

PRESIDENT'S BUDGET MESSAGE FOR 2021

November 4, 2020

Daniel B. Norris, President
Board of Commissioners

Good Evening Fellow Board Members, Township Residents and Township Staff:

I'm Daniel B. Norris, and as one of my duties as President of the Board of Commissioners of Cheltenham Township, am presenting this message to you, the citizens of Cheltenham Township, explaining the proposed budget and financial plan for 2021. This includes the proposed Operating and Capital Budgets, the State Liquid Fuels Budget, and the Five-Year Capital Program for equipment and infrastructure needs from 2021-2025. Please note that Budgets are not approvals to spend operating or capital dollars. It is only a plan for the year and most certainly subject to change, particularly in these challenging times when I certainly cannot predict what constraints the pandemic will place on our community and nation in 2021 and quite possibly beyond.

Over this past year, my fellow Commissioners and Staff have made many difficult decisions to protect our residents, businesses and dedicated staff and volunteers who make up this wonderful community while continuing to provide core services such as Police, Fire, Emergency Medical Services, Trash & Recycling, and the many other essential services we provide. Like you, we have sacrificed, stuck together, and adapted to difficult circumstances so we can continue provide quality services throughout the pandemic.

In August of this year, the Township adopted a Strategic Financial Management Plan completed by the PFM consulting firm. This study reviewed the Township's

financial position and management practices and made projections on its future financial health. The study showed that the Township is living beyond its means and that if it continues as it has, the Township will run severe deficits that require significant tax increases and/or drastic reductions in services. The Township cannot continue on this path.

In addition to the modeling and recommendations provided by PFM, the worldwide pandemic has placed severe limitations on our residents and businesses that impact Cheltenham's financial position. PFM predicted pre-pandemic deficits that would require the Township to exhaust its fund balance and drastically increase taxes, while also cutting expenses. Understanding that the pre-pandemic deficit – combined with predicted reductions in 2020 tax receipts – could require further withdrawals from the Township's fund balance, the Board of Commissioners took immediate and strong actions to mitigate the impact of the pandemic on the Township's finances. It:

- Stopped all but emergency related Capital Budget expenditures
- Reallocated the costs of services to other funds
- Furloughed 7 full time and 13 part time employees
- Reduced its allocation to the Cheltenham Township Library System
- Shuttered Township facilities

Without continued and strong actions, The PFM Study reported that the Township is projected to run deficits that will deplete its fund balance by the end of 2022 – *prior to considering the impact of the pandemic on the Township's finances.* Absent corrective action through the reduction of services and/or the increase of taxes and fees, the Township is anticipated to run annual deficits in the millions of dollars each year nearing \$7.3 Million by 2025. The Board of Commissioners takes these projections seriously, recognizing also, that Cheltenham Township residents

and businesses already have a high financial burden. The initiatives planned for 2021 and beyond will be outlined further in this message.

In addition to taking measures to mitigate the effects of the pandemic on the Township's budget and working to implement recommendations of The PFM Study, the Board of Commissioners has been working tirelessly to find new leadership to help the Township meet these challenges. Following the retirement of former Township Manager Bryan Havir and the announcement of our Director of Fiscal Affairs Bruce Rangnow's impending retirement, the Board sought replacements who are up to the challenge and can help usher Cheltenham Township into its new future. We are confident that Bob Zienkowski, our new Township Manager, can help us meet a future where Cheltenham is financially stable and a great place to live, work and recreate. In the meantime, the Township will seek new ways to deliver services efficiently – some of these decisions will not be easy and will not make everyone happy, but with everyone's support, we can work toward a bright future for Cheltenham.

With an uncertain future in 2021, the Township is proposing a conservative budget and will continue to streamline operations to ensure the Township can continue to provide vital services. The budget outlined below is the result of months of meetings between the Township Manager, Assistant Township Manager, and Director of Fiscal Affairs with Department Heads and their staff and representatives from the Cheltenham Township Library System and the five Volunteer Fire Companies. These meetings were followed by two public Budget Workshop meetings: the first being an all-day session on October 6th, the second being an afternoon and evening session on October 28th.

THE BIG PICTURE

The 2021 proposed operating budget revenue is currently projected to be \$35 Million as compared to the 2020 operating budget revenue of \$36.8 Million – a 5% net decrease in revenue of just under \$1.8 Million.

