

Letter of Transmittal

October 25, 2022

To: New Hanover Township Board of Supervisors

Introduction

I am pleased to submit the proposed 2023 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 2023 Budget consists of 14 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 14 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), federal funds (American Rescue Plan 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 2023 Budget:

The proposed budget maintains current tax rates.

There is no proposed real estate tax increase for the 2023 fiscal year. This will be the 17th 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 \$155,475 would pay \$247 per year, or about \$20 per month for Township services.

There are positional changes, a replacement position, and one new position in the proposed budget.

We have three retirements occurring at the end of 2022: Police Chief, Building and Zoning Director and Administrative Assistant. The latter two will be transitioned into an Assistant Manager and Assistant to the Manager role with increased and varied responsibilities, which will provide depth to our operations. We are also transitioning our part-time police officer into a full-time role, which will put our police officer count at 12, which has been less than that for several years. The Budget includes the addition of a part-time administrative assistant position, a one-year role to help our transition efforts back into our renovated municipal building.

Unless the Board of Supervisors adds additional programs or services, additional staffing is not necessary; however, changes, filling open positions, or reassignment of duties among existing employees may occur.

The proposed budget maintains municipal services at current levels.

Operating appropriations in the proposed 2023 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 associated with the completion of the renovation of the Municipal Building and the Police Department at the former Recreation Center; a storage shed for the Police Department, engineering, permitting, bidding, construction management, and construction costs for replacing a culvert underneath Sanatoga Road and the milling and overlay of Sanatoga Road from Swamp Pike to the Township line; costs related to implementing a meadow in Swamp Creek Park; engineering, permitting, bidding, construction

management, and construction costs for the completion of the Swamp Creek Stream Restoration Project; and a vehicle for the Police Department.

Proposed capital appropriations under the Recreation Capital Fund include upgrades to the barn at Community Park and installation of a trail along Dotterer Road near Windlestrae Park.

Proposed capital appropriations under the Road Equipment Capital Fund include a jackhammer and a trench hoe bucket.

Proposed capital appropriations under the Sewer Capital Fund include replacements for two return activated sludge pumps for the Authority's operational needs.

Proposed capital appropriations under the Open Space Fund include design and permitting for the first phase of the Wassmer Tract Trail Project.

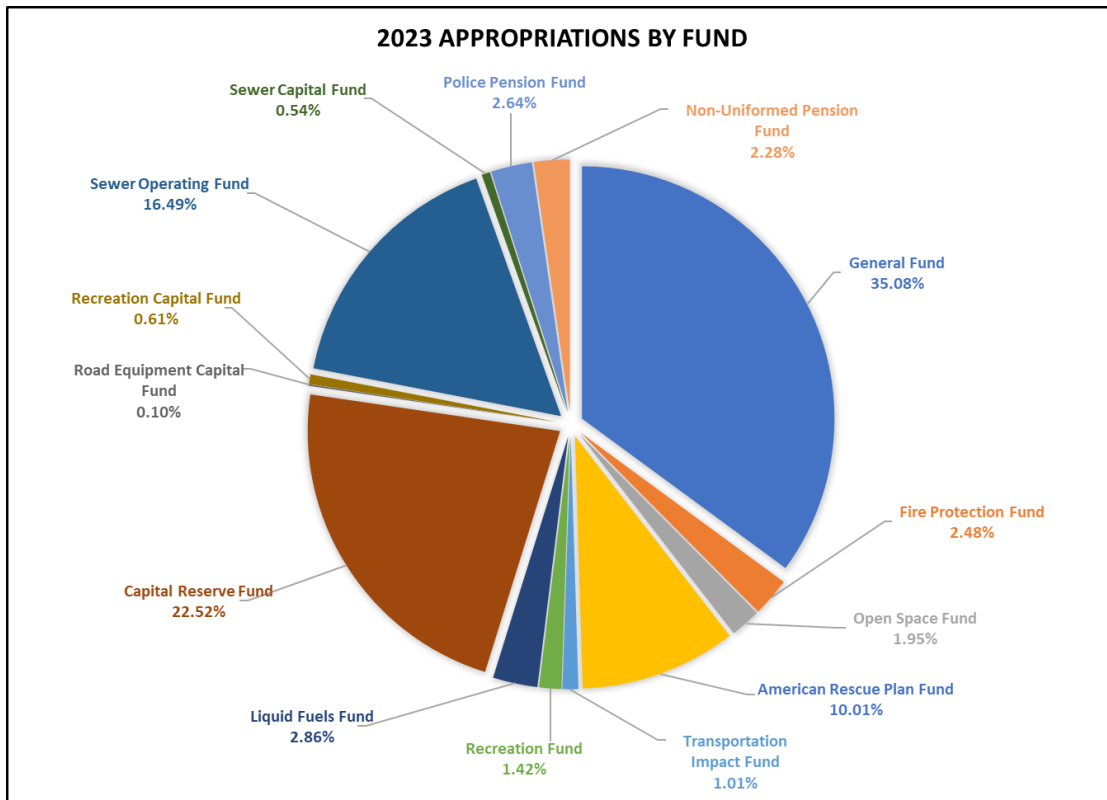
The budget also includes appropriations through other funds (Liquid Fuels Fund and Transportation Impact Fund) to help maintain infrastructure and equipment.

