

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 4

INTRODUCTION

The Management's Discussion and Analysis ("MD&A") is a component of the reporting model adopted by the Government Accounting Standards Board ("GASB"), as referenced in Statement No. 34 issued in June 1999. The intent of the MD&A is to summarize Lower Paxton Township's ("Township") financial performance as a whole, in part, using comparative information from the current year analyzed against prior years.

The MD&A presents a narrative overview and analysis of the Township's financial performance for the fiscal year ended December 31, 2024. It is recommended that it be read in conjunction with the accompanying basic financial statements and notes to the financial statements in order to obtain a thorough understanding of the Township's financial condition as of December 31, 2024.

The financial statements of Lower Paxton Township include the financial position and results of operations of the Township and the Lower Paxton Township Authority ("Authority"), which is a blended component unit of the Township.

FINANCIAL HIGHLIGHTS

The following items detail the Township's financial highlights for the fiscal year ended December 31, 2024:

- The Township's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended December 31, 2024 by \$120,289,013 (net position). The net position increased by \$9,920,534 primarily related to significant, continued growth in earned income tax and favorable dividends from health and workers compensation insurance. The majority of the Township's net position (\$87,293,845 or 72%) is invested in capital assets and is not available for future spending.
- Governmental fund balances increased from \$22,859,359 to \$25,293,258 primarily related to significant, continued growth in earned income tax and favorable dividends from health and workers compensation insurance.
- The Township's solid waste and recycling contract executed for July 2023 through June 2028 included the Township taking over billing, collection, and customer service activities previously managed by the contractual hauler. While the fund balance generated from the operations was nominal (\$141,956), General Fund revenues and expenditures increased by \$7,572,218 and \$7,430,262, respectively, from those new Township operations.
- The Township established and began funding an other post-employment benefits plan ("OPEB") for police retiree health insurance in 2023. Contributions of \$400,000 and \$750,000 were made in 2024 and 2023, respectively, to more aggressively invest funds towards managing the long-term liability.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2024

Page 5

- New lease and subscription liability arrangements authorized by the Township totaled \$890,618 for 2024. The Authority issued additional bond debt in 2024 totaling \$14,670,000 for sewer capital projects. The Authority continued to draw on available proceeds from the 2019 PennVest loan (\$240,231) and utilize unspent bond proceeds from 2020A series issuances for continued sewer and from 2022 series issuances for continued stormwater infrastructure projects. Net decrease in outstanding bond and loan debt for 2024 was \$694,211.
- The Township's bond rating remains at Aa2, as set by Moody's Investors Service, denoting a very strong capacity to meet financial commitments.
- Significant sewer and stormwater infrastructure investment continued in 2024, with net additions to capital assets totaling \$11,276,343 for the Township.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section is intended to serve as an introduction to the Township's basic financial statements which are comprised of the following components: management's discussion and analysis, government-wide financial statements, fund financial statements and notes to the financial statements. The report also contains other required supplementary information related to pension and OPEB plans and combining schedules for certain funds. The financial statements are organized to provide an understanding of the Township as an entire operating entity, while also providing a detailed look at specific financial activities.

Government-wide statements

The government-wide financial statements of the Township are divided into two categories: governmental activities and business activities. The government-wide statements report information about the Township and its blended component unit using accounting methods similar to those used by private-sector companies. The statement of net position includes all the government's assets and liabilities. All the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is paid or received. The two government-wide statements report the Township's net position and how it has changed. An increase or decrease in the Township's net position is an indication of whether its financial health overall is improving or deteriorating. The sole business-type activity of the Township is the Authority.

Fund financial statements

The Township's fund financial statements provide more detailed information about the most significant funds, not the Township as a whole. The fund financial statements include:

- *Governmental funds* financial statements, which explain how services, such as public safety and public works, are financed. The major governmental funds include the General Fund and General Improvement Fund. The nonmajor funds include the Community Development Block Grant, Fire Equipment Capital, and State Highway Aid.
- *Enterprise funds* financial statements offer information about the activities that the Township operates

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 6

like a business. There is one Township enterprise fund: the Authority.

- *Fiduciary funds* financial statements reflect activities involving resources that are held by the Township as trustee for others. The Township has one Length of Service Award Program ("LOSAP") fund for volunteer firefighter and fire police officers, two employee pension funds: one covering sworn police officers and one for full-time, non-uniformed employees, one OPEB fund for sworn police officer benefits (new in 2023), and one custodial fund for County real estate taxes processed through the elected tax collectors account in the Township's name. Fiduciary funds are not reflected in the government-wide statements because resources cannot be used to support the Township's operations.