The proposed operating budget expenses are currently project to be \$36.5 Million, which is \$282,000 or .77% less than 2020 budgeted expenses. The 2021 operating budget expenses are not less than the 2020 operating budget expenses because \$280,000 in capital funds have been moved to the operating budget expenses. These recurring expenses have historically been included in capital budget even though they should be considered operating expenses.

There is a projected shortfall of \$1.5 Million between the proposed 2021 revenue and expenses. This shortfall, after many expense cuts implemented in 2020 and continuing into 2021, will require increased revenue sources or the substantial depletion of our fund balance. The fund balance is an important part of the Township's financial health. Best management practices say that a municipality's fund balance should not be used for ongoing operating expenses but be maintained for one-time unanticipated items.

As will be explained further in the Expenses sections, the Township has implemented measures to drastically reduce expenses to the greatest extent possible. This includes measures to maintain reductions in staff for 2021, trim services, defer projects, and keep some Township facilities closed.

The 2021 Capital Budget proposes a \$6.97 Million budget. The Township is working to limit its capital expenditures to only items that are necessary in 2021. Where possible, we are pushing capital expenditures to 2022 and beyond to delay issuing a bond so the first payment on the bond would not come due until 2022.

REVENUE

The following factors have impacted the Township's revenue projections for 2021:

- A reduction in **Real Estate Tax** revenue of \$305,000 (-1.8%) due to market place conditions often resulting in lower assessed valuations of properties.
- A reduction in **Licenses and Permits** by \$90,000 (-10%) as construction projects have been deferred.
- **Interest from Bank Investment Balance** is expected to decline \$90,000 (-60%) due to historically low interest rates.
- **Recycling** income is expected to decrease nearly \$95,000 (-95%) due to changes in the recycling market.
- The Township anticipates receiving approximately \$200,000 in revenue from the state and/or federal **Emergency Management** agencies reimbursing it for expenses related to the pandemic and civil unrest.
- **Curtis Hall Rental Revenue** has been increased per the projected revenues from Jeffery A. Miller Catering's (JAM) proposal from \$65,000 to \$80,000. Catering venues experienced significant revenue losses in 2020 due to the pandemic. Some events have occurred in 2020, but most have been pushed off until 2021. Until the pandemic, JAM had 30 events scheduled in 2020 and was on schedule to beat its projections. Between delayed events and new bookings, we are hopeful JAM can meet projections if events are permitted to occur.
- Revenue from **Recreation Programs** has been included in the 2021 budget; however, the decision to run these programs will be made on a case-by-case basis in coordination with health officials.
- **Act 511 Taxes** (Earned Income Tax, Local Service Tax, Deed Transfers and Mercantile/Business Privilege Taxes) are projected to decrease \$505,000 from 2020 to 2021. \$325,000 of this projected reduction is for Mercantile

and Business Privilege Taxes. The 16% reduction is projected for Merc/BP Taxes since they are based on business revenue from 2020. Earned Income, Local Service Taxes and Deed Transfer fees are only projected to decline 3% in 2021 based on better than expected collections in 2020.

- **Delaware Valley Trust and Delaware Valley Workers Compensation Trust** revenue is anticipated to provide combined dividend income of \$288,000 in 2021, a decrease of 17%. This decline in revenue is due to changes occurring in the utilization of these covered services.

EXPENSES

As I will explain, cuts have been made in almost all of our departments or cost centers. Unfortunately, most of the cuts come in the form of employee reductions. These decisions have not been made lightly, as each loss is a valuable member of our team.

- In our **Administration Department**, expenses have been decreased by 13.8%. This decrease is due to the elimination of four full-time positions. Legal fees, however, are expected to be higher than normal in 2021 because the Township will be entering into negotiations with all three of its unions.
- In our **Miscellaneous Administration** Cost Center, expenses are expected to increase 5.5%.
 - Group health insurance premiums are anticipated to increase approximately 5.7%; however, with the proposed reduction of employees, Group Health Insurance, Employee Pension Plan Contributions, and FICA costs will likely be reduced.
 - Unemployment Compensation is expected to nearly double to \$20,000 due to costs associated with furloughs.
 - Transfer to Sinking Fund will increase from \$362,000 to \$690,000 to reflect the new debt repayment schedule following the sale of the

sewer system. Under the new debt repayment schedule, the 2020 payment was just interest, while 2021 shows the addition of a principal payment. The 2022 debt schedule will have another nearly \$275,000 increase after which the debt payments will level off for the remainder of the roughly 25 to 30-year term of the bonds.

