

# TOWNSHIP OF LOWER MERION General Fund 2015 Financial Forecast Update

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**Finance Committee Meeting  
July 8, 2015**

# General Fund Financial Forecast Update For The Period 2015 Through 2019

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## Recap Since Last Forecast (11/2014)

- ❖ 2015 Budget Adopted anticipating use of \$2.2 M in fund balance
- ❖ Township completed \$4.195 M Refinancing (Series A of 2015) and \$9.595 M New Money Bond Issue (Series B of 2015) to provide funding for the Township's CIP in January 2015
- ❖ Harsh winter resulted in higher costs for personnel, equipment, and supplies (salt)
- ❖ Finance Committee presentations on Pre-Audit 2014 Financial Results and 2015 First Quarter Financial Performance
- ❖ Capital Improvement Plan (CIP) Workshop held on June 29<sup>th</sup>

# General Fund Financial Results

General Fund (Million \$)	2013 Actual	2014 Actual	2015 Budget	2015 Estimate
Beginning Fund Balance (Undesignated)	\$ 16.8	\$ 20.0	\$ 18.5	\$ 19.7
Revenues	59.3	57.9	58.2	59.4
Expenses	56.1	58.2	60.4	60.7
Surplus/(Deficit)	3.2	(0.3)	(2.2)	(1.3)
Ending Fund Balance (Undesignated)	\$ 20.0	\$ 19.7	\$ 16.3	\$ 18.4
Ending FB as a % of Annual Operating Expenditures	35.7%	33.8%	27.0%	30.3%

## ❖ 2014 Results

- Revenues higher than budgeted by over \$650,000
- Expenditures lower than budgeted by over \$820,000
- Fund Balance draw down less than anticipated

## ❖ 2015 Year-To-Date

- Revenues currently projected to exceed budget; mainly due to higher than expected business tax payments
- Expenditures forecast slightly above budget due to winter storm costs

# General Fund Forecast

## Major Revenue Trends

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- ❖ Stable and growing real estate tax assessment base
  - Positive growth in Township's assessed value over each of past 3 years
  - Assessed value for July 1<sup>st</sup> up \$5.86 M over January 1<sup>st</sup>
- ❖ Overall business tax base – growing receipts signify improving economy
  - Business Tax Audit revenue declining modestly
- ❖ Licenses and permit revenues continue to grow faster than projected and reflect increasing franchise fee payments and permit activity

# General Fund Major Revenue Forecast Trends

## 2015 Forecast Compared to 2015 Budget

- ❖ 2015 GF Revenue Budget is \$58.2 M
  - 2015 GF Revenue Forecast is \$1.15 M or 2% higher compared to Budget

	2014 Actual	2015 Adopted Budget	(July 2015) 2015 Forecast	\$ Variance	% Variance
General Fund Revenue					
Real Estate Taxes - Current Year	\$ 30,366,570	\$ 30,547,000	\$ 30,475,000	\$ (72,000)	-0.2%
Business and Mercantile Taxes	8,993,921	9,162,000	10,800,000	1,638,000	17.9%
All Other Revenues Net	6,486,624	6,793,600	6,460,978	(332,622)	-4.9%
Licenses & Permits	5,513,292	5,250,000	5,306,000	56,000	1.1%
Real Estate Transfer Tax	3,341,636	3,360,000	3,250,000	(110,000)	-3.3%
Local Services Tax	1,881,538	1,825,000	1,840,000	15,000	0.8%
Parking Meters	1,251,882	1,296,000	1,250,000	(46,000)	-3.5%
Net Increase (Forecasted)	\$ 57,835,463	\$ 58,233,600	\$ 59,381,978	\$ 1,148,378	2.0%

# General Fund Major Revenue Forecast Trends

## 2015 Forecast Compared to 2014 Actual

- ❖ 2015 Forecasted GF Revenue is \$59.4 M
  - 2015 GF Revenue Forecast is \$1.5 M or 2.7% higher than 2014 Actual

	2014 Actual	(July 2015) 2015 Forecast	\$ Variance	% Variance
General Fund Revenue				
Real Estate Taxes - Current Year	\$ 30,366,570	\$ 30,475,000	\$ 108,430	0.4%
Business and Mercantile Taxes	8,993,921	10,800,000	1,806,079	20.1%
All Other Revenues Net	6,486,624	6,460,978	(25,646)	-0.4%
Licenses & Permits	5,513,292	5,306,000	(207,292)	-3.8%
Real Estate Transfer Tax	3,341,636	3,250,000	(91,636)	-2.7%
Local Services Tax	1,881,538	1,840,000	(41,538)	-2.2%
Parking Meters	1,251,882	1,250,000	(1,882)	-0.2%
Net Increase (Forecasted)	\$ 57,835,463	\$ 59,381,978	\$ 1,546,515	2.7%