- The Liquid Fuels Fund will be used to resurface or treat 6.1 miles of Township roads. Including the milling and overlaying of Sanatoga Road from the Capital Reserve Fund, the total amount of roads that will resurfaced or treated is 8.14 miles.
- The Transportation Impact Fund includes appropriations for bidding, construction management, and construction costs 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.

Budget Overview

There are 14 Funds in the proposed budget (1 Governmental Fund, 5 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.

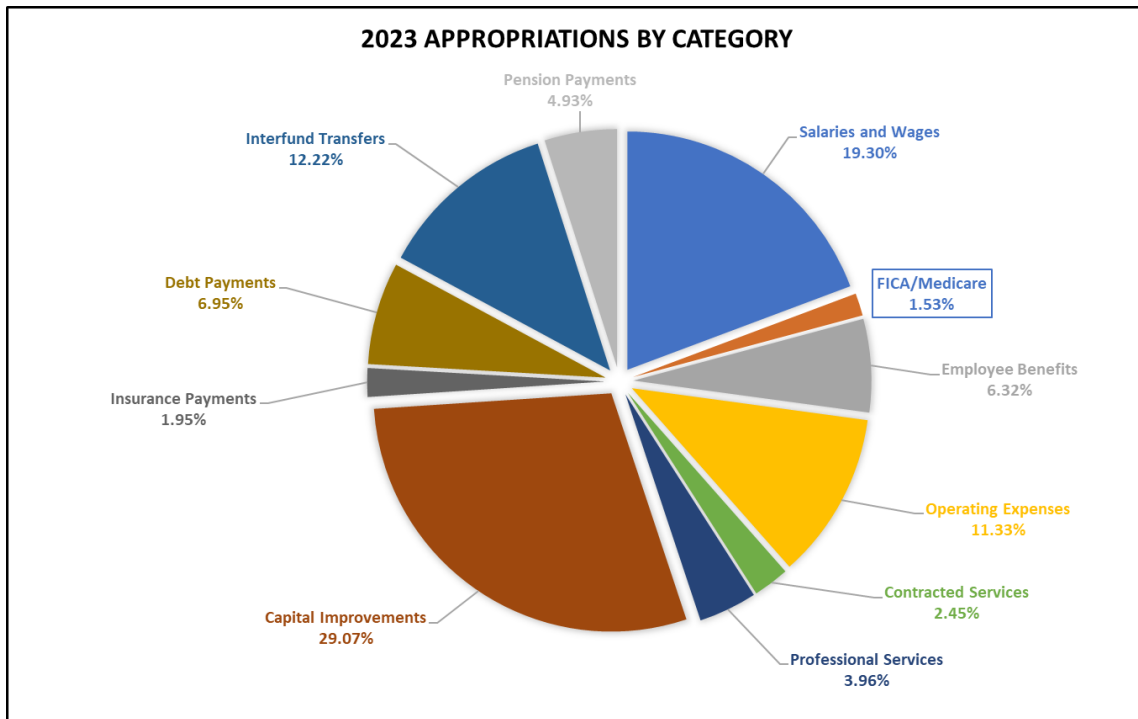


Total appropriations for all funds are approximately \$13.8 million in the proposed 2023 Budget.