- The **Streets and Bridges** Cost Center shows a reduction of 9.4% overall. This reflects a transfer of \$461,000 in salaries to the Liquid Fuels budget.
- The **Street Lights and Traffic Signals** Cost Center shows a reduction of 11.9% due to the transfer of our Street Light and Traffic Signals Superintendent's salary to the Liquid Fuels budget.
- The **Stormwater Management** Cost Center shows a reduction of nearly 30% due to the removal of some left over cost items related to the sanitary sewer in 2020.
- The **Refuse** Cost Center is remaining relatively stable with a 1.25% reduction of \$24,000 in 2021. This is primarily reflected in the halving of part time summer helpers. Costs for refuse and recycling disposal are projected to increase 9.5% or \$58,000 in 2021.
- The **Police** Cost Center will be reduced 2.8% or \$267,000. This decrease is primarily due to retirements and other staffing reductions. The overall number of officers will be carefully reviewed as we enter labor negotiations.
- The **Parks and Recreation** Cost Center will be reduced nearly 1.5% by \$2,500. This department will be most affected by the pandemic, since most recreation programming is in person. Staffing was scaled back the most in this department and scaling back up will be dependent upon conditions in 2021.
- The **Swimming Pools** Cost Center expenditures will be increased by \$50,000 or 21.4% due to the inclusion of expenditures formerly expensed as capital costs. Like with Parks and Recreation, the decision to open the pools

will be made in conjunction with current guidance and consultation with health officials.

- The **Township Building** Cost Center reflects a 26% decrease of \$97,000. This is largely due to the elimination of two full time positions.
- The **Finance Officer** Cost Center will be reduced 11% by \$13,000 due to a reduction in compensation to the Finance Officer.
- The **Fire** Cost Center will remain relatively stable with a 0.1% reduction. No increases or reductions in the contributions to the five volunteer **Fire Companies** are proposed in 2021 (total contributions will remain at \$832,500). The Township and Fire Companies are both anticipating the release of the long-awaited Pennsylvania Department of Community and Economic Development (DCED)'s Fire Study, which, similar to The PFM Study, should provide outside, expert guidance on how to efficiently provide vital fire services to our community. On behalf of my fellow Commissioners, I offer our heartfelt thanks to the dedicated men and women who dedicate their lives to saving lives and property at all times of day and night and in all kinds of weather. They volunteer their time without pay.
- The **Planning and Zoning** Cost Center will be reduced by \$53,000 or 10% due to the elimination of one full time position.
- The **Emergency Medical Service** Cost Center will remain relatively stable with a projected 0.3% reduction in expenses.
- The Township will hold the line on its contribution of \$1.713 million to the Cheltenham Township **Library** System. There will also be a separate building maintenance expenditure of \$16,250 added in 2021. Our new library director, who took over the reins in April amidst the challenges of the pandemic, has ambitious plans for the future of our Library. We look forward to seeing her bring these ideas to fruition.

LIQUID FUELS BUDGET

The Township's Liquid Fuels Budget is derived from funds from the State gas tax utilizing a formula based on population and miles of locally-owned roads; it can be used to support construction, reconstruction, maintenance and repair of public streets and bridges. Typically, Cheltenham uses Liquid Fuels funding to finance its annual snow removal and milling and paving program, which supports the paving of 2 to 2.5 miles of Township roads each year.

In an effort to reduce the impact of projected revenue losses on the 2020 budget, the Board of Commissioners, under the recommendation of its Interim Township Manager, eliminated the 2020 milling and paving program and moved the cost of some of its Public Works employees who support the maintenance and operation of the Township's road network to the Liquid Fuels Budget.

In 2021, the Township's Liquid Fuels allocation is expected to decrease 8%, or \$81,000, to \$930,000. This reduction is steeper than the 2% reduction in 2020. Since the Township's Liquid Fuels Budget is financed through taxes on vehicle fuel sales in Pennsylvania, a projected reduction in miles driven and increase in the number of fuel efficient vehicles will cause the Township's annual allocation to decline over time.