GOVERNMENT WIDE FINANCIAL ANALYSIS

Table A-1 is a condensed summary of the statement of net position:

Table A-1 Statements of net position December 31, 2024 and 2023						
	2024			2023		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Current and other assets	\$ 26,546,119	\$ 59,021,268	\$ 85,567,387	\$ 27,039,047	\$ 47,913,815	\$ 74,952,862
Capital assets	<u>56,372,583</u>	<u>196,526,770</u>	<u>252,899,353</u>	<u>52,858,965</u>	<u>188,764,045</u>	<u>241,623,010</u>
Total assets	<u>82,918,702</u>	<u>255,548,038</u>	<u>338,466,740</u>	<u>79,898,012</u>	<u>236,677,860</u>	<u>316,575,872</u>
Deferred outflows of resources	<u>7,611,178</u>	<u>2,144,529</u>	<u>9,755,707</u>	<u>11,120,977</u>	<u>2,245,448</u>	<u>13,366,425</u>
Current portion of liabilities	6,434,189	14,858,021	21,292,210	6,098,229	10,997,904	17,096,133
Long-term portion of liabilities	<u>29,093,026</u>	<u>167,408,195</u>	<u>196,501,221</u>	<u>34,048,702</u>	<u>157,703,999</u>	<u>191,752,701</u>
Total liabilities	<u>35,527,215</u>	<u>182,266,216</u>	<u>217,793,431</u>	<u>40,146,931</u>	<u>168,701,903</u>	<u>208,848,834</u>
Deferred inflows of resources	<u>9,840,003</u>	<u>-</u>	<u>9,840,003</u>	<u>10,424,984</u>	<u>-</u>	<u>10,424,984</u>
Net position:						
Net investment in capital assets	41,360,563	45,933,288	87,293,851	35,955,313	39,261,090	75,216,403
Restricted	2,882,083	860,760	3,742,843	4,190,692	-	4,190,692
Unrestricted	<u>920,016</u>	<u>28,632,303</u>	<u>29,552,319</u>	<u>301,069</u>	<u>30,960,315</u>	<u>31,261,384</u>
Total net position	<u>\$ 45,162,662</u>	<u>\$ 75,426,351</u>	<u>\$ 120,589,013</u>	<u>\$ 40,447,074</u>	<u>\$ 70,221,405</u>	<u>\$ 110,668,479</u>

Over time, net position may serve as a useful indication of a government's financial position. In the case of the Township, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows by \$121,863,135 as of December 31, 2024. The largest portion of the Township's net position, \$87,293,851 or 72%, is net investment in capital assets which reflects total capital assets offset by debt incurred to acquire the assets. Restricted net position of \$2,882,083 or 2%, primarily represents third-party escrows and unspent restricted grants and contributions for specified purposes. The remaining balance of net position is \$31,687,201 or 26%,

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 7

which represents resources that may be used (or are needed) to meet the government's ongoing obligations to its citizens.

The results of this year's operations as a whole are reported in the statement of activities. All expenses are reported in the first column of the statement of activities. Specific charges, grants and subsidies that directly relate to specific expense categories are presented to determine the final amount of the Township's activities that are supported by general revenues. The two largest sources of general revenues are earned income tax and real estate tax.

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 8

Table A-2 takes the information from the statement of activities and rearranges it to depict the changes in net position.

