



TREDYFFRIN TOWNSHIP MEMORANDUM

TO: Board of Supervisors
FROM: Mimi Gleason, Township Manager
SUBJECT: 2010 Proposed Budget
DATE: November 5, 2009

Enclosed is the 2010 proposed budget. The total budget, including all operating and capital funds, is \$32.6M. That is \$2.9M less than the 2009 budget.

The 2010 budget has been a work in progress for all of 2009. Last year, a commitment was made to tackle the deficit in the general fund, and great strides have been made toward that ongoing goal. The proposed budget includes a balanced general fund – operating revenues match operating expenses. There is no use of reserves to fill a gap, nor am I recommending that the real estate tax rate be raised.

The balanced general fund operating budget has been a collective effort. Staff from all departments have spent countless hours searching for cost savings and additional revenue. This work was informed by questions and suggestions raised by the Budget Advisory Working Group as they gathered information for their review of the Township’s budget.

Although the general fund gets most of the attention, there are four funds within Tredyffrin Township’s budget:

Funds	2010 Expenses	%	Use of Funds
General Fund	\$21.4M	50%	Primary operating fund
Sewer Utility Fund	\$6.7M	21%	Twp sewer system, street lights, traffic signals
Valley Creek Trunk Sewer	\$3.5M	11%	Multi-municipal sewer system
Municipal Authority	\$1.0M	3%	Sewer and highway bond financing
TOTAL	\$32.6M	100%	

In all but the Municipal Authority fund, there are expenditures for general operating costs and for capital projects; the Municipal Authority only has operating expenses in 2010. The operating and capital components are very different. For the capital budget, one-time funding sources, such as bonds or project grants, must be sufficient to cover the expense. For the operating budget, ongoing revenue, such as taxes and fees, must at least match operating expenses.

2010 OPERATING BUDGET SUMMARY

The operating budget for each fund pays for the ongoing expenses of the departments, such as salaries, overhead, maintenance, etc. The total proposed operating budget for 2010 is \$23.1 million, which is a \$3.8 million reduction compared to the 2009 budget. The expenses are paid for out of sources such as taxes, fees and sewer rent, as described in each fund description below.

Much of the savings in the 2010 operating budget was implemented during 2009. Expenses for 2009 are forecasted to be \$1.7 million less than was budgeted. The 2010 budget proposes an additional \$2 million in savings compared to the 2009 forecast.

The cost saving measures reduced all funds and impacted all departments.

<u>Fund</u>	<u>09 Budget</u>	<u>09 Forecast</u>	<u>10 Budget</u>	<u>Difference</u>
General Fund	\$19.4M	\$18.3M	\$16.4M	-\$3.1M
Sewer Utility Fund	\$5.5M	\$5.1M	\$5.0M	-\$0.4M
Valley Creek Trunk Sewer Fund	\$0.7M	\$0.5M	\$0.7M	-\$0.1M
<u>Municipal Authority</u>	<u>\$1.2M</u>	<u>\$1.2M</u>	<u>\$0.9M</u>	<u>-\$0.2M</u>
TOTAL OPERATING	\$26.9M	\$25.1M	\$23.1M	-\$3.8M

<u>Activity</u>	<u>09 Budget</u>	<u>09 Forecast</u>	<u>10 Budget</u>	<u>Difference</u>
Police	\$8.1M	\$7.7M	\$7.1M	-\$1.0M
Fire & Ambulance	\$1.0M	\$1.0M	\$0.9M	-\$0.1M
Public Works	\$11.2M	\$10.2M	\$9.6M	-\$1.6M
Libraries	\$2.2M	\$2.1M	\$1.8M	-\$0.4M
Development Regulation	\$0.9M	\$0.8M	\$0.8M	-\$0.2M
<u>Administration</u>	<u>\$3.5M</u>	<u>\$3.3M</u>	<u>\$2.9M</u>	<u>-\$0.6M</u>
TOTAL OPERATING	\$26.9M	\$25.1M	\$23.1M	-\$3.8M

Some of the savings are inherently temporary, and a reaction to the economy that is expected to keep revenue from the transfer tax and local services tax fairly flat. For example, no vehicles or equipment will be purchased in 2010. Obviously, that is not sustainable long term. A thorough analysis of needs, cost effective solutions and all possible revenue for vehicles and equipment will be undertaken in 2010 to plan for future uses and funding.

2010 CAPITAL BUDGET SUMMARY

The capital budget for 2010 includes construction projects for streets (including stormwater drainage), libraries and sewer. It is almost \$1 million higher than the 2009 budget due to planned sewer projects. The projects will be funded from grants, a small amount of bonds, and sewer capital reserves.