General Fund appropriations total \$4.85 million. Appropriations in the Special Revenue Funds include the Fire Protection Fund (\$343,000), Open Space Fund (\$269,500), American Rescue Plan Fund (\$1,385,460), Transportation Impact Fund (\$140,000), Recreation Fund (\$196,500) and Liquid Fuels Fund (\$396,000). Appropriations for the Sewer Operating Fund total \$2.35 million. Combined capital appropriations total \$3.21 million and pension funds total \$682,000.

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 20.6% of total appropriations. Operating expenses, contracted services, professional services, and insurance account for an additional 19.7% 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 2023.

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 \$2.85 million in 2023, representing approximately 61% of total revenues in the General Fund. Real estate taxes are projected to come in close to \$757,000, representing about 16% 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 completed in the Township. However, as interest rates continue to climb, current projections indicate transfer tax receipts in 2023 will be reduced to approximately \$420,000.

An estimated 240 properties will transfer ownership in 2023, which is projected to be significantly less than data in 2020 and 2021. Both of those data sets were based on citizens taking advantage of historically low mortgage rates, but the trend has reversed course in 2022. Development has been completed for now, too, which reduces the number of transfers that have typically occurred. There has been an average of 6.7% of the existing parcel stock (344 out of 5,090 properties) transferred over the previous three years.

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.

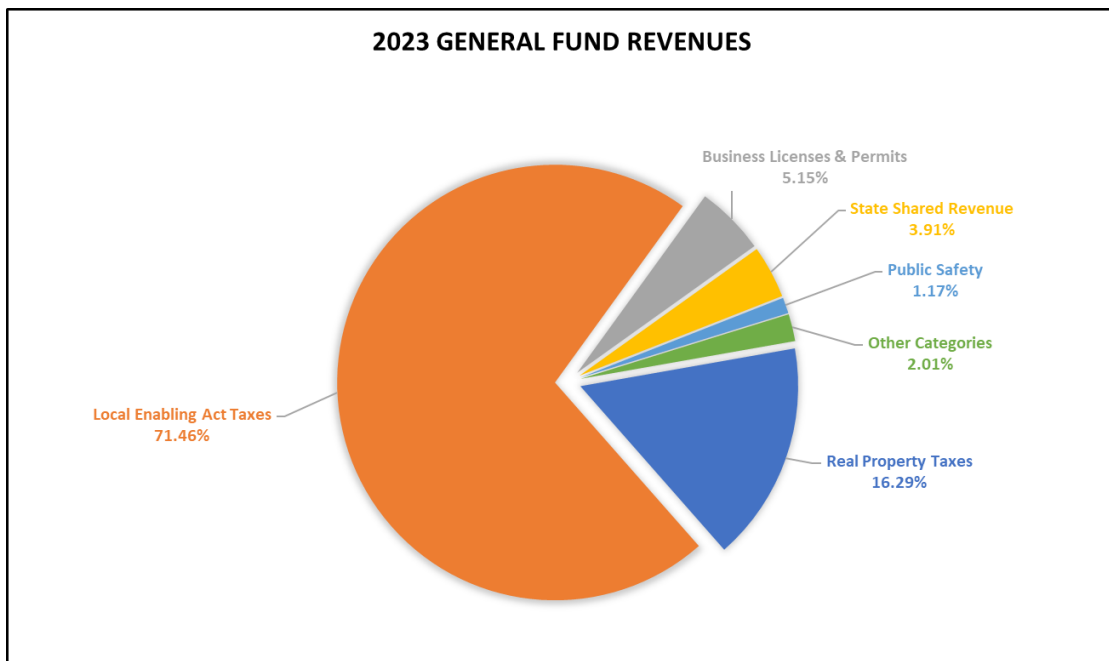
Revenue from permit fees has remained steady since 2014, but this will not be a major income stream in 2023 as approved developments have finished their projects. Permit fee revenue in 2023 is estimated at \$53,000. The Township has averaged about 60 to 100 permits for new homes since 2016 but has less than 5 in 2022. We project to have around 10 permits in 2023, producing \$15,000, or 66% of total permit fee revenue. If there are other projects approved in 2023, then our revenues will increase for this section in future years.