# General Fund Major Revenue Forecast Trends

## 2016-2019 Revenue Projections

### *Major Revenue Growth Assumptions:*

- ❖ Modest growth across primary revenue drivers over the forecast period

General Fund Revenue	(July 2015) 2015 Forecast	2016	2017	2018	2019
Real Estate Taxes - Current Year	\$ 30,475,000	0.80%	0.90%	0.50%	0.50%
Business and Mercantile Taxes	10,800,000	-13.00%	3.00%	3.00%	3.00%
Real Estate Transfer Tax	3,250,000	4.00%	3.00%	2.50%	2.50%
Building & Electrical Permits	2,000,000	3.25%	2.50%	1.00%	1.00%
Local Services Tax	1,840,000	1.00%	1.00%	1.00%	1.00%
Franchise Fees	1,445,000	4.00%	3.50%	3.00%	3.00%
Parking Meters	1,250,000	2.00%	1.50%	1.50%	1.50%

# General Fund 2015 Financial Forecast Update

## Expenditure Trends

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### *Key Expenditure Changes Since November:*

- ❖ Currently project 2015 expenditures at \$325,000 or 0.5% higher than 2015 Adopted Budget
  - Personnel costs (wages and fringe benefits)
    - ✓ Since 2008 nearly 25 fewer full-time-equivalents
    - ✓ Positions are being filled as anticipated in the Budget; projected savings from maintaining vacant positions are meeting projections
    - ✓ Significant storm related personnel costs
    - ✓ Healthcare and prescription drug costs continue to increase well above overall revenue growth



# General Fund 2015 Financial Forecast Update

## Expenditure Trends

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- ❖ Includes debt service costs from the 2015 Bond Issue

- \$4.8 M bond refinancing (Series B of 2010) callable in January - evaluating in conjunction with CIP future funding needs

- ❖ Utility Costs

- Township negotiated a 3-year (2016-2018) fixed price agreement with Constellation Energy at \$0.067/kwh, approximately 4.75% below 2015 rates

- ❖ Higher costs for materials and equipment rentals

- Due to severe winter conditions
- Forecast assumes routine storm activity for remainder of 2015

# General Fund Financial Forecast Update

## 2015 YTD Departmental Expenditures

Department	2015 Budget	2015 Actual	% Spent
Police	\$ 21,913,505	\$ 9,855,984	45.0%
Debt Service	9,567,420	5,879,747	61.5%
Public Works	8,247,539	4,736,640	57.4%
Libraries	4,465,771	1,962,989	44.0%
Parks & Recreation	3,479,176	1,372,155	39.4%
Other	3,244,369	1,675,634	51.6%
Building & Planning	3,138,486	1,262,955	40.2%
Fire	3,162,181	1,458,910	46.1%
Finance	2,061,226	939,425	45.6%
Information Services	1,319,659	611,392	46.3%
Parking	1,120,597	475,921	42.5%
Transfer Out	101,000	-	0.0%
Negative Appropriation	(1,400,000)	-	-
<b>GRAND TOTAL</b>	<b>\$ 60,420,929</b>	<b>\$ 30,232,646</b>	<b>50.0%</b>

# General Fund Major Expenditures Trends

## 2015 Forecast Compared to 2015 Budget

- ❖ 2015 GF Expenditure Budget is \$60.4 M
  - GF 2015 Forecast is \$325,000 or 0.5% higher versus 2015 Adopted Budget

