

Letter of Transmittal

October 27, 2020

To: New Hanover Township Board of Supervisors

Introduction

I am pleased to submit the proposed 2021 Budget for your consideration. The budget document consists of three sections:

Letter of Transmittal

The Letter of Transmittal is an overview of the budget in commentary form, generally referred to as the Budget Message. It is prepared to provide the Board of Supervisors, administrative staff, and Township residents with a narrative review of significant trends and factors affecting the proposed budget and highlight areas of importance in the financial section. It also contains a summary of program and service delivery, cash position, and revenue and expense projections.

Governmental, Special Revenue, Capital Project, Enterprise and Fiduciary Fund Budgets

The proposed 2021 Budget consists of 13 funds detailing the projected revenues and proposed expenditures for the coming year in line item format. A three-year history of actual (audited) revenues and expenditures and year-end estimates for the current year indicate trends and beginning and ending fund balances show cash position. A separate summary for the General Fund by revenue and expense category provides a snapshot of the Township's largest operating budget, and a summary of the 13 funds provides a broad financial picture of the organization.

Supporting Data (Budget Schedules)

The Supporting Data (Budget Schedules) offer an additional level of detail for specific line items in each operating budget. This information provides the Board of Supervisors and administrative staff with a detailed understanding of specific budget appropriations. Where supporting data is available, an alphabetical index provides easy reference to the supporting details. This information assists in further understanding the cost of Township services and provides more meaning to the budget projections, particularly when considering cost-cutting alternatives or forecasting revenues.

The proposed budget results from an analysis of trends in revenues and expenditures from prior years, a detailed review of individual line item projections, an evaluation of programs and services, and current economic conditions. Allocating resources in the most efficient manner is also important in maintaining accustomed service levels and providing needed capital improvements.

This budget design provides information at various levels of detail as described above to promote an understanding and evaluation of Township services from a financial perspective.

The Budget Format

The budget is prepared in a line item format using the Pennsylvania Chart of Accounts for local governments published by the state Department of Community and Economic Development (DCED). This format provides uniformity of account numbers and titles across department budgets and operating funds. Uniformity in the budget format and consistency in posting revenues and expenditures to the line item accounts allows the Administration and Department Directors to monitor variations in budget appropriations during each fiscal year and from year to year. It simplifies review of monthly financial statements and translates to improved accuracy in accounting and budgeting.

The proposed budget continues the practice of separating operating and capital funds. Detailing these services in separate funds allows the costs for these government functions to be easily identifiable, providing the Board of Supervisors and Township residents with a clear picture of how the Township allocates resources for its program of service delivery. Separating capital appropriations from operating revenues and expenditures also eliminates variations in government operating appropriations from year to year caused by one-time capital expenses.

Governmental Funds included are for general government (General Fund); Special Revenue Funds included are for fire and rescue services (Fire Protection Fund), open space preservation (Open Space Fund), transportation improvements (Transportation Impact Fund), parks and recreation services (Recreation Fund) and state highway aid allocations (Liquid Fuels Fund). Capital Project Funds are outlined per the following detail:

- Capital appropriations for general purposes are budgeted in the Capital Reserve Fund. Interfund transfers from the General Fund and other revenue dedicated for capital projects provide funding for proposed capital purchases or improvements.
- Capital appropriations for road equipment purchases are budgeted in the Road Equipment Capital Fund. Funding for these appropriations is funded through a dedicated millage.
- Capital appropriations for parks and recreation purposes are now budgeted in the Recreation Capital Fund. Funding for these appropriations can be from a variety of sources including interfund transfers, grants, and impact fees.

Also included are Enterprise Funds, which account for sewer-related services and funded through rates established by the Township-appointed Municipal Authority Board (Sewer Operating Fund and Sewer Capital Fund); and Fiduciary Funds, an internal accounting of our pension funds (Police Pension Fund and Non-Uniformed Pension Fund)

In the General Fund, the *Result from Operations* (page 3) represents the difference between annual revenues and expenditures before interfund transfers for capital appropriations or appropriations to other operating budgets.

This budget format has standardized the accounting function and simplified the budget preparation process. I believe our budget format provides sufficient detail for readers to understand revenues and expenditure appropriations from year to year and the broad overview of Township government financial operations necessary for contemplative analysis.

Budget Highlights

Following are highlights of the proposed 2021 Budget:

The proposed budget maintains current tax rates.

There is no proposed real estate tax increase for the 2020 fiscal year. This will be the 15th year in a row that taxes have not been increased; we reduced them by 5% in 2019.

At the current tax levy of 1.587 mills, real estate taxes for a home assessed at the average assessment value of \$152,334 would pay \$242 per year, or about \$20 per month for Township services.

There are no new staff positions in the proposed budget.

Present staffing levels are adequate to maintain Township services and there are no new positions or staff reductions proposed in the 2021 Budget. Unless the Board of Supervisors adds additional programs or services, additional staffing is not necessary; however, changes or reassignment of duties among existing employees may occur.

The proposed budget maintains municipal services at current levels.