Table A-2
Statements of changes in net position
December 31, 2024 and 2023

	2024			2023		
	Governmental activities	Business-type activities	Total	Governmental activities	Business-type activities	Total
Revenues:						
Program revenues:						
Charges for service	\$ 8,247,045	\$ 21,024,668	\$ 29,271,713	\$ 5,859,289	\$ 21,353,622	\$ 27,212,911
Grants and contributions	9,458,431	1,000,000	10,458,431	8,993,178	-	8,993,178
General revenues:						
Taxes	21,011,571	-	21,011,571	20,228,544	-	20,228,544
Interest revenue	1,451,340	2,188,143	3,639,483	1,383,355	1,904,302	3,287,657
Gain on sale of capital assets	-	-	-	-	550,076	550,076
License and permits	2,222,945	-	2,222,945	1,015,186	-	1,015,186
Fines and forfeitures	270,244	-	270,244	251,955	-	251,955
Contributed Capital	300,000	-	300,000	-	-	-
Contributions	63,481	-	63,481	56,257	-	56,257
Developer contributions	1,100,978	1,222,456	2,323,434	1,128,045	813,618	1,941,663
Miscellaneous	10,954	-	10,954	2,340	-	2,340
Transfers	(579,991)	579,991	-	-	-	-
Total revenues	<u>43,556,998</u>	<u>26,015,258</u>	<u>69,572,256</u>	<u>38,918,149</u>	<u>24,621,618</u>	<u>63,539,767</u>
Expenses:						
General government	2,635,473	-	2,635,473	1,669,839	-	1,669,839
Police department	13,018,366	-	13,018,366	12,201,805	-	12,201,805
Fire and ambulance	2,343,284	-	2,343,284	1,993,039	-	1,993,039
Community development	1,401,925	-	1,401,925	1,319,295	-	1,319,295
Health and Sanitation	8,633,043	-	8,633,043	3,786,856	-	3,786,856
Public works	7,629,577	-	7,629,577	7,773,636	-	7,773,636
Parks and recreation	2,832,321	-	2,832,321	2,701,952	-	2,701,952
Interest	347,421	-	347,421	396,094	-	396,094
Lower Paxton Township Authority	-	20,810,312	20,810,312	-	21,158,159	21,158,159
Total expenses	<u>38,841,410</u>	<u>20,810,312</u>	<u>59,651,722</u>	<u>31,842,516</u>	<u>21,158,159</u>	<u>53,000,675</u>
Increase in net position	4,715,588	5,204,946	9,920,534	7,075,633	3,463,459	10,539,092
Net position at beginning of year	<u>40,447,074</u>	<u>70,221,405</u>	<u>110,668,479</u>	<u>33,371,441</u>	<u>66,757,946</u>	<u>100,129,387</u>
Net position at end of year	<u>\$ 45,162,662</u>	<u>\$ 75,426,351</u>	<u>\$ 120,589,013</u>	<u>\$ 40,447,074</u>	<u>\$ 70,221,405</u>	<u>\$ 110,668,479</u>

During the current fiscal year, net position for governmental activities increased \$4,715,588, primarily the result of continued, significant increases in earned income tax and interest income revenues. The net position of the business-type activities increased \$5,204,946, with sewer and stormwater user fees outpacing operating costs along with large receipts of grant monies and significant developer contributions.

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 9

FINANCIAL ANALYSIS OF THE TOWNSHIP FUNDS

Governmental Funds

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net spendable, "available" resources at the end of the fiscal year.

At the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$25,293,258, of which \$3,373,178 was in nonspendable form (e.g., deposits and prepaid expenses), \$2,882,083 was externally restricted, such as by legal restrictions or intention of grantors, donors, or trustees, and \$4,343,090 was assigned, primarily for earmarked capital projects and 2024 budgetary reserve needs. The remaining \$14,694,907 (58%) is unassigned and can be used for any lawful purpose, the majority of which is from the General Fund – the Township's primary operating fund.

The condensed changes in fund balance for the General Fund were as follows for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Revenues	\$ 36,773,524	\$ 32,774,720
Expenditures	35,496,488	32,579,344
Net other financing sources (uses)	<u>111,141</u>	<u>549,068</u>
Net changes in fund balances	<u>\$ 1,388,177</u>	<u>\$ 744,444</u>

From 2023 to 2024, the Township experienced an increase in both revenues and expenditures of \$3,998,804 and \$2,917,144, respectively, largely driven by the first full year of solid waste and recycling collection. Finally, other financing sources (uses), typically insignificant, were larger in 2023 relative to lease liability issuance proceeds.

Enterprise Funds

The Township's enterprise funds, limited to the Authority, provide the same type of information found in the government-wide financial statements summarized earlier. As of December 31, 2024, the net position of the Authority totaled \$75,426,351, an increase of \$5,204,946 from 2023. Total operating revenues slightly decreased in 2024 by \$310,170 with steady collection of sewer and stormwater customer charges. Operating expenses decreased in 2024 by \$942,403, primarily relative to changes in management agreement charges and an increase in other current assets (deposits paid for future periods). Finally, net nonoperating expenses decreased in 2024 by \$529,263, primarily due to growth in interest income revenues and a large grant related to capital projects.

