastructure that residents rely on every day (roads, facilities, vehicles). Even if the Municipality ignored those needs, revenue growth would still be necessary to cover the cost of employee compensation, which generally rises as wages and the cost of health insurance do.

Ideally Norristown's tax revenues will grow "naturally," meaning without any change in the tax rate itself. For the real estate tax this would occur either through adding new taxable properties to the tax rolls or increasing the assessed value of individual existing properties. Historically Norristown's real estate tax revenue – which accounts for 37 percent of the 2019 budget – has only grown when the tax rate itself does. This Plan has multiple strategies intended to change that trend, including the land bank initiative preceding this one.

However, if those strategies do not generate enough revenue in the near term, then Norristown should consider increasing its real estate tax rate. The tax rate is currently 14.7 mills, meaning a property assessed at \$100,000 pays \$1,470 a year to the Municipality. A one-mill increase generates approximately \$800,000 in additional revenue.

**We recommend that the Municipality consider a one-mill tax increase in 2020 and another one-mill increase in 2021, which would generate \$1.7 million in 2023.**

# Won't tax increases hurt economic competitiveness?

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This Plan's primary objective is to strengthen Norristown's ability to retain existing residents and businesses and attract new ones. A tax increase that draws more money from residents and businesses located in Norristown and makes it more costly to locate in Norristown seems antithetical to that goal.

If the Municipality only increases the tax rate and takes no other action, Norristown will not become more economically competitive. It will also eventually struggle to balance its budget again since expenditures are growing faster than revenues absent corrective action.

Real estate tax increases are not the only tool that the Municipality can use to balance its budget and should not be the first that it considers. This Plan has multiple initiatives focused on increasing non-tax revenues and reducing (or controlling the growth of) expenditures. Effective strategy impacts both sides of the balance sheet. If the impact of those initiatives is more than projected here, then Norristown should consider lower levels of tax increase. But Norristown should not take the option of a tax increase off the table if it is serious about advancing the other goals described in this Plan.

Some will argue in favor of a different mix of corrective actions than this Plan recommends – that Norristown should lean more heavily on expenditure reductions to balance the budget. This can be a legitimate strategy, provided that it is accompanied by specific recommendations for the types and levels of cuts that should be enacted. Budgets are built on specific resources allocations.

The one strategy that is not sustainable is to continue using the Municipality's reserves to balance the budget, as was the case in 2018 and 2019. A government that does not make the hard decisions to bring its financial house in order will not just struggle to move forward. It will also eventually fall further behind as borrowing costs rise, infrastructure deteriorates, services erode and employee morale suffers. In some cases the community ultimately has to make more extreme versions of the same hard decisions they tried to avoid – including higher tax increases or deeper cuts – than if they had taken action earlier.

# Improve safety perception

<b>Goal</b>	Improve public perception of Norristown as a safe, vibrant community
<b>Target</b>	\$20,000 in investments in 2020 and 2021
<b>Strategies</b>	See below

Norristown’s application for assistance referenced “a persistent stigma of being a crime-ridden community, although crime has been significantly reduced over the past four years.” Analysis of Norristown’s Uniform Crime Report data confirms that violent and property crime rates have declined steadily since 2012.

Defining and measuring the stigma – particularly who holds the concerns about safety, what their specific concerns are and how they translate to tangible changes in behavior – is the first step to addressing it. Officials and Citizens Advisory Committee members suggested that these concerns may be more prevalent among non-residents. If that is the case, the strategic question is whether there are segments of the non-resident population that Norristown officials want to target because they are good prospects as potential residents, business owners, patrons of Norristown businesses, etc.

We first recommend that the Municipality contract with a subject matter expert that can use proven tools that provide data to answer these questions. Many communities conduct citizen surveys to better understand residents’ perceptions, and that may be a useful starting point here, too. The National Citizen Survey (NCS) developed by the International City/County Management Association (ICMA) and the National Research Center (NRC) provides citizen survey services to hundreds of cities around the country, including many Pennsylvania communities (e.g. Conshohocken, State College).

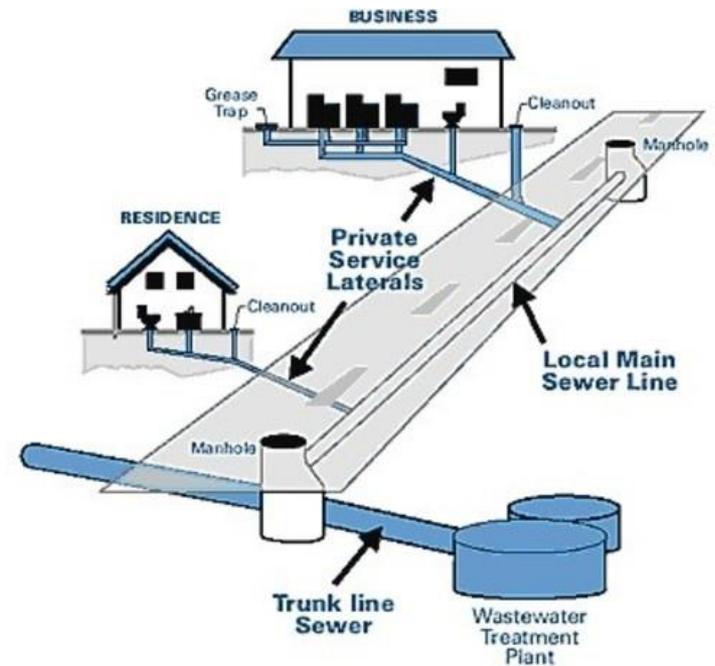
Norristown could conduct this analysis in phases with the first one focused on residents and the second focused on target non-resident populations. The Municipality could allocate money to this purpose starting in 2020 or reallocate money from other consulting arrangements so that it is cost neutral.

# Potential sewer sale

<b>Goals</b>	Eliminate structural deficit by paying down debt and/or pension obligations Invest in economic development strategies that can bring growth to the tax base
<b>Target</b>	TBD
<b>Strategies</b>	Develop a <u>quantified</u> menu of options as Norristown determines ways to use sewer sale proceeds

When Norristown residential homes and businesses discharge wastewater (from sinks, toilets, showers/bath tubs, washing machines), the sewage is transported from laterals and pipes that are owned by residents and businesses to publicly-owned sewer mains, which are typically underground. The sewage is then carried to the wastewater treatment plant where wastewater is treated before being discharged to the Schuylkill River (see diagram to the right). Both the sewer mains and the treatment plant are owned by Norristown.