Operating appropriations in the proposed 2021 Budget will allow the Township to continue its stabilization as a municipality while increasing our standard of service expected by our residents.

The appropriations support accustomed levels of police, maintenance of public roads and rights-of-way, recreation services and programs, park maintenance, and sanitary sewer implementation. Appropriations also include debt payments on outstanding bank notes and funding for certain infrastructure improvements and capital equipment purchases.

Capital appropriations maintain infrastructure and equipment.

The Management Team revises the 10-year Capital Improvement Plan annually, which serves as a guide when programming capital appropriations. The plan is included under Schedule H of the Budget and forms the basis for proposed capital appropriations.

Proposed capital appropriations under the Capital Reserve Fund include funds for an architect, civil engineer, construction management, financial advisor and for other costs associated with our Administration and Police Department Renovation Project; engineering, permitting and hard costs related to a new structure to hold salt for snow storms; hard costs to replace the roof and side doors on a storage shed; a storage shed to house storage currently at the Recreation Center; improvements to the bridge at Rosenberry Road over West Branch of Swamp Creek; and body cameras and two replacement vehicles for the Police Department.

Proposed capital appropriations under the Recreation Capital Fund include a new filter for the pool and replacement concrete pads on the pool deck at Hickory Park; a storage shed to house storage currently at the Recreation Center and installation of a trail along Dotterer Road near Windlestrae Park, pending grant approval.

Proposed capital appropriations under the Road Equipment Capital Fund include a track skid steer loader and a skid steer bucket, a sweepster broom and a tilt coupler as accessories; and an excavator, which will dig trenches, holes, and foundations for various needs.

Proposed capital appropriations under the Sewer Capital Fund include fixing the blacktop at the treatment plant; set aside funds for sewer main repairs and replacements; an overhead workstation crane system for maintenance and equipment failures to the pumps and grinders; a fire alarm panel upgrade; upgrades to our three digester blower motors, which is an important part of the wastewater treatment process as the microorganisms decompose the organic matter in the sludge prior to dewatering and sending offsite for disposal in a landfill; a flow meter for the Acorn Hills Pump Station; replacements for the slide gates that regulate flow going to the oxidation ditches; a replacement digester yard valve, which dewateres solids from that digester; and a spare digester mixer.

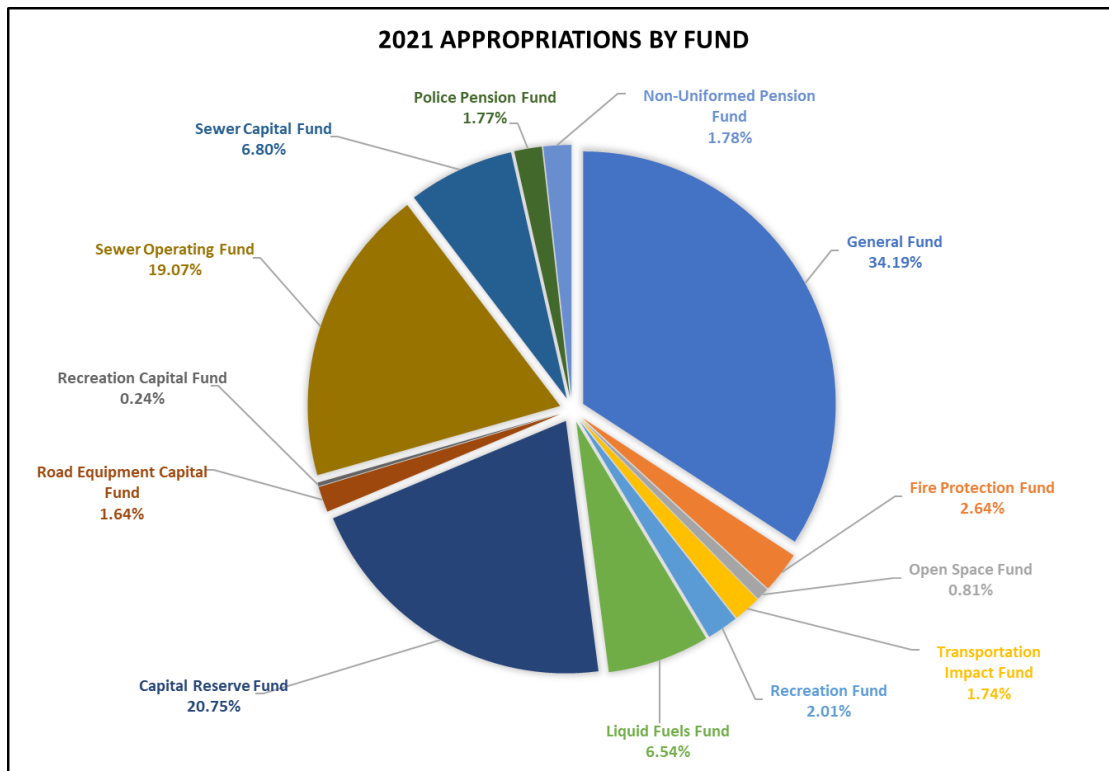
The budget also includes appropriations through other funds (Liquid Fuels Fund and Transportation Impact Fund) to help maintain infrastructure and equipment.

