



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 7, 2018

The Township Administration respectfully submits the 2019 Preliminary Budget and the 2019-2023 Capital Improvement Plan. The budget provides the appropriations for the General Fund, the Sewer Fund, as well as the 2019-2023 Capital Improvement Plan (CIP). This Preliminary Budget, as presented, proposes a tax increase of 3.6%.

This budget includes some new initiatives such as opening the Tredyffrin Public Library 7 days a week starting in July as well the hiring of 3 employees in Public Works to help handle the requirements of the MS4 program. We continue to maintain current outstanding levels of service and continue to fund 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 \$1,620,325 or 7.5% of operating expenses. This amount is the maximum amount allowed under our fund balance policy. This represents an increase of \$619,195 over the 2017 Budget.

While we continue to rely on the use of reserves to balance the budget, we have not had to actually utilize those reserves due to revenues such as Real Estate Transfer Taxes and Building Permit Revenue far exceeding budgeted amounts. That trend is projected to end in FY2018, by projected utilization of \$38,906 in reserves. As always, staff is directed to find ways to achieve budgetary savings in all phases of operations.

While we have not had to utilize the reserves we must carefully consider expanding their use beyond current levels. We have to consider impacts that continued use could mean in the next 5 to 10 years. We need to consider that we still have significant liabilities that need to be funded, such as the Police Pension, whose unfunded liability as of 12/31/17 was approximately \$6.5M. We also have a significant unfunded OPEB liability of approximately \$31M. We must also consider funding for capital projects, vehicles and equipment. Finally, we must also consider the impact of continued use of reserves on our Aaa Bond Rating.

The Preliminary Budget as presented provides the outline for operations in 2019.

General Fund

This year (2018), not including budgeted/projected use of reserves, the general fund operating revenue is forecasted to be \$760,725 more than the budgeted amount, mostly due to better than anticipated transfer taxes. As mentioned above, we are expecting to utilize \$38,906 in reserves while we budgeted using \$1,001,130. General fund expenditures are forecasted to be \$201,499 under budget. While there are expected budgetary savings almost across the board, the biggest savings came from salaries (\$73,942) which helped offset the additional \$80,525 in expenditures over budget in supplies.

2019 Operating Budget

Revenues

As previously stated, the 2019 Preliminary Operating Budget proposes a 3.6% tax increase. We also revised our fund balance policy during the year to increase the allowable use of reserves from 5% to 7.5%, which this budget fully utilizes. We have increased the budgeted Real Estate Transfer Tax revenue by \$175,000 due to budget outperformance again. We held the building permit revenue steady at \$1,900,000. Our real estate tax continues to be the steadiest source of revenue and before considering the tax increase, the assessed valuation increased over 1% which translated to an additional \$100,000 in revenue. We continue to caution that with budgeted revenues such as transfer taxes and building permits at all-time highs, the impact on missed revenue projections could be severe. We expect that due to economic cycles, those revenue lines could decrease beginning next year.

Leading Economic Factors

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

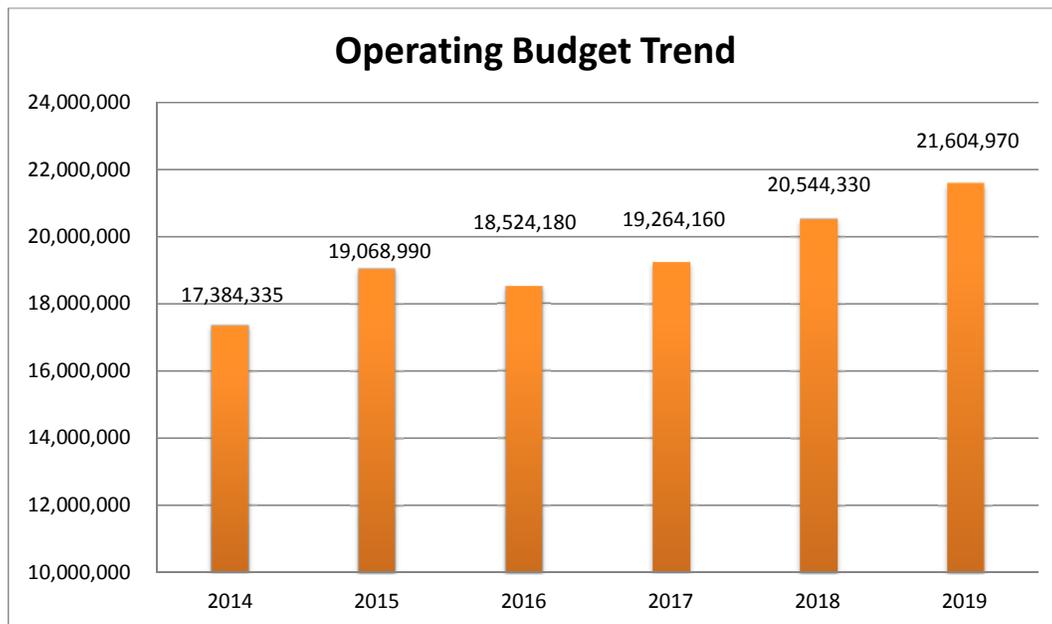
- **Assessed Valuation for the Township:** We are again expecting to see the real estate tax assessment grow when compared to the prior year. At the end of September, the assessment had increased 1.27% since the beginning of the year. We are seeing a steady mix of construction on both residential and 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 2018, the average residential assessed value is \$227,107. With the proposed tax increase, the average Township tax bill would be \$560. With no tax increase, the average tax amount would be approximately \$541.
- **RE Transfer Tax Revenue:** A strong local economy has continued to aid in the growth in real estate transfer tax revenues. We still have one major residential development which

we expect to see some activity from starting in 2019 as well as expected sales of some commercial properties in Chesterbrook.