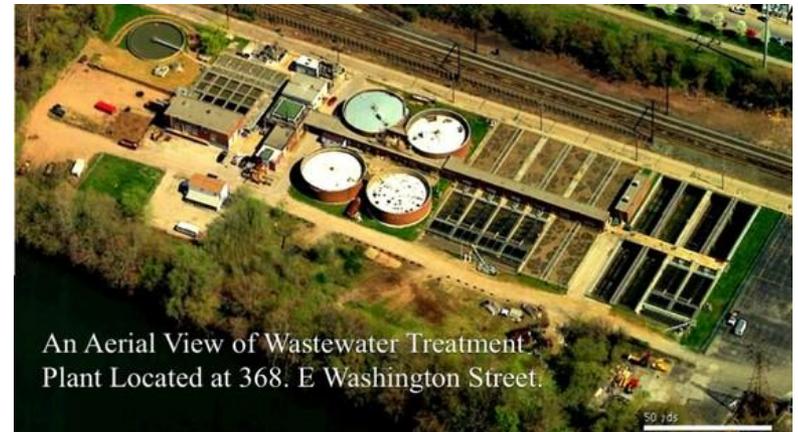
Norristown's municipal sewer system is currently operated by the Norristown Municipal Waste Authority, which is governed by a five-member Board appointed by Municipal Council. Currently there are approximately 9,500 customers in Norristown who pays for the system's operations and improvements through monthly service and usage charges.



# Potential sewer sale (cont'd)

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- The Municipality is currently in the process of potentially selling/leasing its municipal sewer system. While the sale may happen in 2019, the proceeds will likely have no impact on the Municipality until 2020.
- If the sewer sale is successful, Norristown will have to develop a plan to use those proceeds in a manner other than simply spending down the cash. The most recent estimates show that the sewer system may provide approximately \$10 - \$15 million in one-time proceeds (net of debt obligations).
- It is crucial that Norristown uses those proceeds toward one-time investments that can bring recurring savings or recurring revenues. Any recurring benefit would mitigate the need for the potential real estate tax increases discussed earlier. Some of the ideas include:
  - Fund a land bank or other economic development strategies that can bring long-term and continuous growth in the tax base (see pages 65-66)
  - Set aside proceeds in an investment fund for interest earnings
  - Pay down debt or pension obligations
- **We recommend that Norristown develop a menu of options that show the various ways to use those proceeds, and estimate the annual revenues or savings for each of those options in order to determine how best to use those one-time revenues.**



# 2021: Hard decisions create room for investments

The hard decisions that the Municipality makes in late 2019 leading into the 2020 budget will close much of the gap projected in the baseline entering 2021. There will be some work to do to bring the Municipality's budget into balance without use of fund balance. At the same time Norristown will begin to have room to make the investments that it needs to maintain core services, The Plan allocates \$1.2 million annually beginning in 2021 to help the Municipality implement a vehicle replacement plan, beyond the level of activity that can be funded by the 2017 borrowing.

Slide no.	The Norristown Plan (2021)	2021 Projection (in \$ millions)
	<b>Baseline projection</b>	<b>(\$2.6)</b>
73-75	Increase tax revenues through rate increase or base growth - Targeted neighborhood development	\$0.9
76-77	Improve stormwater management	\$0.1
78	Vehicle replacement plan	<b>(\$1.2)</b>
	Initiatives already implemented	\$1.8
	<b>Total Initiative impact</b>	<b>\$1.6</b>
	<b>Plan Projections</b>	<b>(\$1.0)</b>
	Fund Balance as a % of Expenditures (incl. investments)	13.0%

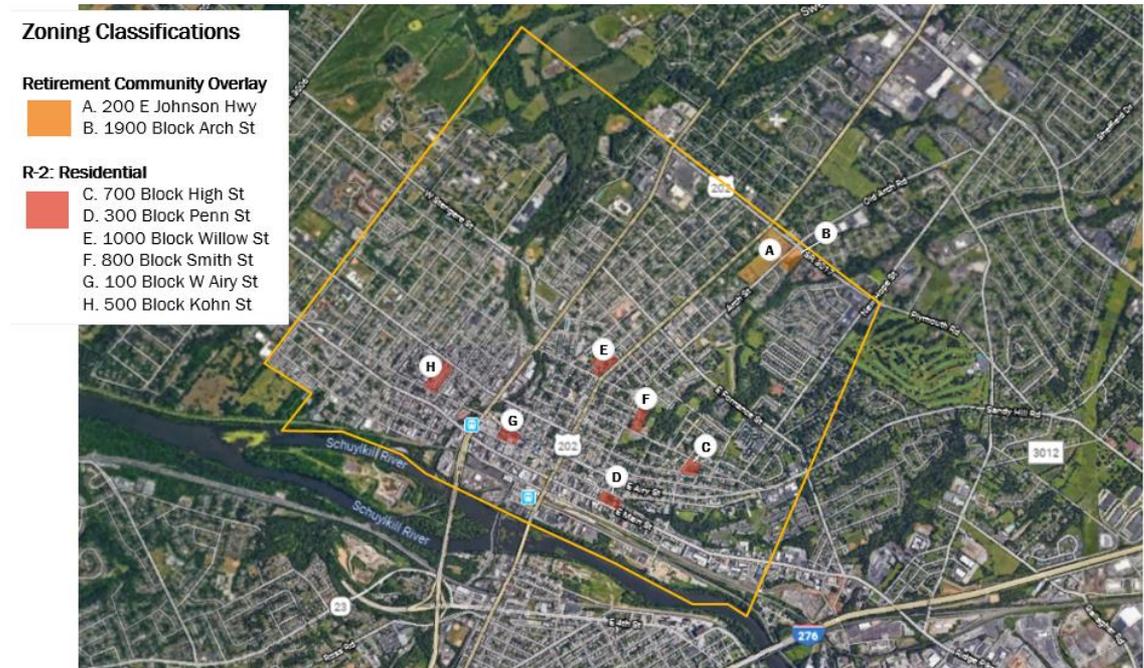
# Targeted neighborhood redevelopment

<b>Goal</b>	Invest in neighborhood development and improvement Improve perception of Norristown as a safe, vibrant community Eliminate structural deficit by growing real estate tax base
<b>Strategies</b>	Prioritize blocks for targeted neighborhood redevelopment

There are currently eight blocks within the municipality that are potential candidates for new or infill development since these blocks have either large parcels of vacant land or concentrations of problem properties.