- The Liquid Fuels Fund will be used to resurface or treat about 9 miles of Township roads.
- The Transportation Impact Fund includes appropriations for traffic engineering and design services for two minor projects: installing an additional video camera to the existing video detection system for the Renninger Road approach to upgrade the last remaining inductive loop at the intersection of Big Road and Hoffmansville Road/New Hanover Square Road/Renninger Road and installing a GPS timeclock at the intersection on Swamp Pike and New Hanover Square Road to coordinate traffic signals to the east along Swamp Pike with Sanatoga Road/Fagleysville Road. Also included is appropriations for completion of traffic engineering and design services and for improvements at the southern intersection of North Charlotte Street and Moyer Road.

Budget Overview

There are 13 Funds in the proposed budget (1 Governmental Fund, 4 Special Revenue Funds, 3 Capital Project Funds, 2 Enterprise Funds, and 2 Trust Funds). These funds are essentially buckets where revenues and expenses pass through for designated services. Each Fund shows beginning fund balances, projected revenues, proposed expenditures and ending fund balances for the new fiscal year and highlights the cost for those separate and distinct government functions.

The General Fund is the largest Operating Fund and accounts for many common local government services, including police protection; planning and zoning; general administration; finances; legal and engineering services; tax collection services; and public works services and maintenance. Appropriations from the General Fund are available for any legal expenditure; however, tax levies for special purposes such as the fire and rescues services, road equipment capital, recreation services, and open space preservation are available only for that purpose.



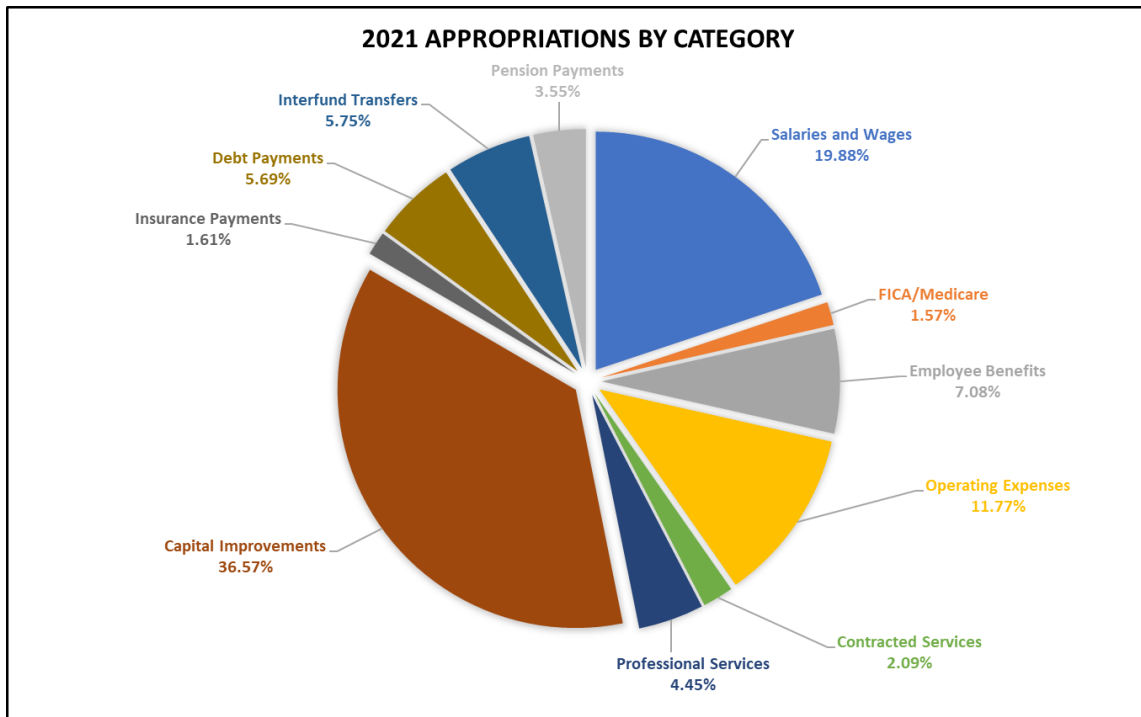
Total appropriations for all funds are approximately \$12 million in the proposed 2021 Budget.

General Fund appropriations total \$4.10 million. Appropriations in the Special Revenue Funds include the Fire Protection Fund (\$317,250), Open Space Fund (\$97,250), Transportation Impact Fund (\$209,150), Recreation Fund (\$245,575) and Liquid Fuels Fund (\$785,000). Appropriations for the Sewer Operating Fund total \$2.28 million. Combined capital appropriations total \$3.53 million and pension funds total \$426,000.

The General Fund, in combination with the Sewer Operating Fund and Recreation Fund, account for all personnel, fringe benefit, insurance, routine maintenance and operational expenditures. Personnel

costs remain the largest single expense in the operating budgets representing 28.5% of total appropriations. Operating expenses, contracted services, professional services, and insurance account for an additional 20% of budgeted expenditures. These percentages usually combine to be the highest expenses in local governments as public service agencies and demonstrate that significant cost cutting can only occur with staff reductions that directly affect service delivery.