The Township will receive approximately \$197,000 in state aid for its employee pension plans, representing 144% of the minimum required plan contributions. Both pension plans are well-funded, and in conjunction with 2020 and 2021’s investment results combined, we should 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 2023 projection at \$234,000.

Total estimated General Fund revenue in 2022 will be \$4.74 million or \$357,000 over budget. The additional revenue will come mostly from additional earned income taxes and charges for services, specifically from fees from one land development application.

Projected revenue in the proposed 2023 Budget totals \$4.65 million and represents a decrease of \$90,000 over the 2022 Budget. Again, this is primarily tied to the conclusion of active development projects. Projected revenue increases include earned income taxes at 3% over 2022 projections (\$384,000), real estate taxes (\$9,000) and interest earnings (\$57,000) but with decreases in real estate transfer taxes (\$125,000).

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



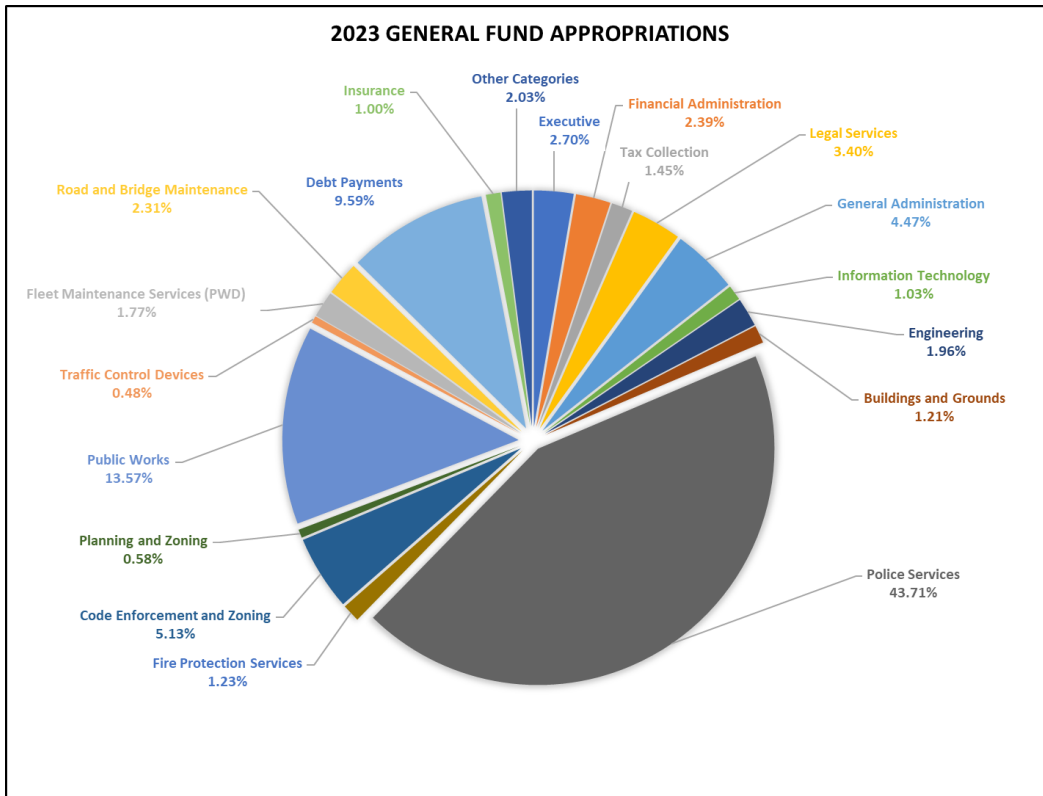
Expenses

Estimated General Fund expenditures in 2022 total \$4.55 million, or approximately \$184,000 over budget. Included here are two unplanned retirement payouts (\$55,000), a part-time police officer and reclassification of a police officer (\$65,000), emergency management expenses (\$50,000), and traffic signal services, which proved necessary during the County’s bridge project on Swamp Pike (\$10,000). Just these four items total \$180,000 of unplanned expenses that occurred or will occur in 2022. The General Fund is projected to begin next year with approximately \$1.61 million (Fund Balance Forward) in reserves.

Proposed General Fund appropriations in 2023 total \$4.85 million before interfund transfers. This represents a significant increase (\$488,000) over the 2022 budget. This increase is attributable essentially to the transition of a part-time police officer to full-time status and general police department wage and benefit increases (\$278,000) and the addition of a one-year, part-time administrative employee and replacement employees in Public Works and Code Enforcement (\$185,000).

Each year also includes increases in certain line items, specifically to wages (uniformed employees receive a contractual 3.25% increase and non-uniformed employees a general 3% increase, lower or higher depending on performance factors) and benefits (healthcare costs increased 6%, but has been offset by program rewards down to about 2.0% for 2023).

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 \$240,500 in 2023. 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 recently receiving official recognition after being moved from the Sassmansville Station, by the ISO (Insurance Service Organization). This recognition has resulted 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 close to 60 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 23 administrative support personnel, who provide a critical role in the functionality of the Company, and a Cadet/Junior Firefighting Program, which currently includes around 7 individuals between 14 and 17 years old being mentored to begin volunteer firefighting when each member turns 18 years old.

