

TOWNSHIP OF LOWER MERION

Office of the Township Manager

MEMORANDUM

TO: President and Members of the Board of Commissioners

FROM: Ernie B. McNeely, Township Manager

SUBJECT: 2020 Budget Workshop - September 4, 2019

DATE: August 30, 2019

The Budget Workshop is the next step in the budget process intended to provide the Board of Commissioners (Board) with an initial look at departmental budget requests and to seek policy guidance to assist Township staff in preparing the Proposed 2020 Budget. The development of an annual budget is a team effort. The budget is the essential translation of the goals and objectives for the community into an action plan for the upcoming year. It is the Board that establishes the budgetary goals and objectives for the community, while the Township staff provides input to aid the Board in that process plus the technical ability to translate those objectives into action.

Once again, the Township's budget process kicked off in June with each department submitting a proposed budget to the Finance Department. A series of meetings in July and August were held where each department and division were required to review and justify their budget requests in addition to in-depth discussions on performance measures and goals for the new year. Budget revisions have already been made in all areas as a result of those meetings. The 2020 Budget numbers are still preliminary and will be further revised before the formal Proposed 2020 Budget submission in November. Currently, it is still difficult to detail the preliminary overall budget picture since the Township does not have its renewals for insurance yet and due to the expiring contract for the Workers Association (WA). However, the 2020 Budget submissions appear to largely reflect the recent General Fund Financial Forecast presented in July and it is possible that current services can be maintained in 2020 without the need for a tax increase which would be the ninth consecutive year without an increase to the real estate millage.

The Board has been provided with a Preliminary 2020 Budget Workbook that includes departmental organizational charts, goals and budget summaries. The departmental summaries include 2018 Actual, 2019 Budget, 2019 Estimated Actual and 2020 Requested Budget. The wages for 2020 are already established for the Fraternal Order of Police (FOP) members per the collective bargaining agreement reflecting a 3.75% increase. The WA contract negotiations are about to begin in earnest and will determine future wage increases across a large percentage of the organization. Given the uncertainty surrounding non-FOP wages in 2020, the current budget summaries reflect wages at 2019 levels. Township staff is planning to budget a contingency amount for potential WA contractual cost increases if there is not an agreement with the WA prior to the introduction of the Proposed 2020 Budget. The Board will still retain the ability to determine the appropriate wage increases for management and non-union employees. It may opt to wait until the conclusion of the WA negotiations to provide direction on this topic.

This year's Budget Workshop will follow a similar format as used last year. Presentations will be organized by functional area and will focus on 2020 objectives and any significant changes requested in the budget for the coming year. The presentations will also be designed to target policy questions and issues where Board direction will be helpful in crafting a Proposed 2020 Budget that will align with the Board's priorities. Not every department will make a full presentation to the Board at the Budget Workshop since some departments have very limited changes to operations planned; however, the Board will retain the ability to ask questions of any department.

The following are policy questions or issues that the Board is asked to consider, most of which will be addressed in the scope of the presentations. If the Board is not prepared to provide policy direction to staff at the Budget Workshop and requires more time or information to provide policy guidance, we plan to discuss these topics again at future Finance Committee meetings.

2020 Budget Policy Issues and Questions

Broad Policy Direction and Updates

The General Fund (GF) Financial Forecast projects a GF fund balance of \$21.6 million for January 1, 2020. As was the case last year, a portion of that fund balance (which at 32% is well over the fund balance policy target range of 15% to 18%) can be used to avoid a tax rate increase in 2020. Unless directed otherwise by the Board, Township staff will develop the Proposed 2020 Budget under the assumption that the Board wishes to maintain current service levels and avoid a tax rate increase in 2020 by use of a portion of the Township's GF fund balance.

The Township discussed its debt level at the Capital Improvement Program Workshop in June after it completed its bond issuances in May and June. There are no plans for additional debt issuance in 2019. Township staff will continue to monitor the Capital Projects Fund throughout the rest of the year and will address this topic again later this year at a future Finance Committee meeting. In addition, the Township will monitor the municipal market to identify additional opportunities to complete bond refinancings to reduce future outstanding debt service although nothing is anticipated until 2020 at the earliest.

Staffing Policy Direction

There are two requests for new full-time positions this year. The Police Department has a request for a new civilian position focused specifically on police IT issues that will be addressed by the Superintendent (see Exhibit B for more information). Also, the Fleet Division has requested an additional mechanic position to assist in the maintenance of all the Township's vehicles and equipment (see Exhibit C for more information). In addition, the Building & Planning Department has experienced some staff turnover in the past year and will present the Board with a minor restructuring of the Department that it believes will be more efficient and put the Department in the best position to provide necessary services in the future. Finally, there are two part-time staffing requests as detailed below:

- Libraries: With all six libraries open, staff believes there is a need to supplement existing library staff with some additional part-time hours. This would total approximately 40 additional hours per week and would cost \$50,200 annually.
- Parks & Recreation: Township staff has completed a survey of pay for pool lifeguards and is recommending a one-time adjustment to improve hiring and retention of lifeguards to keep the pools adequately staffed throughout the pool season. Township staff estimates this would cost an additional \$15,850 in 2020.