The following chart shows how total appropriations are expensed for all funds by category:



The following pages provide a narrative summary of the financial position of each fund, including a discussion about projected revenues and proposed expenditures for 2020.

General Fund (Fund 01)

Revenues

The General Fund is the operating budget for general municipal purposes and includes appropriations for general government operations such as administration and finance, legal, engineering and other professional services, police protection, code enforcement and zoning, planning administration, technology, highway facilities and fleet maintenance. There are also appropriations to support the work of appointed boards and commissions.

Tax collection experience, prior year collection history, contract guarantees, state-shared revenue, and economic trends are the basis for current and future revenue projections.

The primary revenue sources for the General Fund are real estate taxes, Act 511 taxes (earned income, per capita, local services, and transfer taxes), business licenses, permit fees, grants, state-shared entitlements, and charges for service.

The Township levies a 1% earned income tax and revenue generated from residents is shared equally with the Boyertown School District. Earned income taxes will generate a projected \$2.39 million in 2021, representing 54% of total revenues in the General Fund. Real estate taxes are projected to come in close to \$722,000, representing about 16.4% of total revenue in the General Fund.

Transfer taxes are a tax on real estate sales within the Township. The tax rate is 2% of the sale price. County government receives 1% of the tax proceeds, and the Boyertown School District and Township share the remaining 1% equally. Transfer tax receipts have steadily increased throughout the past several years as the real estate market is strong and development continues in the Township. Current projections indicate transfer tax receipts in 2021 will reach approximately \$488,000, but this may be higher given increased development activity.

An estimated 422 properties will transfer ownership in 2021, which is projected to be slightly less than data in 2019 and 2020. Both of those data sets were based on citizens taking advantage of historically low mortgage rates, and the trend may continue into 2021. There has been an average of 8% of the existing parcel stock (422 properties) transferred over the previous three years. Construction activity enhances transfer tax revenue and new construction will increase assessed value and real estate tax revenue and minimizes the need for future real estate tax increases.

Earned income taxes, transfer taxes, and permit fees have the most significant fiscal impact on General Fund revenue from year to year. Other significant sources of revenue in the General Fund include cable television franchise fees and pension system aid.

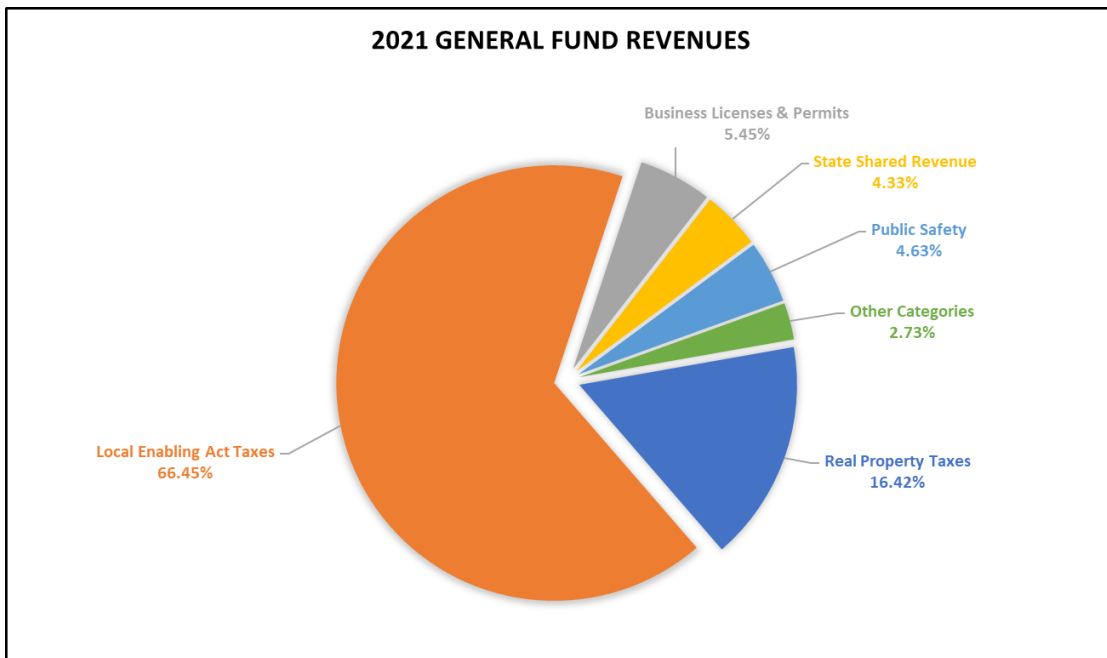
Revenue from permit fees has remained steady since 2014 and will continue to be a major income stream in 2021 as approved developments continue to develop new residential units. Permit fee revenue in 2021 is estimated at \$203,000. The Township has averaged about 60 to 100 permits for new homes since 2016 and projects to have around 80 permits in 2021, producing \$123,500, or 61% of total permit fee revenue. This revenue source will decrease when development ceases, but the effects will be offset by the subsequent increase in real estate and earned income tax revenue. Note that this will be the last year we have significant development in the Township until further development is approved.