	<u>09 Budget</u>	<u>09 Forecast</u>	<u>10 Budget</u>	<u>Difference</u>
General Fund	\$6.6M	\$3.0M	\$5.0M	-\$1.6M
Sewer Utility Fund	\$1.0M	\$0.9M	\$1.7M	\$0.7M
Valley Creek Trunk Sewer Fund	\$0.4M	\$0.3M	\$2.8M	\$2.4M
Municipal Authority (sewer bonds)	<u>\$0.6M</u>	<u>\$0.4M</u>	<u>\$0</u>	<u>-\$0.6M</u>
	\$8.6M	\$4.6M	\$9.5M	\$0.9M

	<u>09 Budget</u>	<u>09 Forecast</u>	<u>10 Budget</u>	<u>Difference</u>
Streets	\$1.6M	\$1.2M	\$1.1M	-\$0.5M
Sidewalks	\$3.2M	\$0.4M	\$2.8M	-\$0.4M
Stormwater	\$1.2M	\$0.5M	\$0.9M	-\$0.3M
Sewer	\$1.8M	\$1.5M	\$4.4M	\$2.6M
Parks & Trails	\$0.5M	\$0.4M	\$0	-0.5M
Libraries	\$0.1M	\$0.5M	\$0.3M	0.2M
<u>Twp Bldg</u>	<u>\$0.2M</u>	<u>\$0.1M</u>	<u>\$0</u>	<u>-0.2M</u>
TOTAL	\$8.6M	\$4.6M	\$9.5M	\$0.9M

The five-year capital plan continues to be ambitious, but has been streamlined considerably compared to prior years. The plan now more accurately reflects estimates for capital funding during the next five years, expected construction timelines and available staff resources.

GENERAL FUND

Operating

The general fund is the largest operating fund. It has received a great deal of attention in 2009 due to the discussion about the structural deficit. In the 2010 proposed budget, it is almost \$2 million less than 2009 forecasted spending and \$3 million less than the 2009 budget. Staff reductions account for half of the savings. Twenty positions have been eliminated through attrition and layoffs, which will save \$1.5 million in 2010 versus the 2009 budget. The other savings are spread throughout almost every other account, from utilities and insurance to supplies and consultants.

The general fund pays for the police department, fire company contributions, library staff and contribution, infrastructure and park maintenance, development regulation, and administration. Taxes, fees, and other unrestricted revenue fund the operating expenses in the general fund. Increased fees for permits and programs are proposed in the 2010 budget, but there are no changes in tax rates.

<u>Source</u>	<u>2010 Budget</u>	<u>%</u>
Real Estate taxes	\$7.9M	49%
Other taxes	\$4.3M	26%
Fees	\$2.1M	12%

Grants	\$1.5M	9%
<u>Other</u>	<u>\$0.6M</u>	<u>4%</u>
General Fund operating	\$16.4M	100%

In 2009, effort was made to optimize collection of local services tax revenue and fees for service. In 2010, general fund operating revenue must continue to receive scrutiny and analysis. If no new acceptable sources or increased amounts of revenue can be found, then operating expenditures will have to remain constrained.

A five-year projection for the general fund is included with the budget. Years 2-5 include a 5% real estate millage rate increase as a proxy for new revenue. Revenue estimates anticipate some economic rebound, but are conservative given the current economic uncertainties. Expenditure estimates also are conservative, anticipating no new initiatives and only cost increases in excess small levels of inflation that could be beyond the Township’s control, such as the lifting of the rate cap for electricity in 2011.

Capital

Tredyffrin received two federal grants for over \$3 million through the American Reinvestment and Recovery Act (federal stimulus funds) for sidewalk construction around Conestoga High School and T/E Middle School and drainage improvements in the Valley Hills neighborhood in Paoli. Both projects will be constructed in 2010. The Township also received a federal appropriation to analyze options for widening Route 252 under the Amtrak railroad bridge by Route 30 in Paoli, and expects to receive federal and state funding to begin designing road improvements around the Paoli train station. More than 90% of the general fund capital budget comes from grants in 2010.