- **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 2019 Preliminary Budget reflects the anticipation of continued commercial and residential development around the Township.

Expenses

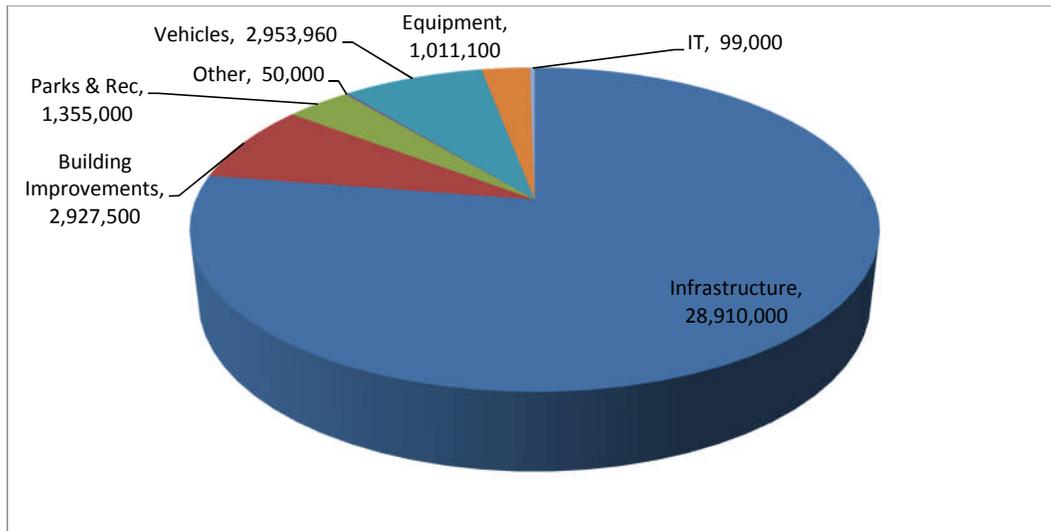
As shown above in the Operating Budget Trend, the budget is slated to increase by \$1,060,640 in 2019. Salaries, which includes our contractual obligation to our three unions (Police – 4% increase, MEA & AFSCME – 2.5%) are expected to increase \$471,500 over the 2018 budget. Included in that increase are additional staffing in our public works department (3) to handle the requirements for the MS4 program and an additional employee at our Tredyffrin Library. The increase in full-time staff salaries is \$89,000 due to deferred hiring until July 1. We have also increased the budget for part-time staff, both in public works (+\$8,100) and at Tredyffrin Library (+\$41,000). Health insurance premiums are set to increase 4.52%, the impact on the General Fund is \$206,800. Of that, \$89,000 represents the cost for the additional staff. Pension expenses have increased \$49,050 to \$1,613,950 for the General Fund. 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 \$25,000 to \$750,000. The Township has remained committed to increasing its OPEB funding with every new officer that is hired. We also increased funding to our fire companies by \$31,200 which represents a 3.04% increase in Township contributions.



2019-2023 Capital Plan

The proposed 2019-2023 Capital Plan, as presented, reflects \$37.3M dollars. Next year the focus is really on infrastructure, specifically Township bridges. Included in the capital plan is \$4.7M, designated to Howeville Road, Drummers Lane, and Richards Road. In addition to next year, there is another \$4.55M in the capital plan for other Township bridges. Due to stress on bridge work next year as well as unknowns with the MS4 program and staff capacity, we have delayed further stormwater work until 2020. The MS4 program still represents \$3.5M over the five-year plan. Overall, the Township has \$29.9M dollars for infrastructure related projects, which includes \$5M for the paving of the Township roads, and \$8.5M for the redesign of the Township's pump stations. We have also placed an emphasis on our aging equipment in our parks and are planning a strategic replacement of that equipment as well as other upgrades in our parks, which totals \$1.36M in our capital plan.

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 \$4.06M. Included in that is \$690k in 2019 for a combination vac/flush Truck and an additional street sweeper for the MS4 program.



As in our prior submissions, this plan is aggressive. Staff remains optimistic to accomplish multiple projects each year even as history has proven this can be difficult. The need to address long-term needs of infrastructure, stormwater, and equipment is essential to our operational requirements. However, \$8.1M 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 \$28.9M of Township funds (\$17.8 from the General Fund and \$11.1 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 2019 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.

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 2019 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 2019 Budget Process

The presentation of the draft budget starts the formal part of the budget process. On November 19, 2018 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 on November 29, 2018, in Keene Hall. After discussions during the first meeting in December, the Board will officially adopt the 2019 Budget on December 17, 2018.