The Township will receive approximately \$205,000 in state aid for its employee pension plans, representing 104% of the minimum required plan contributions. Both pension plans are well-funded, and in conjunction with 2019 and 2020’s investment results combined, we will see future benefits in the reduction of our minimum municipal obligation. Cable television franchise fees have remained steady in the past few years with the 2021 projection at \$234,000.

Total estimated General Fund revenue in 2020 is \$4.32 million or \$15,000 over budget. The additional revenue came mostly from additional earned income taxes and real estate transfer taxes, which offset revenue losses related to fines, interest and building permit projections.

Projected revenue in the proposed 2021 Budget totals \$4.4 million and represents an increase of \$95,000 over the 2020 Budget. Projected revenue increases include earned income taxes at 6.2% over 2020 projections (\$140,000), real estate taxes (\$17,000) and real estate transfer taxes (\$35,000).

The following chart shows the sources of General Fund revenue used for the operation of Township government:



Expenses

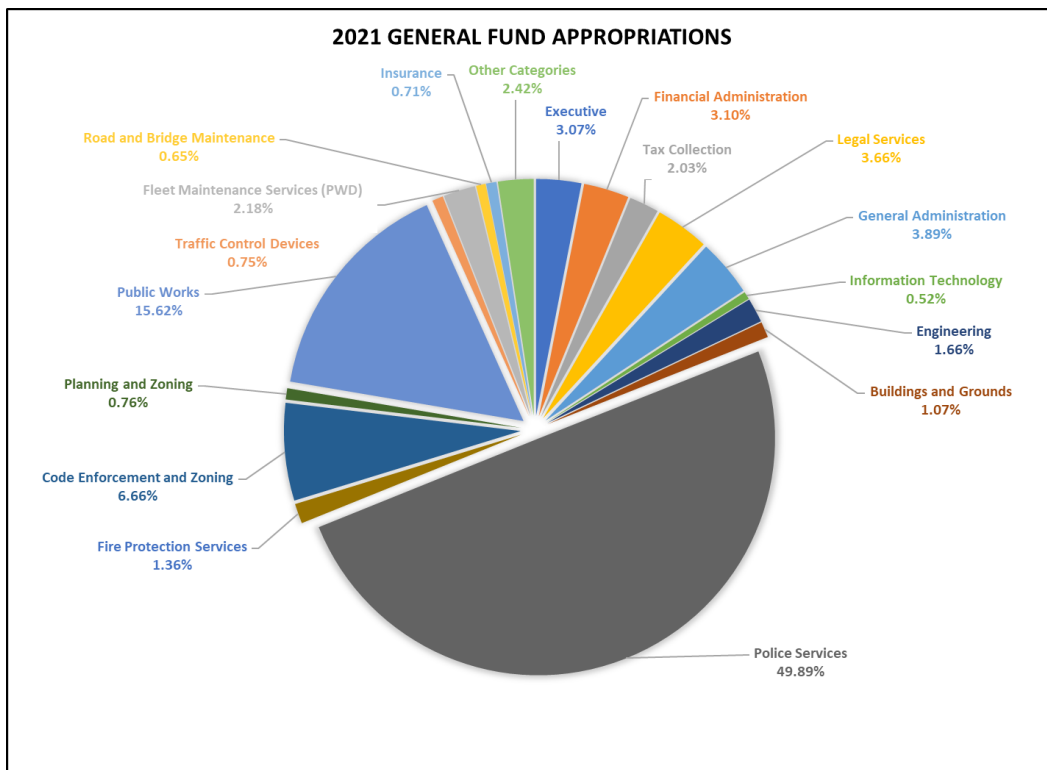
Estimated General Fund expenditures in 2020 total \$3.66 million, or approximately \$200,000 under budget. Legal items throughout the fiscal year will have attributed to an additional \$40,000 in expenses, but this will be offset the lack of maintenance needed on our building and grounds, part-time police officers not yet recommended for full-time work, the elimination of a staff position within the Public Work Department, and the lack of usage of our fleet, due to the furloughing of certain employees for a few months per the ongoing COVID-19 pandemic.

The General Fund is projected to begin next year with approximately \$1.9 million (Fund Balance Forward) in reserves.

Proposed General Fund appropriations in 2021 total \$3.83 million before interfund transfers. This represents a minor decrease (\$27,000) over the 2020 Budget. Not seeing an increase in expenditures is atypical, but this will be attributed to staffing changes and resource allocation with the Municipal Authority, the removal of a staff position with the Public Works Department, and the reduction in needed legal services seen throughout the recent budget cycles. Each year does include increases in certain line items, specifically to wages (uniformed employees are receiving a place holder 3.0% increase, but the actual amount will be determined by contract negotiations, and non-uniformed employees a 3% increase) and benefits (healthcare costs increased 2.50%).