An example of a block with a high concentration of problem properties is the 100 block of West Airy Street, not far from the County Courthouse. The block contains 43 parcels, most with assessed values between \$40K and \$50K, recent sale prices well below assessed value (including several for \$1), and multiple code violations.

The block is a prime location for redevelopment, close to the downtown commercial district and in the Opportunity Zone, which opens up additional financing options.



*Blocks identified as having targeted redevelopment potential*

# Targeted neighborhood redevelopment (cont'd)

If redevelopment increased the average assessed value of these properties to the lowest sale price of the DeKalb & Basin properties (\$153K), Norristown would gain \$71,000 of new property tax revenue absent tax exemptions.

To move forward with developing the identified parcels, Norristown needs to create a neighborhood development plan. The plan should use mapping to pinpoint redevelopment opportunities and use cost estimates and ROI analysis to prioritize potential projects. In addition, a strategy to identify blocks, or partial blocks, with contiguous problem properties can create parcel assembly opportunities to attract new infill development.

Since Norristown's candidate redevelopment blocks don't have large concentrations of vacant and abandoned properties, the Municipality will have to decide how aggressively to pursue acquisition of occupied problem properties.

These potential candidate blocks are meant to be the starting point for discussion, and the Municipality (specifically the Planning Department) will have to determine the blocks to prioritize over the next five years and how these redevelopment efforts fit with Norristown's overall development strategy.



## Sarah Peck Project at DeKalb and Basin

- This development includes 15 parcels
- Infill development within existing neighborhood
- Average Sale price \$167K



# Targeted neighborhood redevelopment (cont'd)

## Zoning Classifications

### Retirement Community Overlay

- A. 200 E Johnson Hwy
- B. 1900 Block Arch St

### R-2: Residential

- C. 700 Block High St
- D. 300 Block Penn St
- E. 1000 Block Willow St
- F. 800 Block Smith St
- G. 100 Block W Airy St
- H. 500 Block Kohn St

### 500 block Kohn Street

- This block is characterized by high numbers of code violations
- Includes 64 parcels: 1 structure is listed as unsafe and condemned, 7 permits issued in 2018
- Zoned R-2: Residential row house development with limited opportunities for mixed-use
- Average assessed value is \$50K, average most recent sale price is \$38K

### 1000 block Willow Street

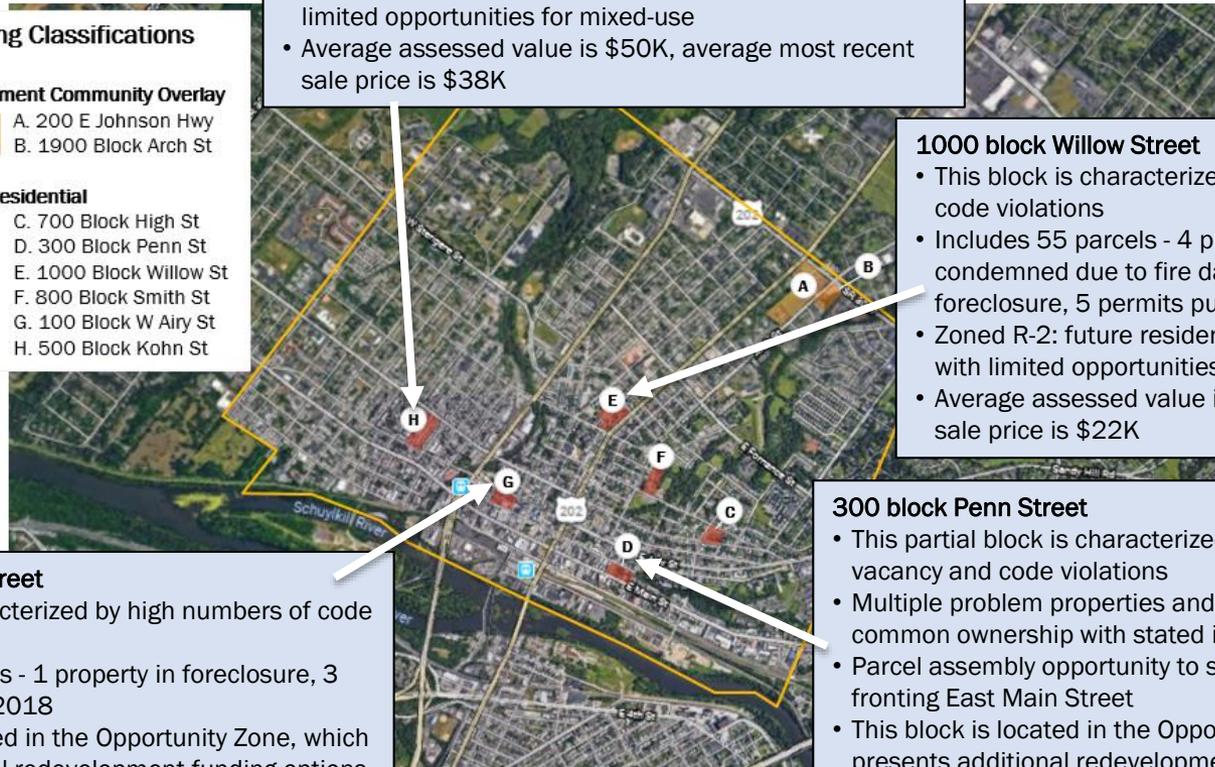
- This block is characterized by high rates of vacancy and code violations
- Includes 55 parcels - 4 properties listed as unsafe and condemned due to fire damage, 1 property is in foreclosure, 5 permits pulled in 2018
- Zoned R-2: future residential row house development with limited opportunities for mixed-use
- Average assessed value is \$43K, average most recent sale price is \$22K

