

Borough of West Chester

2019 BUDGET MESSAGE

The 2019 Operating and Capital Budget is a comprehensive document that addresses the anticipated revenues and expenditures for ALL borough operations including general government, police, streets, parking, wastewater system, stream protection system, recreation programs, capital funds, and pension funds.

The annual budget document is one of the most important policy documents adopted by Borough Council each year. The budget guides the management of the Borough throughout the year by clearly setting forth the goals and objectives of the Council for the coming year and authorizing the programs that will be carried out to meet those objectives. The budget document also sets forth the management plan for implementing the programs and achieving the community goals and objectives.

The 2019 budget theme focused on two major issues impacting the fiscal health of the Borough:

- Unfunded pension liability - The Borough is increasing its uniformed and non-uniformed pension funding contribution in order to reduce this liability. The liability is ~\$15MM. Our 2018 Minimum Municipal Obligation (MMO) is ~\$1.7MM (net of state aid). Please see Appendix A for more information regarding the projected MMO levels (including assumptions) through year 2037 as provided by the Borough's actuary Mockenhaupt Benefits Group. Generally, the chart shows that our MMO will continue to increase in the short term but will eventually decrease due to the realization of the alternative retirement plan for new employees. The new plan was implemented in 2013. Although the MMO will eventually begin to decrease, the unfunded liability will not decrease unless Council increases annual contributions significantly.
- Other Post Employment Benefits ("OPEB") Obligations (Retirement healthcare for Police Officers). The OPEB liability is ~\$4.0MM and in 2019 it will increase to \$4.4MM.

Additionally, the Department Directors were tasked with reducing their operating expenses by 5% from 2018 Budget levels (net of salaries, capital, pension, bond/debt payments and interfund transfers) for the 2019 Budget. They cumulatively succeeded by reducing budgeted operating costs by \$1.01MM, or 10.6%.

REVENUE HIGHLIGHTS

The following **revenue assumptions** were used in formulating this Budget:

- Earned Income Tax Rate increase from 1.0% to 1.25% as approved by Borough Council at the Public Hearing on November 14, 2018. This increase will go into effect on January 1, 2109 and will generate an additional \$1.7MM which will be restricted to paying down the unfunded pension liability as well as

the unfunded OPEB liability. These unfunded liabilities total ~\$19MM.

- No Property Tax Rate increase. There has not been an increase in this category since 2011.
- No Sewer Fee Rate increase and rates have not been adjusted since 2012.
- No change to Parking street meter rates over 2018. Garage rates increased effective January 1, 2019.
- No increase in Building Permit Fees.
- No increase in Stream Protection Fee. The fees remain at the same levels as 2017.
- 4.0% increase in the collection of Earned Income Tax revenue over 2018 (+\$136k).
- No change in Realty Transfer Tax over 2018.
- No change in the Local Services Tax over 2018.
- 4.0% increase in the collection of Property Taxes over 2018 (+\$206k).
- A medical plan pool rebate is anticipated from our benefits agent PMHIC expected at \$365,000. This was slightly lower than 2018 which came in at \$390k.
- State-shared revenue projections remain constant overall versus 2018:
 - Liquid Fuels will generate \$459k and subsidizes numerous paving projects throughout the Borough. These funds are provided by the State through PennDOT as an annual subsidy for municipality highway maintenance expenditures.
 - The Foreign Fire Relief Fund produces \$117k on behalf of the Borough's fire departments. The state generates revenue for the Foreign Fire Relief Fund program through an insurance premium tax on foreign casualty insurance companies. These funds are distributed to the volunteer ambulance squads in the Borough.
- Pension plans will receive the annual State Aid Retirement Contribution which is estimated at \$815k (same as 2018). This is an estimate only because the Borough is not notified of the exact award amount until September, 2019.

EXPENSE HIGHLIGHTS

The following **expense assumptions** were used in formulating this Budget:

- There are two new positions approved in the budget:
 - Fire Inspector in Building and Housing with a \$75k salary. There are still discussions as to whether this will be a full or part time position.
 - Part time Receptionist positions for Borough Hall with a \$20k annual pay rate. These part time positions will be comprised of multiple individuals (2 or 3) to fulfill the reception area needs at Borough Hall.
- A 2.6% increase was applied to employee medical benefit plan costs over 2018.
- Rebate from Pennsylvania Municipal Health Insurance Cooperative (PMHIC) (\$365,000 estimate).