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 10

GENERAL FUND BUDGETARY ANALYSIS

The original budget for the General Fund was not amended by the Township's Board of Supervisors during 2024. Overall, actual operating revenues during the current fiscal period fell short of budget by \$288,171, a result of significant, continued growth of earned income tax and interest income revenues but stunted by a 1% decline in sewer and stormwater fee revenues and inflationary pressures causing a reduction in residential and commercial new construction and permit activity.

Overall, actual expenditures were \$420,280 more than planned, primarily due to the following:

- Community Development expenditures were \$172,786 more than budget due running two software systems concurrently during transition and increased solicitor costs.
- Parks and Recreation department expenditures were more than budget by \$169,390 primarily due to the re-allocation of public works labor to the parks and recreation budget for parks maintenance and project work.
- Charges for Services revenues were \$365,513 less than budgeted due to a smaller population of customer units in billing than predicted.
- Intergovernmental revenues were \$413,305 less than budgeted largely due to vacant positions negatively impacting Management Agreement revenues

CAPITAL ASSETS

The Township's capital assets as of December 31, 2024, net of accumulated depreciation and amortization, were \$252,899,353. Capital assets consist primarily of the sewer and stormwater collection and conveyance systems and deferred capacity costs, and administrative, public safety, public works, and recreation facilities owned by the Township. The following is a summary of capital assets as of December 31, 2024 and is detailed in Note 4 to the financial statements:

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 11

	2024		2023	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Land	\$ 2,612,716	\$ 564,508	\$ 2,312,716	\$ 864,508
Intangibles (non depreciable)	421,850	2,740,869	421,850	2,740,869
Construction in progress	3,644,931	26,514,943	2,512,744	17,500,465
Buildings	23,640,168	1,517,541	23,577,908	1,517,541
Land improvements	10,732,823	-	8,987,683	-
Machinery and equipment	8,258,695	2,696,214	7,287,118	2,534,693
Vehicles	9,620,457	-	9,842,862	-
Infrastructure	62,913,715	213,441,209	60,242,873	216,418,524
Right-to-use assets	3,346,846	-	3,655,644	81,617
Furniture	-	40,973	-	40,973
Sewer capacity costs	-	26,929,917	-	21,144,628
Accumulated depreciation / amortization	<u>(68,819,618)</u>	<u>(77,919,404)</u>	<u>(65,982,433)</u>	<u>(74,079,773)</u>
	<u>\$ 56,372,583</u>	<u>\$ 196,526,770</u>	<u>\$ 52,858,965</u>	<u>\$ 188,764,045</u>

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024

Page 12

DEBT ADMINISTRATION

The Township's long-term debt activity for 2024 is as follows and is detailed in Note 5 to the financial statements:

Type	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
General Obligation Debt	\$ 14,505,000	\$ -	\$ (1,905,000)	\$ 12,600,000
Lease Obligation	1,624,609	781,157	(664,813)	1,740,953
Subscription Liability	146,274	109,461	(58,995)	196,740
Compensated Absences	2,567,466	418,913	-	2,986,379
Net Pension Liability	8,481,310	-	(7,033,765)	1,447,545
Net Pension Asset	(237,527)	(52,834)	-	(290,361)
Net OPEB Liability	<u>8,641,925</u>	<u>-</u>	<u>(43,154)</u>	<u>8,598,771</u>
Total Governmental				
Activities Long-Term Debt	<u>\$ 35,729,057</u>	<u>\$ 1,256,697</u>	<u>\$ (9,705,727)</u>	<u>\$ 27,280,027</u>
Business-Type Activities:				
General Obligation Debt	<u>\$ 154,327,821</u>	<u>\$ 14,910,231</u>	<u>\$ (5,714,156)</u>	<u>\$ 163,523,896</u>
Total Business-Type				
Activities Long-Term Debt	<u>\$ 154,327,821</u>	<u>\$ 14,910,231</u>	<u>\$ (5,714,156)</u>	<u>\$ 163,523,896</u>

At the end of 2024, the Township had total long-term debt, net of current maturities, in the amount of \$191,094,284, excluding Net Pension Asset. \$163,523,896 of the total debt is based on amounts under subsidy agreements with the Authority. The debt includes General Obligation Bonds as well as Pennsylvania Infrastructure Investment Authority (PennVest) loans. As of December 31, 2024, \$12,854,516 had been drawn on the 2019 PennVest loan, leaving \$423,679 (including unreleased retainage) available for capital project related costs.