The Fire Company has 23 administrative support staff personnel that provides a critical role in the functionality of the Department.

Open Space Fund (Fund 04)

The Township levies a .15% earned income tax that will generate approximately \$849,000 in 2023. 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 2023 includes the first projected payment of ten total annual payments to Camp Laughing Waters for preserving its land from future development. Also appropriated are design and permitting estimated costs for the first phase of the Wassmer Tract Trail Project. The Fund is projected to have about \$2.88 million in fund balance at the end of the year.

The Township currently has 1,564 acres of permanently preserved farmland (17 parcels, via the County); 1,937 acres of agricultural security area land (62 parcels), which defers taxes for undeveloped agricultural land; and conservation easements on 82.103 acres of land (2 parcels).

American Rescue Plan Fund (Fund 04)

The American Rescue Plan Act of 2021, also called the COVID-19 Stimulus Package or American Rescue Plan, was a \$1.9 trillion economic stimulus bill to speed up the country's recovery from the economic and health effects of the COVID-19 pandemic and the ongoing recession. The Township will receive \$1.387 million in revenue for appropriates in accordance with the Act.

Appropriations for 2023 include a payment for our audit firm to help staff through various reporting requirements and a transfer of the remaining fund balance to the Capital Improvement Fund to offset the Sanatoga Road Culvert Project, the Swamp Creek Stream Restoration Project, and the Swamp Creek Park Meadows Project, which combined will exceed the total funds transferred.

The Fund will be closed out at the end of the year.

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 \$1.15 million. Most of the Fund's revenues is from sewer rentals (EDU Rental Billings), projected to close to \$2.25 million in 2023, an increase of \$21,000 over 2022 estimates.

Estimated Fund expenditures in 2022 are \$2.28 million, or around \$133,000 over budget, based essentially on an extra payment to satisfy one of two loans (\$154,000), which will save several thousand dollars in interest.

Proposed Fund appropriations in 2023 total \$2.03 million before interfund transfers, a decrease of \$116,000 from the previous year's budget. This is an offset from the extra loan payment in 2022, so it will balance in 2024 when the other loan is increased in payment size. There are also appropriations for interfund transfers to support the Sewer Capital Fund (\$250,000) to support capital improvements, which has been reduced due to the stated transition of funds.