- A 3% pool was established for all non-uniformed non-union staff's 2019 wage rate increases. This equates to \$104k.
- A 3% wage increase for Brotherhood (police) members was budgeted in 2019. The existing contract expires 12/31/18 and the future contract is currently being renegotiated.
- A 3% wage increase for AFSCME members was budgeted per the current contract.
- 15% increase in general/liability and workers compensation insurances.
- Good Fellowship Ambulance contribution was approved for \$88k in 2019. This is the first year of such a contribution.
- Unfunded pension and OPEB liability paydown over 12 years. The total unfunded amount is \$19.7 million.

HIGHLIGHTS BY FUND

General Fund - Administration

■ *Revenue - \$ 17.4 million*

The largest source of revenue to the Borough is Real Estate taxes for \$5.6M whose millage rate remained unchanged at 6.96 since 2011. Real Estate tax revenue provides the baseline funding for services that yield a safe and healthy Community by way of our Police and Public Works Departments. While other municipalities impose individual fees for various public services our Borough does not. For example, our Public Works Department provides weekly trash collection to residents as part of the tax structure while other municipalities charge a separate monthly fee or have privatized this service altogether. Other services provided by the Borough include leaf pickup which reduces hazards to pedestrian and vehicular traffic as well as obstructions to our storm water system. Additionally, and unlike other regional municipalities, our Police Department contends with the residual effects of having over 49 liquor distribution establishments in the community. While this poses a significant challenge to our Police Department they consistently provide the highest standard of service to a community that can boast negligible crime levels and exceptional safety.

Borough Management has made every effort over the years to ensure that these standards remain intact despite the systemic and fiscal challenges presented as a result of our dynamic, ever growing town center, business infrastructure, and population. While the Borough grows in many ways it continues to endure a restrictive tax value base due to the status of those parcels. Based upon the Borough's most recent real estate tax valuation reports from the County the aggregate value of all properties is \$1.1B. While this tax base is impressive it must be noted that only 66% of the value is subject to taxation while the difference (34% or \$381MM base property value) represents "exempt" properties and are not subject to real property taxation.

Earned Income Tax is the next source of revenue and 2019 will see an increase in the levied rates for residents. The combined rate (municipal and school district) increased to 1.25% from 1.0%.

Other sources of revenue include:

- Cell tower lease \$61k.
- Cable Franchise fee \$358k.
- PMHIC employee medical plan rebate \$365k.

► ***Expenditures - \$ 8.3 million***

Expenses in the General Fund's Administrative department are predominantly interfund transfers, salary and benefit related for Administration, Finance, and Human Resources. The total salary and benefit cost is \$1.050MM. Interfund transfers account for \$5.6MM of Administrative costs. Some of the other significant costs under this department include:

- Principal and interest payments for bonds \$775k.
- Human Resource policy handbook update \$30k.
- Donation to Good Fellowship Ambulance \$88k.
- Receptionist position using part time employees \$20k.
- Legal including CBA related costs \$180k.
- Non-Uniform pay rate increase pool \$104k.

General Fund - Police

► ***Revenue - \$ 2.2 million***

The primary revenue generated under the Police department is the contract for services with East Bradford for \$1.36MM. Additional sources of revenue include Violation of Ordinances at \$600k, ELPS services to West Chester University Foundation at \$30k and Court Ordered Restitution at \$35k.

► ***Expenditures - \$ 7.7 million***

Expenses in the General Fund's Police Department are predominantly salary and benefit related and includes Police, Dispatch, and administrative support. The total salary and benefit cost is \$6.875MM.

- The 2019 Budget represents a reduction of \$187k from the 2018 Budget.
- No new staff were added in 2019.
- Purchase of Body Cameras at \$72k.

General Fund - Public Works

► ***Revenue - \$ 1.3 million***

Public Works revenue is generated primarily through grants and fees associated with sanitation services.

- The 2019 Budget includes Green Light Go Grant for \$688k whereby the Borough had to match with a 20% funding. The grant is for the synchronization of traffic signals in the town center area and the major thoroughfares within the Borough.

► ***Expenditures - \$ 4.7 million***

Expenses in the General Fund's Public Works Department consist of salary and benefit related expenses and include employees associated with Street Maintenance, Fleet

Maintenance, Trash Services, Equipment Repairs, and Administration. The total salary and benefit cost is \$2.81MM.