Appropriations also include expenses that may not be realized or surpassed for legal issues (\$50,000 for issues related to Gibraltar Rock and \$25,000 to complete a new contract with the Police Department) and healthcare (\$529,000 because we budget for utilization at 70%, the industry standard). There is also an appropriation for an interfund transfers to the Capital Reserve Fund (\$275,000) to fund capital improvements based on the Capital Improvement Plan.

The following chart shows proposed General Fund appropriations by category:



Fire Protection Fund (Fund 03)

The Fire Protection Fund is the primary revenue source for the operating and capital needs for firefighting services in the Township. The Township is serviced by the New Hanover Volunteer Fire and Rescue Services, a governmental component unit. The Township levies a .310-mill real estate tax dedicated to fire protection services that will generate approximately \$231,500 in 2021. The maximum allowable tax levy is three mills. The Fire Company also receives a variable amount annually from state-shared revenue tax paid by foreign fire insurers and used for relief or pension funds for paid or volunteer employees of fire departments. The Fire Company places a minimum of 30% of total revenue received into a capital improvement fund for apparatus purchases.

The Fire Company being an all-volunteer organization, responds from two stations strategically located in different areas of the Township to provide the most effective response to emergency calls with the North Station just receiving official recognition after being moved from the Sassmansville Station, by the ISO (Insurance Service Organization). This recognition will result in a positive impact for our residents in the north end of our Township as it relates to their homeowner's insurance. The company has 56 active members that train each week and volunteer their time to support the community. Seventy-Five percent (75%) of the fire personnel have attained the nationally recognized Firefighter 1 Pro Board certification with Fifty percent (50%) of those members attaining the Firefighter 2 Pro Board certification as well as state rescue practices, which exceeds 200 hours of formal firefighter training. All personnel continue to attain the federally mandated Hazardous Materials Operations training. Also, the Fire Company has 19 support staff personnel for administrative functions and a Cadet/Junior Firefighting Program, which currently includes 11 individuals between 14 and 17 years old being mentored to begin volunteer firefighting when each member turns 18 years old.

Open Space Fund (Fund 04)

The Township levies a .15% earned income tax that will generate approximately \$693,500 in 2021. The earned income tax was first conceived in 2006 through resolution to "provide for the conservation of open space to control growth and development" and then later passed through referendum to "finance the purchase of open space and development rights."

Appropriations for 2021 includes the final payment of debt (\$77,250) associated with the purchase of the Wassmer Tract in 2011. The Fund is projected to have about \$2.1 million in fund balance at the end of the year.

The Township currently has 1,599 acres of permanently preserved farmland (18 parcels through the County and 1 parcel through the Township) and 1,855 acres of agricultural security area land (57 parcels total), which defers taxes for undeveloped agricultural land.

Sewer Operating Fund (Fund 08)

The Sewer Operating Fund is an enterprise fund, a government-owned fund that sells services to residents in the Township and functions under a lease agreement between the Township and the New Hanover Township Municipal Authority to handle the day to day operations of the plan. The Municipal Board has the right to set sewer rates, but the Board of Supervisors has the right to pass

the Authority's budget. The Township Manager is responsible for overseeing employees at the Authority.

The Sewer Operating Fund is projected to begin the year with approximately \$1.46 million. Most of the Fund's revenues will stem from sewer rentals (EDU Rental Billings), projected to close to \$2.08 million in 2021, an increase of \$40,000 over 2020 estimates.

Estimated Fund expenditures in 2020 are \$1.21 million, or around \$222,000 under budget. Proposed Fund appropriations in 2021 total \$1.91 million before interfund transfers. The dramatic increase in expenditures over 2020, which showed a budget at \$1.44 million, is attributed to moving debt from the Sewer Capital Fund to this Fund. Without these line items, the budget sits at \$1.31 million, a savings of \$130,000 from the previous year budget. There are also appropriations for interfund transfers to support the Sewer Capital Fund (\$375,000) to support capital improvements.

Sewer Capital Fund (Fund 10)

The Sewer Capital Fund accounts for general capital equipment purchases, infrastructure improvement projects and the payment of debt. A ten (10) year Capital Improvement Plan (Schedule H) is revised annually to support the Fund and identifies capital needs on a long-term basis.

Revenues in the Fund results from sewer connections and fees outlined in our lease agreement and interest income, which in 2021 will bring in approximately \$15,000 and \$375,000 from the Sewer Operating Fund through an interfund transfer.

Proposed capital appropriations under the Sewer Capital Fund include fixing the blacktop at the treatment plan; set aside funds for sewer main repairs and replacements; an overhead workstation crane system for maintenance and equipment failures to the pumps and grinders; a fire alarm panel upgrade; upgrades to our three digester blower motors, which is an important part of the wastewater treatment process as the microorganisms decompose the organic matter in the sludge prior to dewatering and sending offsite for disposal in a landfill; a flow meter for the Acorn Hills Pump Station; replacements for the slide gates that regulate flow going to the oxidation ditches; a replacement digester yard valve, which dewater solids from that digester; and a spare digester mixer.

There is \$390,000 in projected revenue and \$816,000 in capital appropriations in 2021.

