TO: Board of Supervisors
FROM: Joseph F. DiRocco, CPA, Director of Finance
William F. Martin, Township Manager
SUBJECT: 2020 Preliminary Budget
DATE: November 6, 2019

The Township Administration respectfully submits the 2020 Preliminary Budget and the 2020-2024 Capital Improvement Plan. The budget provides the appropriations for the General Fund, the Sewer Fund, as well as the 2020-2024 Capital Improvement Plan (CIP). This Preliminary Budget as presented proposes a tax increase of 3%.

This budget provides funding and resources to meet the needs of our residents. It includes the hiring of 1 new employee, a Sanitary Sewer Engineer and kept the funding for 3 employees in Public Works to help handle the requirements of the MS4 program. There is additional funding for Paoli Fire Company to move into providing Advanced Life Support services in 2020 which will provide a great additional service for our residents. We also continue to increase financial support for all our emergency responders.

While we continue to budget the use of reserves to balance the budget, that number will be at its lowest point since 2013. The preliminary budget reflects using $522,910 in reserves which complies with our Fund Balance Policy in terms of slowly using the accumulated reserves in a prudent manner over time to achieve the goals set by the Board of Supervisors. We will be utilizing an additional $1,716,600 from reserves to offset the debt service from the 2012 General Obligation Bonds, this will remain in the budget until the debt is fully extinguished in 2021. The use of these reserves will require the Board of Supervisors to vote to approve the excess use above our Fund Balance Policy.

Calendar year 2019 is projected to be another strong year with Real Estate Transfer Taxes Revenue to far exceed budgeted amounts. We had some very large transfers driving this excess revenue. Looking ahead, we are keeping the budgeted amount of revenue the same for 2020 but should caution that in years ahead the revenue projection will need to decrease. Building permit revenue is expected to meet the budget for 2019 at $1,900,000 due to some large commercial projects. For 2020, the budget will remain flat due to expected commercial and...
residential development. Like Transfer Tax Revenue, we caution that budgeted revenue in the future will need to decrease.

While we had another excellent year in terms of revenues and expenses, we still have significant liabilities that need to be funded, such as the Police Pension, whose unfunded liability as of 1/1/19 (most recent actuarial valuation date) sits at $5.6M. We also have a significant unfunded OPEB liability of approximately $22.7M. These liabilities must continue to be addressed for the long term. In addition, we continue to stress the importance of securing long term and sustainable funding for capital items such as infrastructure and stormwater. There is increased pressure to specifically address stormwater which may require developing a unique and distinct funding alternative.

The Preliminary Budget as presented provides the outline for operations in 2020.

**General Fund**

This year (2019), the Township budgeted to use $1,620,595 out of reserves, due to positive results, we are not forecasting to utilize any, we are forecasting over a million-dollar surplus. As mentioned above, real-estate transfer tax revenue was exceptionally large this year, mainly due to the sale of the all the Pitcairn Properties in Chesterbrook, which generated over $1M in revenue. We also had several other commercial properties sell which is the main factor behind the forecasted revenue of $7.1M. In addition, we continue to see growth in employment within the Township and are forecasting local services taxes to exceed the budgeted amount. Within expenses, we are expecting to come in just under budget.

**2020 Operating Budget**

**Revenues**

As previously stated, the 2020 Preliminary Operating Budget proposes a 3% tax increase which translates to an additional $262k of revenue. Both transfer tax and building permit revenue were kept the same for 2020. 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 soon.

**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:** Over the last couple of years the assessed valuation of the Township has grown by about 1% per year. These gradual but steady increases help to increase revenue, looking forward we expect this trend to continue. 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 2019, the average residential assessed value is $228,572. With the proposed tax increase, the average Township tax bill would be $571. With no tax increase, the average tax amount would be approximately $555.

- **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 throughout the Township.

- **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 2020 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 $1,019,290 in 2020. Salaries, which includes our contractual obligation to our three unions (Police – 4% increase, MEA & AFSCME – 2.5%) are expected to increase $540,000 over the 2019 budget. Included in that is $21,730 to cover the additional salary cost for the additional employee hired at the Tredyffrin Library. We have also increased the budget for part-time staff at Tredyffrin
Library by $15,000. Pension expenses have increased $478,100 to $2,130,850, mainly due to an increase of $417,138 for the Police Pension. An important note is that some of the Pension Contributions that the Township makes are covered by State Aid. The Budget also includes the estimated debt service for the 2019 General Obligation Bonds which amounts to $225,000. We also increased funding to our fire companies by $166,000 which represents a 15.8% increase in Township contributions.

**2020-2024 Capital Plan**

The proposed 2020-2024 Capital Plan, as presented, reflects $48.5M dollars. For 2020, we continue to focus on infrastructure improvements, specifically Township bridges. Included in the capital plan is $4.7M, designated to Howeville Road, Drummers Lane, and West Valley Road. In addition to next year, there is another $3.7M in the capital plan for other Township bridges. A new addition to the capital plan is the engineering/design and construction of the Gateway Multi-Modal Study. Funding for this project totals $2.25M over the next five years. The MS4 program still represents $3.7M over the five-year plan. Overall, the Township has $37M dollars for infrastructure related projects, which includes $5M for the paving of the Township roads, and $12.5M 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 $2.6M in our capital plan, included in that is the updated Master Plan for Wilson Farm Park (2020). We are also planning to replace the HVAC system and roof at the Tredyffrin Library which is estimated to cost $500k.

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 $2.35M. Included in that is $805k in 2020 for a combination vac/flush Truck and an additional street sweeper for the MS4 program. One new initiative from the Police Department is the planned purchase of 2 Hybrid police vehicles in 2020. 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, $500k in funding comes from the US Grants, $9.6M 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 $30.6M of Township funds ($13.6 from the General Fund and $17 from the Sewer Fund). Without any new source of funding there remains doubt about the ability to complete the projects due to the limited about of funds available in Capital Reserves.

Planning for 2020 and Beyond

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. This budget allows for the transfer of $200k into the Capital Reserve which is an important step in being prepared for future expenses. We will continue to work with the Board of Supervisors to develop a long-term funding solution for our Pension and OPEB liabilities.

The 2020 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 2020 Budget Process

The presentation of the draft budget starts the formal part of the budget process. On November 18, 2019 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 26, 2019 in Keene Hall. After discussions during the first meeting in December, the Board will official adopt the 2020 Budget on December 16, 2019.