- The Green Light Go required a match of \$176k in order to benefit from the program.
- No new staffing requests for 2019. The Public Works budget eliminated the arborist position and the department currently has open positions.
- The budget line item from Waste Water “maintenance of sanitary sewer lines” was moved to Public Works for \$223k. This was historically budgeted in Waste Water.
- All Borough fuel costs (except for Police) budgeted in Public Works at \$114k.
- Landscaping services contracted with vendor JHL Landscaping at \$65k.
- Snow removal costs at \$125k for salt and contract services.
- Recycling disposal costs increased by \$60k.

General Fund - Information Technologies

■ ***Expenditures - \$ 407 thousand***

Expenses in the General Fund’s Information Technologies Department consist of salary and benefit related expenses for a total of \$217k.

- The 2019 Budget represents a reduction of \$95k from the 2018 Budget.
- No new staffing requests in 2019.
- Decreases in Engineering \$6k and Licensing \$6k from 2018.

General Fund – Building and Housing

■ ***Revenue - \$ 931 thousand***

Building and Housing revenue is generated primarily through Permit Fees for:

- Building \$350k.
- Electric \$50k.
- Mechanical \$50k.
- Plumbing \$50k.
- Housing/rentals \$237k.
- Fire Inspection revenue added \$75k in 2019. This is the first year of the fee.

■ ***Expenditures - \$ 783 thousand***

- New Fire Inspector position \$75k. There are still discussions as to whether this will be a full or part time position.
- Costs for Zoning Ordinance Update budgeted in 2019 \$100k.

Waste Water Fund

■ ***Revenues - \$ 5.9 million***

Waste Water revenue is generated primarily through residential and commercial billings. Additionally, separate chargebacks are rendered to various industrial operations within the Borough.

- In January, 2019 HRG Engineering will present their findings on the viability of selling the Waste Water plants on the open market.

- No change in Waste Water residential or commercial rates in 2019. These rates have not been changed since 2012.
 - Residential billings to be \$4.3MM in 2019.
 - Industrial sewer surcharge and Outside Plant Effluent revenue to provide \$617k to the Waste Water Fund.
- **Expenditures - \$ 5.9 million**

Expenses in the Waste Water Department consist of salary and benefit related expenses totaling \$1.4MM.

 - The 2019 Budget represents a reduction of \$467k of non-salary expenses from the 2018 Budget.
 - No new staffing requests in 2019.
 - Capital Repairs to plant \$730k.
 - Transfer to General Fund same as 2018 at \$1.5 million.

Parking Fund

- **Revenue - \$ 4.9 million**

Parking revenue is generated from a number of sources including meter operations (\$1.9MM), ticket violations (\$1.1MM), parking garage (\$1.3MM), and lease at Bicentennial Garage (\$66k).
- **Expenditures - \$ 4.9 million**

Expenses in the Parking Department consist of salary and benefit related expenses and include employees associated with Parking Services, Parking Enforcement, and Administration. The total salary and benefit cost is \$996k.

 - New Street, Sharpless and Matlack garage titles were transferred from Borough to West Chester University in 2018. The transfer resulted in a \$14MM reduction of Borough debt.
 - No new staffing requested for the department in 2019.
 - The Budget includes a contingency of \$255k for unanticipated emergencies (ie: structural).
 - Garage legal expense of \$75k included to continue the litigation from the original construction of the Chestnut Street garage.
 - Bond Payments for Borough garages expensed through fund \$445k.
 - Transfer to General Fund same as 2018 at \$1.3 million.

Fire Fund

- **Revenues - \$ 1.0 million**
 - \$761k Contract Service Revenue with multiple Townships.
- **Expenditures - \$ 1.0 million**
 - Revised Intergovernmental Service Contract for 2019 – 2023.
 - No Vehicle Replacements in 2019.

Capital Improvement Fund

This fund was established to streamline the funding for the Borough's capital purchases and improvements.

➤ ***Revenue - \$ 8.6 million***

This fund's revenue includes Public Works new building financing at \$4.0MM as well as interfund transfers from other Borough departments.

➤ ***Expenditures - \$ 8.6 million***

- New Public Works Building at \$4.0MM. This project is not expected to start until 2020.
- Street Paving and Reconstruction \$906k.
- Recreation Improvements at \$63k.
- Stream Protection Sewer Rehabilitation at \$2.1MM
- Waste Water related \$730k.
- Parking department for garage capital maintenance \$795k.

OPEB Fund

This fund is designed to account for costs associated with "Other Post Employment Benefits" (OPEB) specifically for retired Police Officers. This includes the reduction of the Borough's unfunded OPEB liability in excess of \$4.0MM. The additional revenue to pay down the unfunded OPEB liability derives from the incremental increase in the EIT rate.