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 are limited to interest earnings (\$20,000) and interfund transfers from the Sewer Operating Fund (\$250,000).

Proposed capital appropriations under the Sewer Capital Fund include replacements for two return activated sludge pumps for the Authority's operational needs. There is \$270,000 in projected revenue and \$75,000 in capital appropriations in 2023.

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 2023 will be \$1.81 million. Revenues traditionally depend on development, but we seek grants that can leverage our funds to stretch the number of improvements we can perform long-term.

Appropriations for 2023 include the completion of 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.

Total projected revenue in 2023 is \$20,000 and appropriations are \$140,000.

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 \$111,500 in revenue. The maximum allowable levy is two mills.

Proposed capital appropriations under the Road Equipment Capital Fund include a jackhammer and a trench hoe bucket.

Total revenue in 2023 is estimated to be \$119,000 and total appropriations are \$11,500.

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. Revenue this year comes from a transfer from the American Rescue Plan Act Fund (\$1,381,460).

Proposed capital appropriations under the Capital Reserve Fund include funds associated with the completion of the renovation of the Municipal Building and the Police Department at the former Recreation Center; a storage shed for the Police Department, engineering, permitting, bidding, construction management, and construction costs for replacing a culvert underneath Sanatoga Road

and the milling and overlay of Sanatoga Road from Swamp Pike to the Township line; costs related to implementing a meadow in Swamp Creek Park; engineering, permitting, bidding, construction management, and construction costs for the completion of the Swamp Creek Stream Restoration Project; and a vehicle for the Police Department.

There is \$1,391,460 in projected revenue and \$3,117,500 in capital appropriations in 2023.

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 \$60,000 from the Recreation Fund.

Proposed capital appropriations under the Recreation Capital Fund include upgrades to the barn at Community Park and installation of a trail along Dotterer Road near Windlestrae Park.

There is \$61,500 in projected revenue and \$85,000 in capital appropriations in 2023.

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 approximately \$420,000 in 2022, a increase of \$30,000 from the previous year. 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 2023 Road Maintenance Program includes 8.14 miles of milling and resurfacing, with Schedule K providing detail on planned roads, in addition to Sanatoga Road being completed through the Capital Reserve Fund.

Total projected revenue in 2023 is \$495,000 and appropriations are \$396,000.

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 \$143,000.

The Fund has two main sections: Building and Grounds and Participant Recreation. The former includes funding the mowing of our park space and open space whereas the latter includes the cost for summer camp operations, instructor fees, ticket purchases, and other program related expenses, including the pool at Hickory Park. Program fees and charges fund the cost of participant recreation services. Participant recreation services are budgeted at \$69,500 in 2023. The cost for these services is consistent from year to year and varies based on program participation.

Total projected revenue in 2023 is \$202 and appropriations are \$196,500. There is also an interfund transfer of \$60,000 to the Recreation Capital Reserve Fund to fund long-term projects.

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 2023 is approximately \$136,000. The Township expects to receive \$197,000 in state aid to offset this amount.

Our last actuarial valuation of the plans was completed for assets dated January 1, 2021. The Police Pension Plan had an 96.5% funding ratio; the Non-Uniformed Employee's Pension Plan had a funding ratio of 126.8%. The ratio represents the difference between plan assets and plan liabilities. The combined ratio is greater than 100% 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 \$8.0 million at the end of 2022 and \$8.2 million at the end of 2023.

Future Trends and Outlook

This is the sixth year of our new budget template, which details for the community how we're going to spend taxpayer dollars. We came together five 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 are seeing increasing levels of inflation and threats of a recession. This will be the 17th 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, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures (16.6%). At the end of 2023, the General Fund will have approximately 29% in fund balance reserves, or three and a half months worth of general fund operating expenditures.

The Township has seen some important revenue sources begin to level off in 2022 as current development has completed, and 2023 will be more of the same, but decisions on new development could change that outlook in the future. 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 shown 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 2023 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 2023 Budget for your consideration.

Respectfully submitted,

Jamie L. Gwynn
Township Manager