### 300 block Penn Street

- This partial block is characterized by high rates of vacancy and code violations
- Multiple problem properties and vacant parcels have common ownership with stated intent to sell
- Parcel assembly opportunity to support larger-scale infill fronting East Main Street
- This block is located in the Opportunity Zone, which presents additional redevelopment funding options
- Zoned R-2: Residential row house development with limited opportunities for mixed-use

### 100 block W. Airy Street

- This block is characterized by high numbers of code violations
- Includes 43 parcels - 1 property in foreclosure, 3 permits issued in 2018
- This block is located in the Opportunity Zone, which presents additional redevelopment funding options
- Zoned R-2: Residential row house development with limited opportunities for mixed-use



# Improve storm water management

<b>Goals</b>	Improve the quality of Norristown’s public spaces Diversify revenue streams to eliminate structural deficit
<b>Target</b>	General Fund savings of \$150,000 in 2021, growing to \$159,000 in 2023
<b>Strategies</b>	Begin the process of developing a storm water fee by conducting a feasibility study

The Municipality of Norristown is responsible for maintaining 54 miles of storm sewer lines, inlets, pipes and related infrastructure that carries rainfall runoff and other drainage into the Stony Creek, the Saw Mill Run and the Schuylkill River. This is separate from the sanitary sewers that carry sewage to the wastewater treatment plant. According to the 2019 budget, Norristown spends approximately \$140,000 annually on maintaining its storm water system, not including additional spending on capital improvements or emergency projects.

Currently the Municipality uses the same limited tax revenues to pay for this system that it does to fund police patrol, fire suppression and other General Fund operations. Some municipalities levy a separate storm water fee to cover the cost of this system. Storm water fees can be levied on equivalent residential units (ERUs) for taxable and tax-exempt properties, so the fees provide a larger, more equitable base to support this system than the real estate tax does. They also provide a dedicated funding source to deal with problems that impact Norristown’s overall curb appeal. The Public Works Director notes that inadequate storm drainage causes problems with the appearance and effectiveness of road paving.

Radnor Township currently levies a storm water fee of \$29 per ERU for residential units (capped at 4 ERUs) and \$29 per 1,500 square feet of impervious area for commercial, institution, and multi-family units. Since Norristown is a Home Rule municipality, it can also levy a storm water fee on its own, without creating a separate municipal authority to administer it.

# Improve storm water management (cont'd)

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The Public Works Director is aware of this concept and has discussed the importance of adequate storm sewage maintenance with Council. Norristown should follow his lead and consider levying a storm water fee to provide a dedicated, more equitable way to pay for this critical infrastructure. In addition to the operational benefits, the Municipality could shift the costs of storm sewer maintenance (\$140,000 budgeted in 2019) from the General Fund, freeing that money to be used for other purposes.

Other Pennsylvania communities (New Castle, Meadville) have recently established storm water management fees, starting the process with a feasibility study that does the following:

- Provide a better understanding of the Norristown’s current and future storm water management challenges;
- Recommend and quantify appropriate levels of annual maintenance, capital improvements, and contingency fund;
- Obtain community input on policy issues as determined by Council;
- Recommend a methodology for assessing a storm water fee and a plan for implementing that fee; and
- Assist in the development of the storm water service fee, including billing system, credit program, and public outreach.

# Vehicle replacement plan

<b>Goal</b>	Invest in the vehicles that Municipal government needs to deliver daily services
<b>Target</b>	\$1.2 million in annual investments from 2021 to 2023
<b>Strategies</b>	See below

The baseline projection assumes that, as vehicle leases gradually expire over the next five years, the Municipality will use some of the capital improvement funding from the 2017 debt issuance to replace vehicles, subject to the terms of that debt issuance. While that money will help Norristown replace its vehicles through 2020, the Municipality will need additional funding to continue the replacement cycle.

Purchasing vehicles based on a replacement cycle not only ensures that departments continue to deliver quality services; it also helps mitigate the growth in maintenance and repair costs since vehicles are removed from service closer to the end of their useful life. Based on the list of vehicles and their projected expiration of useful life, the Plan recommends annual average spending of \$1.2 million beginning in 2021 to fund these investments.

**Estimated Vehicle Investment Needs by Department, 2019 - 2023**

	2019	2020	2021	2022	2023
Police	\$0.3M	\$0.3M	\$0.2M	\$0.3M	\$0.1M
Fire	\$0.0M	\$1.0M	\$0.7M	\$0.8M	\$0.0M
Public Works	\$0.6M	\$0.2M	\$0.9M	\$0.0M	\$0.4M
Code	\$0.0M	\$0.04M	\$0.05M	\$0.04M	\$0.0M
Rec	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
<b>Total</b>	<b>\$0.8M</b>	<b>\$1.5M</b>	<b>\$1.8M</b>	<b>\$1.2M</b>	<b>\$0.5M</b>

2017 CIP as funding source

Pay-as-you-go

# 2022-2023: Invest in the future

With the scheduled drop in debt payments and the compounding benefit from initiatives implemented earlier in the Plan, the projections below show Norristown with positive operating results of \$1.3 million in 2022 and \$1.6 million in 2023 and fund balance levels rising to 21 percent.

Norristown needs to improve its facilities, particularly the Police Department space and Municipal Hall, before 2022. The Municipality's capacity to pay for any new debt associated with those improvements does not improve until its existing debt drops in 2022. The Municipality should work with its financial advisor to structure its debt accordingly and some portion of the surplus below will go toward debt repayment.

The 2022 and 2023 projections demonstrate how making hard decisions in the near term can open new opportunities in the long term. The projected surpluses should not be interpreted as a sign that the Municipality can do less in the near term since circumstances and performance will undoubtedly differ from these projections. The projections should be updated and extended on a rolling basis so the Municipality can account for changes.