<u>Projects</u>	<u>10 Budget</u>	<u>Funding Source</u>
Streets	1.0M	GF: Federal/state Paoli grants, PA liquid fuels funding
Sidewalks	2.8M	GF: Federal ARRA grant
Stormwater	0.9M	GF: Federal ARRA grant, bonds
<u>Library</u>	<u>0.3M</u>	<u>GF: bonds</u>
TOTAL	5.0M	

SEWER UTILITY FUND

Operating

The sewer utility fund pays for the Township’s operation and maintenance of the sanitary sewer system, traffic signals and street lights. The operating fund has decreased almost \$400,000 versus the 2009 forecasted spending.

Ninety percent of the operating revenue for the sewer utility fund comes from the sewer utility fee. For the most part, revenue from the fee remains steady unless there is new development. That fee has not been raised since 1989. The 2010 proposed budget includes a fee increase

that would raise the base fee (which each single-family home pays and on which commercial fees are based) from \$200 to \$250 per year. Even with the increase, the fee will be one of the lowest sewer rates in the area.

A five-year projection for the sewer utility fund is included in the budget. Depending on development levels going forward and the success of cost containment measures, additional sewer fee increases may be necessary during that period.

Capital

A couple sizable sewer projects for which Tredyffrin shares responsibility will be underway in 2010. First, as part of the sanitary sewer system, the Township must contribute to upgrades or expansions of the treatment plants to which Tredyffrin's sewage is conveyed. In 2010, \$500,000 is budgeted for Tredyffrin's share of design costs for an upgrade and expansion of the Valley Forge Sewer Authority.

The Township also must pay for its share of the operation of the Valley Creek Trunk Sewer. In 2010, the Wilson Road Pump Station, one of the largest pump stations in the area, will be upgraded and expansion. Tredyffrin's share of constructions is expected to be almost \$900,000.

With over 100 miles of pipes and over 2,000 manholes in the Township's sewer system, every year there are sections that need to be repaired or replaced. In 2010, \$100,000 is budgeted for that.

Finally, \$100,000 is budgeted for a new traffic signal to be installed at the intersection of Old Eagle School Road and Strafford Avenue, near the Strafford train station, from the sewer utility fund operating reserves.

Funding for capital sewer projects comes from tapping fees from new sewer connections, which can only be used for capital sewer projects. While new revenue from tapping fees is expected to be light in 2010 due to limited development or new business activity, there are sufficient capital reserves from prior year tapping fees to pay for the 2010 capital sewer projects.

VALLEY CREEK TRUNK SEWER FUND

Operating

This fund pays for the operation and maintenance of the Valley Creek Trunk Sewer, a sanitary sewer conveyance system run by Tredyffrin Township. It conveys sewage from East Whiteland, Easttown, Willistown, Charlestown and Tredyffrin Townships and Malvern Borough to the Valley Forge Sewer Authority Treatment Plant. Each municipality (either through the township or borough itself or an authority) contributes to the operating costs. In 2010, the budget includes an operating contingency, as required by the agreement among the municipalities.

The Valley Creek Trunk Sewer operating fund in 2010 is proposed to be less than \$700,000, more than \$70,000 less than the 2009 budget.

Capital

The increase in capital funding in the Valley Creek Trunk Sewer Fund is due to the Wilson Road Pump Station project. The total cost of the project is paid out of this fund, through contributions from all of the participating municipalities, including Tredyffrin.

TREDYFFRIN TOWNSHIP MUNICIPAL AUTHORITY

The Municipal Authority is a financing authority. It owns the sanitary sewer system, which the Township leases and is responsible to maintain. The lease payment from the Township to the Municipal Authority pays for the debt service for sewer bonds issued by the Municipal Authority. As of 2009, all proceeds were used from those bonds. These bonds will be paid off in 2019.

The Municipal Authority also assesses a fee for a commercial district around Route 202 that pays for debt service for highway bonds issued by the Municipal Authority. As of 2008, all proceeds were used from those bonds. These bonds will be paid off in 2018.

The 2010 budget is \$250,000 less than 2009 due to a scheduled reduction in repayment of the sewer bonds.

There is no capital funding in 2010 from the Municipal Authority.

CONCLUSION

The Township continues to remain on sound financial footing. Moody's confirmed that fact recently when it reaffirmed the Township's Aaa credit rating as part of a bond refunding process. Although they noted that the Township had drawn down reserves the last couple years, they credited the steps taken to reverse that trend and the fact that the Township still has decent reserves for the decision to retain the highest possible credit rating.

It would be prudent for the attention focused on the budget during 2009 to continue in 2010. Operating revenue is projected to remain relatively flat in both the general fund and sewer utility fund. For these budgets to be balanced in the future, the Township must remain committed to very careful spending and to exploring and maximizing funding sources to pay for increasing expenses.