Transportation Impact Fund (Fund 13)

The Transportation Impact Fund was established in 2005 under enabling legislation to fund transportation improvements based on development in the Township. Revenue is collected from fees on development in designated transportation service areas. Projected beginning fund balance to begin 2021 will be \$1.34 million.

2021 revenues depend on development, but most revenue is based on interest on the funds. In addition, we seek grants that can leverage our funds to stretch the number of improvements we can perform long-term. In 2021 we will receive more than \$500,000 to reimburse the Township for costs associated with funding transportation improvements at the southern intersection of Routes 663 and 73.

Appropriations for 2021 include traffic engineering and design services for two minor projects: installing an additional video camera to the existing video detection system for the Renninger Road approach to upgrade the last remaining inductive loop at the intersection of Big Road and Hoffmansville Road/New Hanover Square Road/Renninger Road and installing a GPS timeclock at the intersection on Swamp Pike and New Hanover Square Road to coordinate traffic signals to the east along Swamp Pike with Sanatoga Road/Fagleysville Road. Also included is appropriations for completion of traffic engineering and design services and for improvements at the southern intersection of North Charlotte Street and Moyer Road.

Total projected revenue in 2021 is \$518,000 and appropriations are \$209,150.

Road Equipment Capital Fund (Fund 19)

The Road Equipment Capital Fund accounts for expenditures to replace Public Works Department vehicles and heavy equipment. A dedicated tax levy of .140 mills will generate \$105,500 in revenue. The maximum allowable levy is two mills.

Proposed capital appropriations under the Road Equipment Capital Fund include a track skid steer loader and a skid steer bucket, a sweepster broom and a tilt coupler as accessories; and an excavator, which will dig trenches, holes, and foundations for various needs.

Total revenue in 2021 projects at \$111,000 and total appropriations are \$197,250.

Recreation Fund (Fund 96)

The Recreation Fund is the operating budget for recreation programs and services, including overseeing 302 acres of park land and open space, numerous buildings and other recreation amenities. A dedicated tax levy of .180 mills will generate \$134,500.

The Fund has two main sections: Recreation Administration and Participant Recreation. Recreation Administration accounts for general costs associated with the overall management of the department. Recreation Administration costs are budgeted at \$55,250 in 2021. Participant Recreation includes the cost for summer camp operations, instructor fees, ticket purchases, and other program related expenses. Program fees and charges fund the cost of participant recreation services. Participant recreation services are budgeted at \$65,325 in 2021. The cost for these services is consistent from year to year and varies based on program participation.

Total projected revenue in 2021 is \$212,750 and appropriations are \$201,575. There is also an interfund transfer of \$25,000 to the Recreation Capital Reserve Fund to fund long-term projects.

Capital Reserve Fund (Fund 30)

The Capital Reserve Fund accounts for general capital equipment purchases and infrastructure improvement projects. Examples of capital expenditures include roadway and drainage facility improvements, equipment acquisition, property acquisition and facilities repair and construction. A ten (10) year Capital Improvement Plan (Schedule H) is revised annually to support the Fund and identifies capital needs on a long-term basis.

Revenues in the Capital Reserve Fund are collected from a variety of sources including grants, loans, developer contributions and interfund transfers. Revenues this year include interfund transfers of \$275,000 from the General Fund.

Proposed capital appropriations under the Capital Reserve Fund include funds for an architect, civil engineer, construction management, financial advisor and for other costs associated with our Administration and Police Department Renovation Project; engineering, permitting and hard costs related to a new structure to hold salt for snow storms; hard costs to replace the roof and side doors on a storage shed; a storage shed to house storage currently at the Recreation Center; improvements to the bridge at Rosenberry Road over West Branch of Swamp Creek; and body cameras and two replacement vehicles for the Police Department.

There is \$280,000 in projected revenue and \$2,490,000 in capital appropriations in 2021.

Recreation Capital Reserve Fund (Fund 31)

The Recreation Capital Fund provides financial resources to maintain and improve recreation facilities and infrastructure. Revenues in the Fund are collected from a variety of sources including grants, loans, developer contributions (fee in lieu of multi-use paths, recreation infrastructure and recreation land) and interfund transfers. Revenues this year include interfund transfers of \$25,000 from the Recreation Fund.

Proposed capital appropriations under the Recreation Capital Fund include a new filter for the pool and replacement concrete pads on the pool deck at Hickory Park; a storage shed to house storage currently at the Recreation Center and installation of a trail along Dotterer Road near Windlestrae Park, pending grant approval.

There is \$26,000 in projected revenue and \$29,000 in capital appropriations in 2021.

Liquid Fuels Fund (Fund 35)

The Liquid Fuels Fund accounts for the Township share of liquid fuels tax dollars provided by the Commonwealth of Pennsylvania for maintenance of local roadways. The Commonwealth generates funds through a tax on motor fuels. Municipalities share approximately 12% of the total collected by the Commonwealth, and PennDOT uses the remaining funds to maintain state-owned roadways.

A formula using population and qualifying road mileage determines the Township's share. The Township forwards information on newly dedicated roads to PennDOT, and the additional mileage increases the grant amount. New roads must meet specific design criteria to qualify for funding.