➤ ***Revenue \$481 thousand***

Revenue generated by incremental increase in the EIT rate.

➤ ***Expenditure \$481 thousand***

- Prior period liability 12 year plan in place as a result of increase in EIT rate.

Stream Protection Fund

➤ ***Revenues - \$ 3.2 million***

- Third year of Stream Protection Fee and no changes to fee structure in 2019.
- Transfer from Bond Proceeds for Stormwater Projects at \$750k.

➤ ***Expenditure - \$ 3.2 million***

- Stormwater Improvement Projects.
- Stream Management and Maintenance.
- Plum Run Stream Bank Stabilization.
- Storm Sewer Rehabilitation.
- Stream Green Infrastructure.
- Debt Service payments for 2016 Bond.

Highway Aid Fund

➤ ***Revenues - \$ 459 thousand***

- Liquid Fuels tax provides the revenue for our program. These funds are provided by the State through PennDOT as an annual subsidy for municipality highway maintenance expenditures.

➤ ***Expenditures - \$ 459 thousand***

- Project based fund utilization since 2016.

- Non-Capital Road Maintenance and Repair.

Equipment and Technology Fund

- **Revenues - \$834 thousand**
 - Interfund Transfers from General Fund, Parking Fund and the Sewer Fund).
- **Expenditures - \$834 thousand**
 - Police Vehicle Replacement (3).
 - Public Works Vehicle Replacement (3) includes 1 Peterbilt Dump, 1 Refuse Truck, 1 Leaf Vacuum.
 - Parking Vehicle Replacement (1).

Recreation Fund

- **Revenues - \$ 815 thousand**
 - Event Income \$114k.
 - Trip Income \$50k.
 - Summer Camp Income \$230k.
 - An interfund transfer from the General Fund for \$277k subsidizes the Borough's Recreation related programs.
- **Expenditures - \$ 815 thousand**
 - Salary and benefits for 2 full time staff plus part time summer camp staffing \$268k. The Recreation department's full time staffing was reduced from 3 to 2 in 2018.
 - Swinging Summer Thursdays \$15k.
 - Restaurant Festival \$38k.
 - Halloween Parade \$3k.
 - May Day \$8k.
 - Turks Head \$13k.
 - Summer Camp Program \$132k.
 - Trip related expenses \$50k.

Pension Fund

- **Revenues - \$ 4.35 million**
 - Transfer from General Fund (including 0.25 point restricted increase in EIT rate) \$3.0 million.
 - Parking \$85K.
 - Sewer \$115K.
 - PA Pension Aid \$815k.
- **Expenditures - \$ 4.35 million**
 - Includes unfunded pension liability 12 year plan \$1.7 million

APPENDIX A

Borough of West Chester MMO Projections Major Assumptions

- The 2018 & 2019 Minimum Municipal Obligations (MMOs) were the actual MMOs.
- The normal cost percentage and administrative expense percentage are assumed to remain constant from the January 1, 2017 actuarial valuation reports (AVR).
- The payrolls for future MMOs for the Police Plan are based on the 2019 MMO payroll increased by 4%/year.
- The payrolls for future MMOs for the Employees Plan are as projected based on the January 1, 2017 AVR, maintaining a constant ratio between valuation payroll and MMO payroll.
- Employee contribution rates assumed to remain unchanged (3.0% Police, 3.25% Employees)
- No future gains or losses are assumed to be recognized.
- Amortization bases were removed from the MMO as scheduled.
- MMO projections are for illustrative purposes only. Actual results will vary.

Borough of West Chester Pension Plans
MMO Projections

Year	Police	Employees	Total
2018	1,673,834	741,719	2,415,553
2019	2,137,162	835,209	2,972,371
2020	2,014,232	753,276	2,767,508
2021	2,042,781	695,902	2,738,684
2022	2,056,369	699,549	2,755,918
2023	2,087,249	749,524	2,836,772
2024	1,937,719	742,107	2,679,826
2025	1,528,009	708,080	2,236,089
2026	1,562,744	611,284	2,174,028
2027	1,183,741	614,475	1,798,216
2028	1,221,311	614,175	1,835,486
2029	1,260,383	538,719	1,799,102
2030	1,301,019	529,854	1,830,872
2031	1,343,280	450,298	1,793,578
2032	1,387,231	240,483	1,627,714
2033	1,203,248	120,831	1,324,080
2034	1,250,786	106,879	1,357,665
2035	1,285,419	109,847	1,395,266
2036	1,336,836	93,055	1,429,891
2037	1,390,309	95,794	1,486,103