In 2021, the Township will continue to use Liquid Fuels to finance wages for some of the staff responsible for the maintenance of Township streets. Between the carry forward balance from a milder than expected 2019-2020 winter season and a deferred milling and paving program in 2020, the Township plans to resume its paving program in 2021, allocating \$1 million to this effort – doubling the normal annual paving program funding level. Our new Township Manager will work closely with Township staff to identify roads for the 2021 paving program and plans to bid the proposed streets out this winter for an optimal bid price.

OTHER CONSIDERATIONS

Despite the bleak economy of 2020, Cheltenham is tirelessly working to position itself as a great place to live, work and play. Over the past few years, we have worked to set the stage for economic development in the Township through the adoption of brand new Zoning and Subdivision & Land Development ordinances. But our work is not done. We are beginning to work with the Montgomery County Planning Commission on an update to our 2005 Comprehensive Plan – a plan that will help us evaluate and shape the future of our Township. We look forward to having our community involved in this 2 to 3 year process.

The Township has also begun the process of studying the feasibility of implementing a Stormwater Impact Fee to help fund the increasing state and federal water quality requirements and address flooding and other stormwater issues that greatly affect the Township’s residents and businesses. The goal is to have a fee ready to be implemented in 2022. This will provide a dedicated funding source for stormwater operating and capital expenses that will help protect the health, safety and welfare of our residents and their property.

New development and redevelopment is also important to Cheltenham’s economy, as it brings new jobs, new taxes, and generally improves the quality of life for our residents and businesses. Cheltenham is doing the best it can to support new development in the Township while also protecting the interests of the existing community. Some recent development projects include:

- Greenleaf at Cheltenham is wrapping up a \$50 million investment in Cheltenham. Less than a handful of tenant spaces remain.
- Site work has begun on the Ashbourne Meadows project at the former Ashbourne Country Club this year with construction on new residential units scheduled to begin in early 2021.

- The 115-room boutique hotel and conference center at the Elkins Estate is working through final land development details before it begins renovations in 2021. Interior demolition work has already begun.
- Site work is expected to begin by the end of this year on the Wawa Food Market on South Easton Road and Waverly Road in Glenside, with the store scheduled to open in 2021.
- We are excited to have other investments in the retail, restaurant, professional office, institution and residential development sectors in the Township, as well.

To help attract new residents and businesses to our community, our new Township Manager is looking to update our website so it can more effectively meet the needs of our existing community and promote all that this Township offers. Work on this update is scheduled to begin in early 2021.

NEXT STEPS

The Commissioners will continue to work with the Township Manager, Director of Fiscal Affairs and Township Staff to fine-tune projections, maximize revenues and trim expenditures to reduce the operating budget deficit and help fund recurring shorter capital budget purchases, such as police vehicles, computer equipment, playground equipment, etc. between now and adoption of the Final Budget.

The 2021 Budget proposes to implement one of several recommendations from The PFM Study to help improve its financial position. The Board of Commissioners is considering an increase in the Earned Income Tax of 0.5%. This could bring an additional \$4.3 Million in revenue to the Township. After offsetting the projected operating fund deficit, the remaining \$2.78 million will be used to finance capital purchases in 2021 which will allow the Township to delay issuing a bond until it can defer the first payment until 2022. This important action will help set the Township on the path of building a healthy financial future.

The following are important dates in the budget process:

- Next Tuesday evening, November 10th at 8:00 p.m., the Finance Committee will review this proposed budget and make a recommendation regarding an increase in the Earned Income Tax.
- On Wednesday, November 18th at 7:30 pm, the Board of Commissioners is scheduled to adopt the Preliminary Operating and Capital Budgets for 2021. The Board will also authorize advertisement for any proposed increase in the Earned Income Tax.

The Preliminary Budget will be made available to the public for inspection no later than November 25, 2020. It can be found on the Finances & Taxes page under the Departments & Services tab on the home page of the Township's website.

- On Wednesday, December 9th at 8:00 p.m. the Finance Committee will further review and discuss the budget.
- Finally, on Wednesday, December 16th at 7:30 p.m. the Board of Commissioners will hear any public comment on the budget before it considers adoption of the Final Budget. An ordinance considering an increase in the Earned Income Tax may also be considered for adoption at this meeting.

All meetings are open to the public and – as has been the case since the end of March – will be conducted via Zoom. Log-in information for all meetings will be made available on the Township's website. All public input is welcome.

I wish you all a safe, happy and healthy holiday season! And please, support your local businesses and community members through this very difficult time – they are integral to the Cheltenham community!