Slide no.	The Norristown Plan (2022-23)	2022 Projection (in \$ millions)	2023 Projection (in \$ millions)
	<b>Baseline projection</b>	<b>(\$0.8)</b>	<b>(\$1.0)</b>
80	Control cash compensation growth	\$0.1	\$0.2
81	Review pension investment return assumption	TBD	TBD
82-84	Public safety investments	TBD	TBD
85	State hospital campus development	TBD	TBD
86-87	Technology investments	(\$0.05)	(\$0.05)
	Initiatives already implemented	\$2.1	\$2.4
	<b>Total Initiative impact</b>	<b>\$2.2</b>	<b>\$2.5</b>
	<b>Plan Projections</b>	<b>\$1.4</b>	<b>\$1.6</b>
	Fund Balance as a % of Expenditures (incl. investments)	17.4%	21.4%

# Control cash compensation growth

<b>Goal</b>	Eliminate the structural deficits by keeping cash compensation growth at inflation
<b>Target</b>	Savings of \$76,000 in 2022 and \$156,000 in 2023
<b>Strategies</b>	Moderate across-the-board wage increase provisions in bargaining agreements

The baseline projection assumes that all full-time employees will receive the same across-the-board wage increases as the most recent FOP agreement. The laborers received a dollar amount increase in 2019, which translates to a higher percentage than the other employee groups.

Baseline wage increase assumption

	2019	2020	2021	2022	2023
Non-represented	2.50%	2.75%	3.00%	2.50%	2.50%
AFSCME	2.50%	2.75%	3.00%	2.50%	2.50%
IAFF	2.50%	2.75%	3.00%	2.50%	2.50%
FOP	2.50%	2.75%	3.00%	2.50%	2.50%
Laborers	4.89%	2.75%	3.00%	2.50%	2.50%

■ Year(s) without bargaining agreements

The Federal Reserve Bank of Philadelphia projects that national inflation will be 2.25 percent for 2018 – 2022, which is lower than the base wage increases shown. In that scenario Norristown’s wage increases for 2019 – 2021 would be more than enough to keep pace with the cost of living. Norristown should consider its position on wage increases during collective bargaining in light of the other financial needs. To give a sense of magnitude, reducing base wage increases from 2.5 to 2.0 percent would save \$156,000 in 2023.

# Review investment return assumption

<b>Goal</b>	Eliminate structural deficit by allocating resources strategically
<b>Target</b>	TBD
<b>Strategies</b>	Review investment return assumption in light of other needs

When Norristown’s actuary calculates the Municipality’s minimum municipal obligation (MMO) to the employee pension plans, it assumes uses a 7.75 percent investment return for assets in the police plan and a 7.5 percent for the fire plan. In years when the actual investment returns fall short of that target, the Municipality runs the risk of falling behind on its pension plan funding levels. The Municipality’s pension plans had a 73 percent aggregated funded ratio across all employees (including civilians) as of 1/1/2017, which qualifies the plans as “minimally distressed” according to Pennsylvania law.

One commonsense strategy to improve the funding level is to lower the investment assumption, which increases the Municipality’s contribution in the near term but helps reduce the unfunded liability over time. The Municipality has discussed reducing its investment assumptions as shown in the table below. The actuary projects that this will increase the MMO by \$0.3 million beginning in 2022, which is incorporated in the baseline.

Many factors besides the investment assumption impact the MMO and the pension board will not act on the assumptions that set the 2022 and 2023 contribution for a few years.

	1/1/17	1/1/19	1/1/21
<b>Police Pension Plan</b>	7.75%	7.5%	7.25%
<b>Fire Pension Plan</b>	7.5%	7.25%	7.0%

Increasing the pension funding level is a worthy goal, but the pension board should weigh the costs and benefits of lowering the investment assumption relative to its other personnel costs (i.e. scheduled base wage increases, health insurance cost growth) and its other financial goals (i.e. replacing vehicles, renovating facilities) when the time comes to make that decision.

# Invest in Police Department facility/Municipal Hall

<b>Goals</b>	Invest in the facilities that Municipal government needs to deliver daily services Improve quality of Norristown’s public space
<b>Target</b>	See below
<b>Strategies</b>	Work with the financial advisor to structure debt so that some portion of the projected surpluses in 2022 and 2023 will go toward debt repayment

The Municipality is evaluating a potential upgrade to Municipal Hall to meet a variety of needs, including the pressing need to improve the Police Department’s space.

The Police Department is currently housed on the ground floor and basement of Municipal Hall. The facility needs repairs, and the current layout does not provide adequate space to perform the sensitive duties involved in police work. The Police Department has been involved in the facility evaluation process so that its needs are accounted for in the renovation plans.

The Municipality will likely make a decision on how to improve its facilities and make the actual improvements before 2022, but the Municipality does not have a lot of capacity to pay for any new debt until the existing debt drops in 2022.

The Municipality should work with its financial advisor to structure its debt accordingly so that some portion of the projected surpluses in 2022 and 2023 will go toward debt repayment.



# Fire station consolidation and improvement

<b>Goal</b>	Invest in the facilities and technology that Municipal government needs to deliver daily services
<b>Target</b>	See below
<b>Strategies</b>	Evaluate the net fiscal impact of consolidating the fire stations

Norristown's Fire Department is made up of four fire companies, each with its own station. Three stations are located on the western end of the Municipality (Montgomery, Fairmount, and Hancock), and one is located on the eastern end (Norris).

Norristown does not own these stations so it spends \$180,000 annually to lease them from other organizations. Despite that level of expenditure, the stations are old and in need of repairs. The Fire Chief recommends consolidating from the four old, leased stations to two new Municipality-owned stations.

The Department estimates that this initiative will be cost neutral since Municipality would redirect the \$180,000 in annual lease payments to debt service costs to build two new stations (est. at \$4.0 million per station).

A more in-depth review of the financial impact of this decision, including analysis of the Municipality's total debt load in light of the likely Municipal Hall renovations and quantifying the ongoing maintenance costs associated with the stations, was put on hold during 2018 while the Municipality filled its Finance Director vacancy. With that position filled, the Municipality should proceed with the analysis and make a determination how to improve these stations.



