



TREDYFFRIN TOWNSHIP MEMORANDUM

TO: Board of Supervisors
FROM: Joseph F. DiRocco, CPA, Director of Finance
William F. Martin, Township Manager
SUBJECT: 2018 Preliminary Budget
DATE: November 1, 2018

The Township Administration respectfully submits the 2018 Preliminary Budget and the 2018-2022 Capital Improvement Plan. The budget provides the appropriations for the General Fund, the Sewer Fund, Valley Creek Trunk Sewer as well as the 2018-2022 Capital Improvement Plan (CIP). This Preliminary Budget as presented includes no tax increase for the fifth consecutive year.

The objectives in developing this year's budget were the same as they have been every year; to maintain current outstanding levels of service, continue to find funding for vital community priorities such as Fire and EMS funding and to be prudent in our revenue and expense estimates while continuing to be cautiously optimistic overall.

Another continuing trend that is maintained in this year's budget is the use of Township reserves to balance the budget. This year's budget is balanced by using \$1,183,585 or 5.77% of operating expenses. This amount exceeds the limit outlined in the Township's Fund Balance Policy (allows up to 5% of operating expenses) and will consequently require the Board of Supervisors to vote to approve exceeding the amount.

Over the last five years the budgeted use of reserves has almost doubled and will continue to increase as we do not predict any considerable growth in regular recurring revenues. On a positive note, while we have budgeted to use reserves in each of the last four budgets, we have not had to use any, for example, revenues other than Real Estate Taxes exceeding and outperforming budget while also finding savings and efficiencies on the expense side.

One shortfall of this budget is that it still does not address the need for consistent funding for our Capital program. The Township still needs to further address our OPEB (Other Post-Employment Benefits) and Pension liabilities.

The Preliminary Budget as presented provides the outline for operations in 2018.

General Fund

This year (2017), general fund operating revenue is forecasted to be \$2,007,200 more than the budgeted amount mostly due to better than anticipated transfer taxes and building permit revenue. General fund expenditures are forecasted to be \$49,255 under budget. Savings in Salaries and Benefits more than offset other areas that are projected to come in over budget. The main reason for such savings are due to some retirements in the Police Department and we are projected to use less deductible with our health insurance than budgeted. The 2017 budgeted surplus was \$90 and when grouped with our operating results we are expecting to finish 2017 with a surplus over \$2,050,000.

2018 Operating Budget

Revenues

As previously stated, the 2018 Preliminary Operating Budget does not include a tax increase. From 2012-2016 and projected into 2017 we have outperformed the budgeted revenues significantly. Due to this outperformance we feel that we are able to make less conservative assumptions in certain key revenue line items in the 2018 Preliminary Budget, specifically in Real Estate Transfer Taxes and Building Permit revenue. We have increased the budgeted Real Estate Transfer Tax revenue by \$500,000 and Building Permit revenue by \$150,000. We have also included \$200,000 in developer contributions which is only expected to occur next year. When combined, these are some of the factors we used to help offset the need for a tax increase. With revenues at an all-time high, we remain cautious about maintaining current levels in the upcoming years. We do not expect to see much more growth in regular recurring revenues going forward.

Leading Economic Factors

Several factors have contributed to the steady financial condition of the Township. Some of the most significant highlights include:

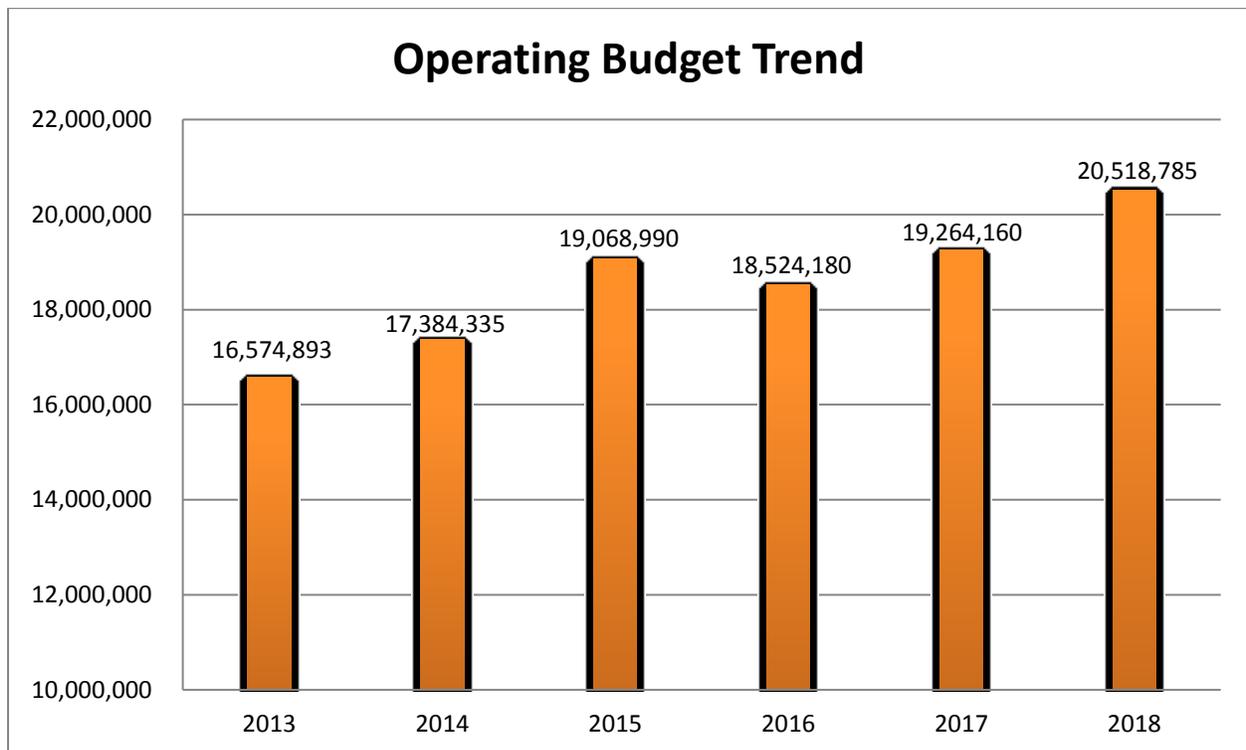
- **Assessed Valuation for the Township:** We are again expecting to see that the real estate tax assessment grow when compared to the prior year. At the end of September the assessment had increased 1.10% since the beginning of the year. We are seeing a steady mix of construction on both residential and commercial properties which are a major cause for the increased assessment. Owners pay real estate tax based on their properties assessed value, as determined by Chester County. The millage rate is applied to the assessed value (not the market value) of properties. In Tredyffrin, the average residential assessed value is \$224,465. With no tax increase proposed for 2017, the average tax amount would be approximately \$534.
- **RE Transfer Tax Revenue:** A strong local economy has continued to aid in the growth in real estate transfer tax revenues. With a few new residential developments in Paoli, Berwyn and Chesterbrook we are expecting to continue the growth in transactions into

2018. We are also expecting to see continued turnover of commercial property as redevelopment of many of those properties continues.

- **Building Permit Revenue:** We continue to see a steady flux of permit revenue, which is really driven by the reinvestment in commercial properties. The Planning and Zoning Department continues to see large numbers of permits which is reflective of a strong economy. The 2018 Preliminary Budget reflects the anticipation of continued commercial and residential development around the Township.

Expenses

As shown above in the Operating Budget Trend, the budget is slated to increase by \$1,254,625 in 2018. Salaries, which includes our contractual obligation to our three unions (Police – 3.5% increase, MEA & AFSCME – 2.5%) are expected to increase \$134,600 over the 2017 budget. A positive, although still an increase, is that our health insurance premiums are only increasing 3.86% or \$244,900 as compared to the 9.3% increase in 2017. Another driving factor is the increase in the Township’s MMO (Minimum Municipal Obligation). Due to the decrease in the assumed interest rate of return on the Police Pension (7.5% to 7.25%), the Township’s MMO is increasing \$373,200. An important note is that some of the Pension Contributions that the Township makes are covered by State Aid. OPEB funding has also increased in this budget by \$75,000 to \$725,000. The Township has remained committed to increasing its OPEB funding with every new officer that is hired. Another key increase are the increased contributions to our Fire Companies. In total, the Township’s contributions will increase \$120,000 or 12.6% over last year.