The Authority agrees to pay the Township, from receipts and revenues from its sewer and stormwater systems, amounts sufficient to pay the Authority's portion of the principal and interest on the bonds and PennVest debts. The subsidy agreements contain various covenants of the Authority, including a covenant to impose and collect sewer rentals and stormwater fees in each year sufficient, with other funds, to pay the operation and maintenance expenses, including amounts due in accordance with the terms of the subsidy agreements for amounts payable for debt service on the bonds issued.

LOWER PAXTON TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2024

Page 13

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Township

The Township's 2025 adopted budget reflects the ongoing challenges meeting a balanced budget, particularly in the General Fund, as fixed expenses continue to rise, and many revenue streams continue to flatten. While the Township's residential growth has been strong over the past several years, contractual costs and inflation continue to pressure, match, or outpace these funding sources and the real estate tax millage for general purposes has remain unchanged since 2016. The 2025 budget for the General Fund was adopted utilizing \$3,076,174 in reserves (\$2,748,639 of which pertains to use of budgetary reserves generated from the ARPA funds), which would reduce carryover reserves to just over \$16,200,000 million to enter into 2026, \$1,187,000 of which relates to unspent budgetary reserves generated from the ARPA funds.

The Township continues to focus investment on strategic planning and assessment tools to aid in assessing long-term financial stress factors as expenditures rise due to inflation and contractual pressures. The Township is currently conducting a fire labor study to assess the operational need for, and the financial impact of, maintaining ten budgeted career firefighter positions. The study will help inform future budgeting and staffing decisions by analyzing compensation, benefits, and service demands.

In addition, the Township had a formal asset management plan conducted by a third party in 2024 in relation to recommendations for a roads-dedicated real estate tax millage to bridge the funding gap for Liquid Fuels spending. Further, future tax challenges remain evident as most of the township's taxable parcels are residential. This puts pressure on future tax increases due to a commercially under-developed township, with additional resources needed for public safety and capital investments.

Finally, the Township continues to finance significant capital improvements, much deferred, for investment relative to the ARPA funds received, which will ensure significant capital rehabilitation and revitalization improvements are made to the Township's parks and playgrounds, transportation, public safety, and administrative assets and infrastructure.

Authority

The Township (and Authority) is governed by a consent decree and settlement agreement with the Pennsylvania Department of Environmental Protection ("PADEP") relative to the Beaver Creek, Paxton Creek, and Spring Creek Basin interceptors for sewage overflows and hydraulic overloads in these regions and manage limitations on equivalent dwelling units ("EDU's") and connections in the respective areas. As capital improvements have been made, modeling and metering data updated, and removal rates for overflow/overload have occurred, revised long-term corrective action plans are provided to PADEP and have been approved as submitted. As of December 31, 2024, the Authority estimates that additional investments for compliance with the agreements are \$16,500,000 for Beaver Creek and \$4,500,000 for Spring Creek Basin interceptors through 2035.

The Authority also is governed by the Township's PADEP Municipal Separate Storm Sewer System ("MS4")

LOWER PAXTON TOWNSHIP

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2024**

Page 14

permit, approved through April 2030, which requires the implementation of a Storm Water Management Plan to manage the conveyance and proper discharge of stormwater. As of December 31, 2024, the estimated additional MS4 capital costs relative to the plan total \$575,000. An additional \$3,825,000 is needed to fund the planned storm sewer replacement projects through 2029.

To fund the capital projects noted above, the Authority anticipates further subsidy agreements with the Township for issuance of debt financing as follows: \$5,000,000 in 2025, \$16,000,000 during the period of 2027 through 2036 for sewer projects, and for stormwater \$4,400,000 in 2027 and \$8,000,000 in 2030 for stormwater projects associated with the MS4 permit required to be renewed in May 2030.

The Authority's long-term costing and rate models assist annually in the determination of sewer and stormwater charges sufficient to meet current operating and debt-related capital needs and provide adequate operating reserves per Board directive. The adopted 2025 budget reflects no change in sewer or stormwater charges from 2024 rates. The budgets continue to reflect significant capital investments into the respective infrastructure systems relating to the consent order and MS4 management plans in effect, totaling \$14,398,500 for sewer and \$4,854,435 for stormwater.

CONTACTING THE TOWNSHIP

This financial report is designed to provide citizens, investors and creditors with a general overview of the Township's finances. If you have questions about this report or need additional information, contact the Finance Department at the Township Municipal Center, 425 Prince Street, Harrisburg, PA 17109.