# Fire regionalization

<b>Goal</b>	Control cost growth while ensuring quality municipal services
<b>Target</b>	TBD
<b>Strategies</b>	Create a taskforce to review plans for shared service delivery

Norristown has 22 executed mutual aid agreements with other municipalities. Norristown Fire Department receives and provides automatic aid on every building fire dispatch to/from Bridgeport, Plymouth Township, and East Norriton. Overall Norristown provided more aids than it received in three of the last four years, in part because most of its neighboring communities only have volunteer firefighters.

Norristown Fire Department uses both professional and volunteer firefighters and, like other communities, it struggles to maintain its volunteer complement. Given the financial limits described earlier, it is unlikely Norristown can afford to add a large number of paid firefighters in the near term.

Year	Received Aid	Provided Aid	Net Aid
2017	92	102	-10
2016	102	119	-17
2015	27	55	-28
2014	149	60	89

One option for sustaining quality fire protection in Norristown and recognizing the existing staffing limitations of neighboring communities is to create a regional fire district that would sit outside of Norristown government and draw from a larger manpower base officially.

We recommend Norristown begin the process with a taskforce or a group of stakeholders who reviews the options for shared service delivery, local ordinances, and each’s municipality’s existing infrastructure, staffing, and needs. Norristown’s Fire Chief is a creative, experienced professional who could lead this effort on behalf of the Municipality.

# State hospital campus redevelopment

<b>Goal</b>	Eliminate structural deficit by growing tax base
<b>Target</b>	TBD
<b>Strategies</b>	See below

Norristown State Hospital is a state-funded psychiatric hospital that provides clinical services. In February 2018, the Pennsylvania Department of Human Services announced that it will close the civil unit at the hospital. Given the size of the site (200 acres) and the need to grow Norristown’s tax base, there has been much discussion regarding the potential re-development of the site, which could be conveyed to the Municipality.

The Redevelopment Authority estimates that it will take years for any redevelopment to impact Norristown’s tax base because of uncertainty around several issues related to control of the property, land use, and utility and infrastructure needs.

This is a potential game-changing opportunity and should be part of the Municipality’s financial and community development plans, but there are more immediate opportunities to grow the tax base, including making the most out of the Opportunity Zone (pages 52-54) and focusing on targeted neighborhood development (pages 73-75).

Because the State hospital site is currently zoned as institutional, even if the site is conveyed to Norristown, the Municipality must work to better understand the environmental, infrastructure, land use, zoning, and other constraints before estimating the additional tax revenues it may bring through redevelopment.



# Investment in technology

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<b>Goal</b>	Invest in the facilities, technology, and vehicles that deliver daily services
<b>Target</b>	\$50,000 in annual investments in 2022 and 2023
<b>Strategies</b>	See below

The National Resource Network reviewed Norristown's departmental operations through a series of interviews, follow-up conversations, and data analysis. We reviewed the scope of services provided and resources used by each department at a high level, and participated in the departmental budget meetings during the 2019 budget process.

During that process, we found that there is an overall need for investment in enhanced data systems to increase efficiency, allow for better use of current employees' time, and improve customer service. The next slide shows the data enhancement some of those needs by department.

The five-year plan allocates \$50,000 toward these systems beginning in 2022 to help improve the quality of services.

# Data system needs

Department	Current system	System enhancement	Enhancement goal
Code	Current system does not automatically schedule staff appointments or immediately notify customer of inspection information	Automatic scheduling system for staff and immediate notification system for customer	Maximize staff time for inspections, improve customer service
Code	Customers call or come in to office	Online “One-Stop Shop” (website) for customers to apply, pay for, schedule, and track permit/building/inspection process online	Reduce staff time, increase transparency, improve customer service
Police	Paper-based shift scheduling and overtime forms	Electronic system for scheduling, tracking shifts, booking overtime, and tracking workload	Better data to assess shift schedules, workload and overtime needs
Public Works	Individual Department’s track fleet in different ways (e.g. spreadsheets, database)	Fleet management software housed in Public Works	More efficient fleet operation; reduce staff time for other Departments
Public Works	Spreadsheet tracking	Automated “Manpower Bank” (system for tracking staff time by task/activity)	Better data to assess schedules, workload, and overtime needs
Recreation	Applications can be downloaded or submitted online but payment cannot be made online – customers currently bring payment to Finance	Online tracking and online payment system for recreation activities, with ability to pay with a credit card	Reduce staff and customer time, greater public accessibility
Municipality-wide	Police records, permit information, etc. require customers to go to the individual offices to access reports	Online records retrieval system to allow public to download documents rather than requesting them in person	Reduce staff and customer time, greater public accessibility

# The Norristown Plan - How it all fits together

## Achieve structural stability

- **Corrective actions** mitigate the rapid growth in key expenditures and decline in key non-tax revenues
- **Labor strategies** bring the growth in personnel costs into line with the growth in revenues available to pay for them
- **Revenue strategies** provide a balanced approach to close the existing deficit

## Make investments

- Timely **vehicle replacement**
- Police and Fire **facility upgrades**
- Improve **safety perception**
- Improve **trash collection operations**

Structural fiscal stability

Create capacity to make investments



The Norristown Plan

## Tax base growth

- **Increase EIT base** by attracting new working residents
- **Increase real estate tax base** by adding new taxable properties and improving the value of existing properties

## Economic development

- Make the most out of the **Opportunity Zone**
- Establish **land bank**
- Targeted **neighborhood redevelopment**

Sustainable tax base growth

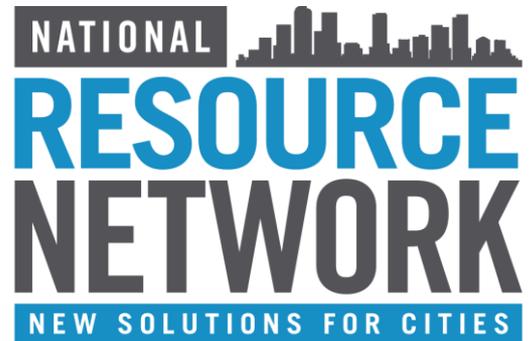
Deliver quality services to residents and facilitate economic development