Pensions

As you recall, the Township will face a contribution requirement to the Township pension plans for the first time in 2019. The budgeted amount is \$608,240, with the final actual costs to be determined in October after the Township receives its pension state aid. This issue will be detailed at the October Finance Committee meeting. Looking forward to 2020, the Township will continue to have a pension contribution that it must make based on the preliminary actuarial valuations prepared by the Township Actuary. However, due to the actuarial smoothing methodology adopted by the Board in March 2018, the annual cost will be more modest, currently estimated at \$250,000. This estimate will also be revised and discussed at October's Finance Committee meeting. It is important for the Board to recognize that future pension costs are expected to rise. There were significant losses compared to the plans' assumed 7.2% rate of return that were incurred in 2018 due to the poor fourth quarter performance, and while smoothing is helping to moderate the Township's costs for 2020, there are additional costs that will need to be borne by the Township in future years.

In addition to the performance driven funding changes discussed above, the Township Actuary has recommended another update to the mortality tables which would further increase the Township's costs. Township staff is not recommending the Board adopt these revised mortality tables at this time, however, it is likely something that will need to be addressed in the near future which will put additional funding requirements on the Township. The Township has the option to adopt these new mortality tables, similar to its adoption of revised tables related to previous actuarial valuations. Overall projected pension costs for 2020 will be determined through the development of the Township's Minimum Municipal Obligation (MMO) for both pension plans, which will be submitted to the Board by the end of September.

Fire Company & Narberth Ambulance Funding

For the past six budgets, the Board has approved increases to the volunteer fire companies above CPI (the 2019 increase was 3%) since inflation has been low. The six fire companies have submitted 2020 budgets with requests for funding increases from the Township that range from 0% to 20% (four companies requested a 2% or 3% increase). Both the CPI and MCI (Municipal Cost Index) are positive through the first half of the year. The CPI has increased approximately 2% (based on June data) and the MCI is roughly 1.5% versus the previous year. Each one percent increase to the fire companies operating allocation totals \$3,337 to one fire company or \$20,024 to the Township overall. Township staff will discuss this issue during the Fire Department presentation.

Last year the Township transferred funding provided to Narberth Ambulance to the Fire Department budget. Narberth Ambulance was provided \$30,000 by the Township in 2019 to assist with their operations. Moving forward, Narberth Ambulance has requested the Township's assistance with its ongoing capital needs, specifically the purchase of two new ambulance every six years along with providing fuel for its emergency vehicles. Narberth Ambulance estimates the annual contribution by the Township would increase to \$92,400 to provide the support for the ambulance purchases. Providing fuel for Narberth Ambulances emergency vehicles would be an additional expense of roughly \$24,000 annually.

Non-Profit Budget Requests

There have been 15 requests submitted by non-profits for Township funding in 2020. This year's requests total \$102,282 compared to 11 non-profits funded at \$91,510 in the 2019 Adopted Budget. The policy on General Fund Contribution to Outside Agencies adopted in November 2014 set a maximum annual total of all contributions at \$120,000 (although the Board does have flexibility to adjust that amount). The Board will need to determine the recipient agencies and funding levels for 2020. A list of the requests (Exhibit A) has been provided to the Board and the Ad Hoc Contributions to Outside Agencies Committee will be scheduling a meeting to review and discuss the 2020 requests to make a recommendation to the full Board as part of the 2020 Proposed Budget.

Township Fee Levels

Township Departments annually review the rates for fee supported services for Board consideration and inclusion in the Township Budget. However, with the onset of the Fee Study, the Township will wait until that process is concluded to bring forward a list of fee revisions to the Board. While most fees will not be adjusted until after the conclusion of the Fee Study, there are two exceptions. First, later this year Township staff will bring forward a list of Parks and Recreation fee changes. These are not part of the Fee Study and do not need to be passed by ordinance, so the Township is planning to present these in November with the Proposed 2020 Budget.

Second, as part of its annual budget meetings Township staff discuss fee levels in all departments. As discussed previously, fee adjustments are opportunities to make real structural changes to the Township's budget that, when combined with other revenue and expenditure actions, will yield a more sustainable budget. The Township has not adjusted its commercial parking lot permit costs since 2009. The fee is currently \$210 for six months or \$35/month. Prior to the 2009 increase, the costs were \$180 for six months or \$30/month which was the rate for eight years (i.e., 2001 to 2009). Township staff is inquiring if the Board would favor an increase to \$240 for six months or \$40/month effective January 1, 2020. Since this fee has not been increased in over ten years, the proposed increase represents slightly more than a 1% annual increase since 2009. This modest fee increase would generate an additional \$42,600 annually based on the projected volume of commercial parking lot permit sales. This item will be discussed at the Budget Workshop to solicit feedback from the Board.