The Township received just over \$416,000 in 2020, a decrease of \$10,000 from the prior year. However, we have received initial notice that we will see a reduction in this amount for 2021. Our share will decrease to \$478,500, pending additional road dedications. The Township will also receive \$64,680 through a road turnback program, which previously transferred the ownership of selected state-owned roads, which served a local traffic purpose, from state government to local government.

The Commonwealth restricts expenditures from the Fund to road maintenance costs such as snow plowing, road striping, guiderail installation, street light electricity, the purchase of de-icing salt and

paving materials. The Commonwealth audits the fund annually to ensure compliance with state regulations.

The Township has at least 80 miles of road to maintain in its system. The general rule of thumb is a road should last at least 20 years, thus the Township should be treating at least 4 miles of road annually. The 2021 Road Maintenance Program includes up to 8.99 miles of milling and resurfacing, and Schedule K provides full detail on planned roads. The estimated cost of this work is \$655,000. Other appropriations in 2021 include preparing bid specifications for certain road projects and inspecting contractor work related to those bids (\$10,000), de-icing salt for winter events (\$70,000) and materials for blacktop and stone for patch paving (\$50,000).

Total projected revenue in 2021 is \$445,750 and appropriations are \$785,000.

Pension Funds (Internal Fund 60 and Fund 65)

The Police and Municipal Employees Pension Funds are trust funds that provide monthly defined-benefit pensions to retired employees. An ordinance adopted by the Board of Supervisors governs the administration of each pension plan, and two Pension Plan Advisory Committees review investment performance and recommend investment strategies. The Committees meet quarterly with the Township's Investment Advisor to review investment performance and recommend changes as needed.

The Pension Funds consist of a mixed bond and equities portfolio with asset allocations according to an Investment Policy Statement adopted by the Board of Supervisors. The Township's Actuary calculates annual required contributions for each plan (Minimum Municipal Obligation) to fund future retirement benefits.

The Township also implemented a defined-contribution plan for non-uniformed employees hired after June 1, 2016. The Township contributes five percent (5%) of an employee's compensation into the self-directed plan annually.

The Commonwealth levies a 2% tax on foreign casualty insurance premiums (insurance policies written by out-of-state insurance companies) to assist municipalities with pension plan funding. The required Township contribution to maintain the actuarial soundness of the plans in 2021 is approximately \$196,275. The Township expects to receive \$205,000 in state aid to offset this amount.

Our last actuarial valuation of the plans was completed for assets dated January 1, 2019. The Police Pension Plan had an 87.3% funding ratio; the Non-Uniformed Employee's Pension Plan had a funding ratio of 109%. The ratio represents the difference between plan assets and plan liabilities. The combined ratio is 98%, and this number determines our distressed level under Act 44. Since we are above 90%, we are consider not distressed.

The plans are estimated to have projected combined assets of approximately \$8.2 million at the end of 2020 and \$8.58 million at the end of 2021.

Future Trends and Outlook

This is the fourth year of our new budget template, which details for the community how we're going to spend taxpayer dollars. We came together three years ago to begin creating a collective vision to guide future expenditures. Now, we're managing our success during our growth, while continuing to provide high quality service and tackling the challenge of identifying greater efficiencies.

Overall, Township finances are extremely stable, even as we experience the on-going COVID-19 pandemic. This will be the 15th year in a row that taxes will not be raised (while reducing them in 2019), which puts us in a unique – and welcomed – position for a municipality in Montgomery County. Further, the Government Finance Officers Association (GFOA) recommends a municipality to have between 8% and 12% in fund balance reserves. At the end of 2021, the General Fund will have approximately 57% in fund balance reserves.

The Township will realize an increase in its financial stability for at least a few more years as current development is built out and new development is considered. Regardless of additional development though, real estate taxes will continue to grow along with earned income tax, adding to a positive fund balance long-term and helping to negate eventual decreases in permit revenue and real estate transfer taxes. Also, with dedicated funding for capital appropriations and a 10-year capital improvement plan to identify future capital needs, the Township is positioned to strategically plan future budgets and adjust appropriations to match available resources.

Balancing the needs of a municipal organization and maintaining low tax rates is always a goal but usually a significant challenge as investments in infrastructure and the growth of a municipality occur throughout time. Even though we have solid financial footing, Township employees are always looking for ways to reduce cost and spend resources efficiently. They are professional, courteous, and responsive public servants. Departments coordinate and cooperate in programs and services. Morale is high and there is a clear recognition that our single mission is to serve the public.

We believe that Township residents are pleased with our service delivery, and with this proposed budget, will notice the Township wisely allocates its financial resources for their health, safety, and welfare. The proposed 2021 Budget maintains and streamlines municipal services to continue our trend toward greater efficiency and provides the necessary resources to help the Township achieve its goals and priorities established by the Board of Supervisors. In my opinion, it represents an accurate estimate in dollar terms of the Township's commitment to deliver high quality municipal services to the community.

I am pleased to present the proposed 2021 Budget for your consideration.

Respectfully submitted,

Jamie L. Gwynn
Township Manager