# The Norristown Plan – Maintaining prudent reserves while investing in the community

## Plan projections - after corrective actions

	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Operating Revenues	34,545,083	35,017,558	36,566,406	37,440,769	38,183,681
Operating Expenditures	34,545,083	35,505,989	36,311,488	34,820,743	35,353,988
<b>Net Operating Result Prior to Investments</b>	<b>\$0</b>	<b>(\$488,431)</b>	<b>\$254,918</b>	<b>\$2,620,026</b>	<b>\$2,829,693</b>
<b>Fund Balance as a % of Expenditures (Prior to investments)</b>	<b>18.6%</b>	<b>16.7%</b>	<b>17.0%</b>	<b>25.3%</b>	<b>32.9%</b>
<b>Investments (e.g. vehicle replacement plan)</b>	<b>\$0</b>	<b>\$40,000</b>	<b>\$1,240,000</b>	<b>\$1,250,000</b>	<b>\$1,250,000</b>
<b>Net Operating Result After Investments</b>	<b>\$0</b>	<b>(\$528,431)</b>	<b>(\$985,082)</b>	<b>\$1,370,026</b>	<b>\$1,579,693</b>
<b>Ending Fund Balance (after investments)</b>	<b>\$6,412,475</b>	<b>\$5,884,044</b>	<b>\$4,898,962</b>	<b>\$6,268,988</b>	<b>\$7,848,681</b>

Plan goals	Plan result
Eliminate structural deficit by 2021	Operating budget (prior to investments) balanced in 2021
Maintain fund balance at a minimum of 16.7%	Fund balance maintained at or above 16.7% (prior to investments)
Improve perception of Norristown as a safe, vibrant community	Resources dedicated to parks/rec; data-driven response to crime stigma
Improve quality of Norristown's public space	More effective trash collection, better road drainage
Invest in the facilities, technology and vehicles	Vehicle replacement plan, improved Municipal Hall
Tax base growth	Strategies that use new programs (Opportunity Zones, Land Bank) and existing tools (targeted neighborhood development)



# Appendix

## Five-Year Financial Projections

# Five-year baseline projection

	2018 Budget	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
Real Estate Tax	12,751,228	12,723,545	12,780,849	12,785,194	12,785,194	12,785,194
Earned Income Tax	9,300,000	9,486,000	9,675,720	9,869,234	10,066,619	10,267,951
Business Privilege Tax	1,025,000	1,147,550	1,070,596	1,094,149	1,118,220	1,142,821
Local Services Tax	540,000	570,000	575,700	581,457	587,272	593,144
Real Estate Transfer Tax	375,300	375,300	379,053	382,844	386,672	390,539
Per Capita Tax	45,000	55,000	55,165	55,330	55,496	55,663
Licenses, Permits, and Fees	5,492,318	5,549,540	5,711,253	5,880,301	6,057,037	6,241,832
Fines and Forfeits	871,000	813,000	818,600	824,256	829,969	835,738
Intergovernmental Revenues	1,539,033	1,673,765	1,740,726	1,775,646	1,811,612	1,848,658
Other Revenues	811,932	721,500	822,453	894,910	949,726	1,009,750
<b>Total Revenues</b>	<b>\$32,750,811</b>	<b>\$33,115,200</b>	<b>\$33,630,116</b>	<b>\$34,143,322</b>	<b>\$34,647,817</b>	<b>\$35,171,291</b>
Personnel Expense	22,070,946	22,432,686	23,506,899	24,377,107	25,417,067	26,305,184
<i>Cash Compensation</i>	13,724,478	14,053,549	14,610,755	15,045,395	15,419,333	15,802,592
<i>Health Benefits</i>	3,365,318	3,365,318	3,885,324	4,236,285	4,620,225	5,040,269
<i>Pension</i>	3,577,400	3,577,400	3,513,320	3,545,309	3,775,787	3,806,962
<i>Other Personnel Cost</i>	1,403,750	1,436,419	1,497,500	1,550,118	1,601,722	1,655,361
Operating Expense	7,295,885	7,641,646	7,827,867	8,087,733	8,361,649	8,639,586
Debt Service	4,000,000	4,000,000	3,968,988	3,970,683	1,362,081	887,992
Other Expenses	510,999	470,752	344,639	336,258	290,274	290,342
<b>Total Expenditures</b>	<b>\$33,877,830</b>	<b>\$34,545,083</b>	<b>\$35,648,392</b>	<b>\$36,771,781</b>	<b>\$35,431,071</b>	<b>\$36,123,104</b>
<b>Surplus/Deficit</b>	<b>(\$1,127,019)</b>	<b>(\$1,429,883)</b>	<b>(\$2,018,277)</b>	<b>(\$2,628,459)</b>	<b>(\$783,253)</b>	<b>(\$951,813)</b>
<b>Ending Fund Balance</b>	<b>\$7,842,358</b>	<b>\$6,412,475</b>	<b>\$4,394,198</b>	<b>\$1,765,740</b>	<b>\$982,487</b>	<b>\$30,674</b>

\*Note: the \$1.1 million deficit in 2018 and the \$1.4 million deficit in 2019 are both reflected in the adopted budgets as a transfer from the reserves.

# Initiatives by year

	2020 Projected	2021 Projected	2022 Projected	2023 Projected
<b>Corrective Actions</b>				
Increase fine revenues	150,000	250,000	350,000	400,000
Control health benefit growth	24,363	52,745	141,751	245,091
Control workers' compensation growth	5,645	17,668	30,645	44,634
Control liability insurance growth	8,966	28,063	77,486	129,381
Pursue MBRO revenues	20,000	20,000	25,000	25,000
<b>Labor Strategy</b>				
Control cash compensation growth	0	0	76,469	156,379
Offset overtime spending growth	127,793	265,022	271,763	280,144
Review pension return investment assumption	TBD	TBD	TBD	TBD
<b>Opportunities</b>				
Parking surcharge from the Zoo	300,000	300,000	400,000	400,000
Increase EIT tax base	47,430	96,994	148,765	202,818
Levy a stormwater fee	0	149,539	153,963	158,578
Real estate tax Increase	845,649	1,703,345	1,727,436	1,739,482
Potential sewer sale	TBD	TBD	TBD	TBD
<b>Total Initiative Impact (excl. investments)</b>	<b>\$1,529,846</b>	<b>\$2,883,377</b>	<b>\$3,403,279</b>	<b>\$3,781,506</b>
<b>Investments</b>				
Vehicle replacement plan	0	(1,200,000)	(1,200,000)	(1,200,000)
Improve safety perception	(20,000)	(20,000)	0	0
Improve trash collection	(20,000)	(20,000)	0	0
Technology investments	0	0	(50,000)	(50,000)
Other facility investments	TBD	TBD	TBD	TBD
<b>Total investments</b>	<b>(\$40,000)</b>	<b>(\$1,240,000)</b>	<b>(\$1,250,000)</b>	<b>(\$1,250,000)</b>
<b>Total Initiative Impact (incl. investments)</b>	<b>\$1,489,846</b>	<b>\$1,643,377</b>	<b>\$2,153,279</b>	<b>\$2,531,506</b>