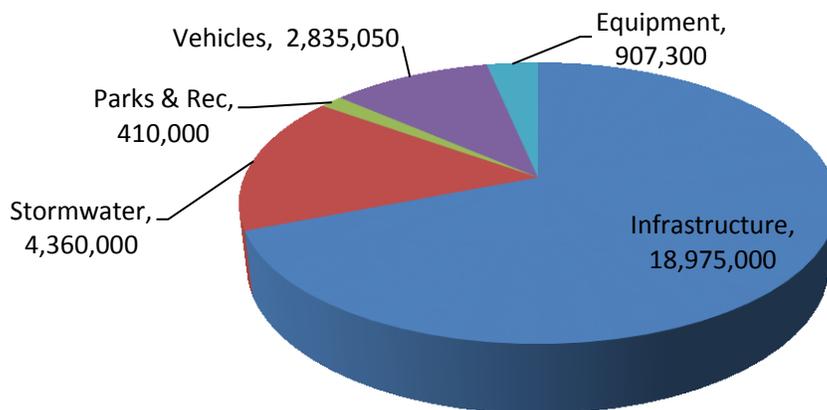
Containing costs

Non-personnel costs amount to approximately 27% of the general fund budget. Approximately 44% of the non-personnel costs are due to debt service (\$1,715,600) and contributions to the fire companies (\$673,900) and libraries (\$76,900). As stated above, this will be the fifth straight year without any tax increase and the ninth without an increase for the day to day operations. This budget does allow for general increases in operating expenses to help the day-to-day operations.

2018-2022 Capital Plan

The proposed 2018-2022 Capital Plan, as presented, reflects \$27.5 million dollars. The newest objective included in the plan is the mandatory work required with the Townships MS4 Permit through PADEP. This represents \$3.5 million over the five-year plan. The plan also has a continued focus on upgrading all our own infrastructure needs. The Township has \$18.975 million dollars for infrastructure related projects, which includes \$5.5 million for the paving of the Township roads, \$5.5 million for the redesign of the Township's pump stations, \$3.7 million for the Howellville Road Bridge, \$3.5 million mentioned above for MS4 and over \$1 million in storm water projects.

The Township will be continuing the program to replace aging equipment and vehicles while ensuring improved efficiency with the new replacements. Each Department goes through a rigorous review and evaluation of their needs over five years. An increased investment into the Public Works and Sewer fleets are included and total over \$2.8 million.



As in our prior submissions, this plan is aggressive. Staff remains optimistic to accomplish multiple projects each year even as history has proven this hard to accomplish. The need to address long-term needs of infrastructure, stormwater and equipment is essential to our operational requirements. However, \$7.97 million dollars comes from State grants to supplement the programs and initiatives. Cooperation with our governmental partners enables us to secure additional funding that will allow us to reduce the costs to our residents. The plan does include \$18.86 million of Township funds (\$12.22 from the General Fund and \$6.64 from

the Sewer Fund). Without any new source of funding there remains doubt about the ability to complete the projects due to the limited amount of funds available in Capital Reserves.

Planning for 2018 and Beyond

The Township continues to be in the fortunate position where revenues have exceeded expenses over the last several years. The Township continues to operate in a strong financial position which comes from efficient operations and an engaged Board of Supervisors. We continue to lead the region with our low tax burden which is impressive considering we continue to rely on our real estate taxes as our largest source of revenue.

As we stated above, we are now exceeding our limits in our fund balance policy. We have increased revenues where we could to offset the amount of reserves that we will need to use but as we have stated in previous years it is becoming increasingly difficult to balance out the increase in expenses with increases in revenue. We continue to try and hold the line as much as possible to get us to the 2022 Budget where the Township can be completely debt free and will be able to reallocate those funds to other operating line items.

We will continue to advocate for Capital Reserve funding in our budget but understand that our current operating environment does not allow us to allocate any funding in the budget to Capital Reserves.

The 2018 budget is balanced and provides the needed resources to meet our obligations to our residents. The challenges remain on the horizon and the question remains how to plan for and address them.

Completing the 2017 Budget Process

The presentation of the draft budget starts the formal part of the budget process. On November 20, 2017 the Board of Supervisors, by law, must adopt a Preliminary Budget. Staff, along with members of the Board's Finance Committee will hold a "Budget Open House" to answer specific questions from members of the Public. After discussions during the first meeting in December, the Board will officially adopt the 2018 Budget on December 18, 2017.