# Projection after initiatives are applied

	2018 Budget	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
Real Estate Tax	12,751,228	12,723,545	13,626,498	14,488,539	14,512,631	14,524,676
Earned Income Tax	9,300,000	9,486,000	9,723,150	9,966,229	10,215,384	10,470,769
Business Privilege Tax	1,025,000	1,147,550	1,070,596	1,094,149	1,118,220	1,142,821
Local Services Tax	540,000	570,000	575,700	581,457	587,272	593,144
Real Estate Transfer Tax	375,300	375,300	379,053	382,844	386,672	390,539
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Licenses, Permits, and Fees	5,492,318	5,549,540	5,711,253	5,880,301	6,057,037	6,241,832
Fines and Forfeits	871,000	813,000	968,600	1,074,256	1,179,969	1,235,738
Intergovernmental Revenues	1,539,033	1,673,765	1,740,726	1,775,646	1,811,612	1,848,658
Other Revenues	811,932	721,500	1,166,816	1,267,656	1,516,477	1,679,841
<b>Total Revenues</b>	<b>\$32,750,811</b>	<b>\$33,115,200</b>	<b>\$35,017,558</b>	<b>\$36,566,406</b>	<b>\$37,440,769</b>	<b>\$38,183,681</b>
Personnel Expense	22,070,946	22,432,686	23,373,461	24,001,488	24,942,083	25,724,579
<i>Cash Compensation</i>	13,724,478	14,053,549	14,522,327	14,808,386	15,103,897	15,405,318
<i>Health Benefits</i>	3,365,318	3,365,318	3,858,834	4,151,409	4,530,784	4,944,567
<i>Pension</i>	3,577,400	3,577,400	3,501,727	3,516,081	3,746,082	3,776,770
<i>Other Personnel Cost</i>	1,403,750	1,436,419	1,490,573	1,525,613	1,561,320	1,597,924
Operating Expense	7,295,885	7,641,646	7,858,901	8,043,059	8,276,306	8,501,075
Debt Service	4,000,000	4,000,000	3,968,988	3,970,683	1,362,081	887,992
Other Expenses	510,999	470,752	344,639	1,536,258	1,490,274	1,490,342
<b>Total Expenditures</b>	<b>\$33,877,830</b>	<b>\$34,545,083</b>	<b>\$35,545,989</b>	<b>\$37,551,488</b>	<b>\$36,070,744</b>	<b>\$36,603,988</b>
<b>Surplus/Deficit</b>	<b>(\$1,127,019)</b>	<b>(\$1,429,883)</b>	<b>(\$528,431)</b>	<b>(\$985,082)</b>	<b>\$1,370,026</b>	<b>\$1,579,693</b>
<b>Ending Fund Balance</b>	<b>\$7,842,358</b>	<b>\$6,412,475</b>	<b>\$5,884,044</b>	<b>\$4,898,962</b>	<b>\$6,268,988</b>	<b>\$7,848,682</b>

\*Note: the \$1.1 million deficit in 2018 and the \$1.4 million deficit in 2019 are both reflected in the adopted budgets as a transfer from the reserves.

# The Norristown Plan

	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
<b>Baseline Projection</b>	<b>(\$1,429,883)</b>	<b>(\$2,018,277)</b>	<b>(\$2,628,459)</b>	<b>(\$783,253)</b>	<b>(\$951,813)</b>
<b>Corrective Actions</b>					
Increase fee and fine revenues	0	150,000	250,000	350,000	400,000
Control health benefit growth	0	24,363	52,745	141,751	245,091
Control workers' compensation growth	0	5,645	17,668	30,645	44,634
Control liability insurance growth	0	8,966	28,063	77,486	129,381
Pursue MBRO revenues	0	20,000	20,000	25,000	25,000
<b>Labor Strategy</b>					
Control cash compensation growth	0	0	0	76,469	156,379
Offset overtime spending growth	0	127,793	265,022	271,763	280,144
Review pension investment return assumption	0	TBD	TBD	TBD	TBD
<b>Opportunities</b>					
Parking surcharge from the Zoo	0	300,000	300,000	400,000	400,000
Increase EIT tax base	0	47,430	96,994	148,765	202,818
Levy a storm water fee	0	0	149,539	153,963	158,578
Real estate tax Increase	0	845,649	1,703,345	1,727,436	1,739,482
Potential sewer sale	0	TBD	TBD	TBD	TBD
<b>Total Initiative Impact (excl. investments)</b>	<b>\$0</b>	<b>\$1,529,846</b>	<b>\$2,883,377</b>	<b>\$3,403,279</b>	<b>\$3,781,506</b>
<b>Net Operating Result Prior to Investments</b>	<b>(\$1,429,983)</b>	<b>(\$488,431)</b>	<b>\$254,918</b>	<b>\$2,620,026</b>	<b>\$2,829,693</b>
<b>Fund Balance as a % of Expenditures (Prior to investments)</b>	<b>18.6%</b>	<b>16.7%</b>	<b>17.0%</b>	<b>25.3%</b>	<b>32.9%</b>
<b>Investments (e.g. vehicle replacement plan)</b>	<b>\$0</b>	<b>\$40,000</b>	<b>\$1,240,000</b>	<b>\$1,250,000</b>	<b>\$1,250,000</b>
<b>Net Operating Result After Investments</b>	<b>\$0</b>	<b>(\$528,431)</b>	<b>(\$985,082)</b>	<b>\$1,370,026</b>	<b>\$1,579,693</b>