	2014 Actual	2015 Adopted Budget	(July 2015) 2015 Forecast	\$ Variance	% Variance
General Fund Expenditures					
Salaries	\$ 24,431,658	\$ 26,512,823	\$ 25,098,268	\$ (1,414,555)	-5.3%
Employee Benefits	9,113,224	10,284,976	10,043,059	(241,917)	-2.4%
Debt Service Transfers	9,261,521	9,567,420	9,420,500	(146,920)	-1.5%
Other Expenditures	4,160,863	4,440,436	4,499,998	59,562	1.3%
Other Compensation	2,774,111	2,531,724	2,861,161	329,437	13.0%
Contributions	2,023,982	2,078,542	2,066,780	(11,762)	-0.6%
Township Equipment Rental	1,838,023	1,858,461	1,858,461	-	0.0%
Professional Technical Service	1,757,522	1,862,414	1,848,283	(14,131)	-0.8%
Utilities	1,664,963	1,709,320	1,678,823	(30,497)	-1.8%
Materials and Operating Supplies	1,152,415	974,140	1,369,959	395,819	40.6%
<b>Total Expenditures</b>	<b>58,178,282</b>	<b>61,820,256</b>	<b>60,745,292</b>	<b>(1,074,964)</b>	<b>-1.7%</b>
Negative Appropriation		(1,400,000)			
<b>Grand Total Expenditures</b>	<b>\$ 58,178,282</b>	<b>\$ 60,420,256</b>	<b>\$ 60,745,292</b>	<b>\$ 325,036</b>	<b>0.5%</b>

# General Fund Major Expenditure Trends

## 2015 Forecast Compared to 2014 Actual

- ❖ 2015 GF Expenditure Forecast is \$60.7 M
  - GF 2015 Forecast is \$2.6 M or 4.4% higher than 2014 Actual

	2014 Actual	(July 2015) 2015 Forecast	\$ Change From 2014 Actual	% Change From 2014 Actual
General Fund Expenditures				
Salaries	\$ 24,431,658	\$ 25,098,268	666,610	2.7%
Employee Benefits	9,113,224	10,043,059	929,835	10.2%
Debt Service Transfers	9,261,521	9,420,500	158,979	1.7%
Other Expenditures	4,160,863	4,499,998	339,135	8.2%
Other Compensation	2,774,111	2,861,161	87,050	3.1%
Contributions	2,023,982	2,066,780	42,798	2.1%
Township Equipment Rental	1,838,023	1,858,461	20,438	1.1%
Professional Technical Service	1,757,522	1,848,283	90,761	5.2%
Utilities	1,664,963	1,678,823	13,860	0.8%
Materials and Operating Supplies	1,152,415	1,369,959	217,544	18.9%
<b>Total Expenditures</b>	<b>\$ 58,178,282</b>	<b>\$ 60,745,292</b>	<b>\$ 2,567,010</b>	<b>4.4%</b>

# General Fund Financial Forecast Update

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## *Other Key Issues:*

- ❖ Continue to evaluate cost saving opportunities without reducing services and restrain new unnecessary spending
- ❖ Upcoming Workers Association contract negotiations
- ❖ Township's Triple A bond rating reaffirmed – continues to provide lowest possible borrowing costs for Township's debt
- ❖ Reduced General Fund asset replacement contribution to the Equipment Fund by 50% annually since 2010
  - Township restored \$1 M of funding with one-time transfer from the General Fund to the Equipment Fund in 2012
  - Cumulative impact of funding reductions will begin to impact Township's fleet in coming years

# General Fund Financial Forecast Update

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## Forecast Assumptions:

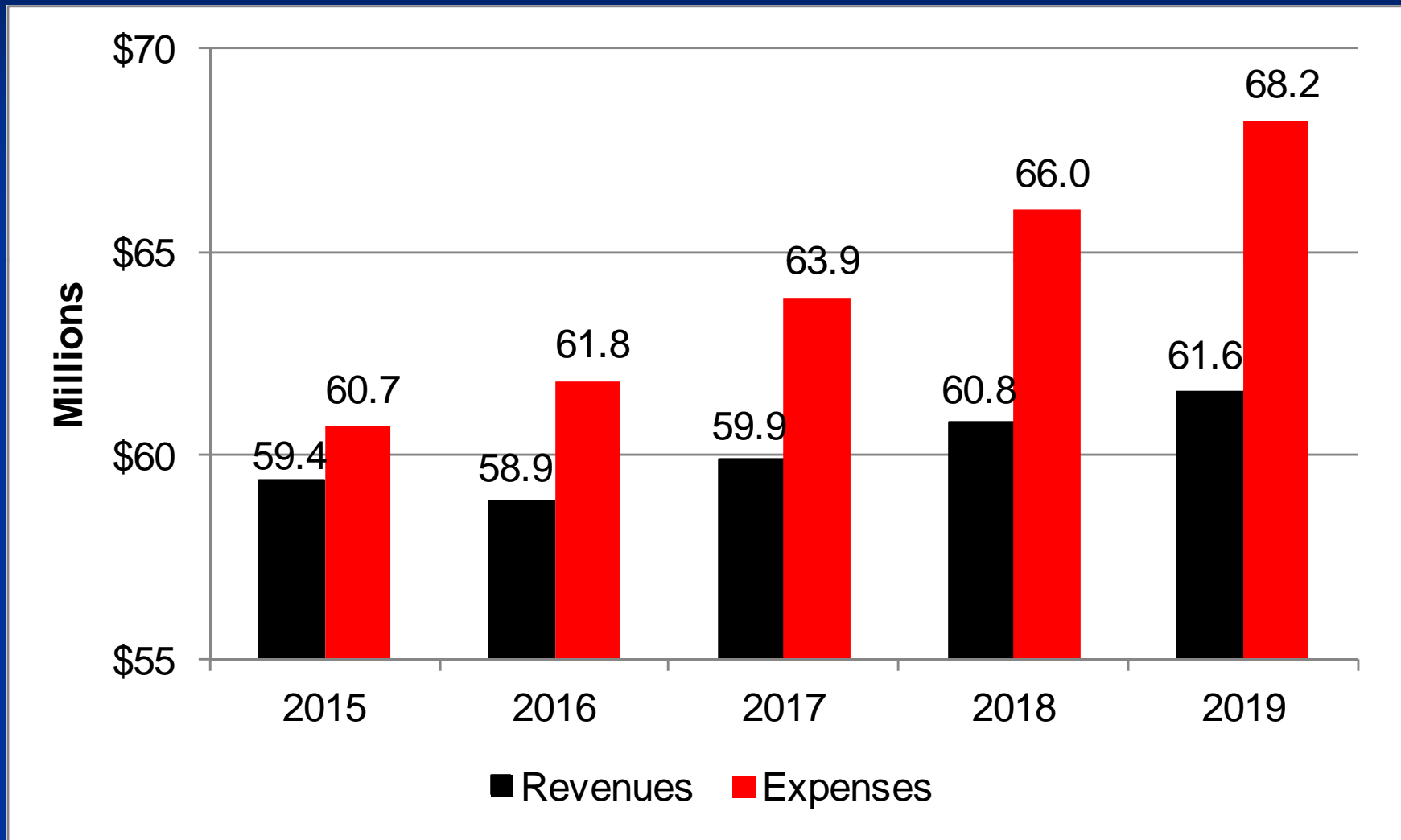
- ❖ Revised revenue and expenditure growth assumptions based on current economic conditions and projected future cost increases
- ❖ Assumes current levels of Township services and staffing
- ❖ Anticipates new money borrowings (2016-2019) of approximately \$10 M annually
- ❖ Includes known State and Federal Budget mandates/reductions
- ❖ Continuation of the General Fund asset replacement contribution to the Equipment Fund at 50%
- ❖ Affordable Care Act (ACA) cost provisions
  - Excluded due to lack of regulatory clarity; however, ACA Excise Tax or “Cadillac Tax” beginning in 2018 will likely be a significant cost to the Township without further plan modifications

# General Fund 5-Year Financial Forecast (updated July 2015)

General Fund (Million \$)	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
Beginning Fund Balance (Undesignated)	\$ 19.7	\$ 18.4	\$ 15.5	\$ 11.5	\$ 6.3
Revenues	59.4	58.9	59.9	60.8	61.6
Expenses	60.7	61.8	63.9	66.0	68.2
Surplus/(Deficit)	(1.3)	(2.9)	(3.9)	(5.2)	(6.6)
Ending Fund Balance (Undesignated)	\$ 18.4	\$ 15.5	\$ 11.5	\$ 6.3	\$ (0.3)
Ending FB (% of Operating Expenditures)	30.3%	25.0%	18.0%	9.6%	-0.5%
Ending FB (% of Operating Expenditures) @ 18%	\$ 10.9	\$ 11.1	\$ 11.5	\$ 11.9	\$ 12.3
Ending FB (% of Operating Expenditures) @ 15%	\$ 9.1	\$ 9.3	\$ 9.6	\$ 9.9	\$ 10.2
Additional Funds needed to maintain 18% FB	\$ (7.5)	\$ (4.3)	\$ (0.0)	\$ 5.6	\$ 12.6
Additional Funds needed to maintain 15% FB	\$ (9.3)	\$ (6.2)	\$ (1.9)	\$ 3.6	\$ 10.6

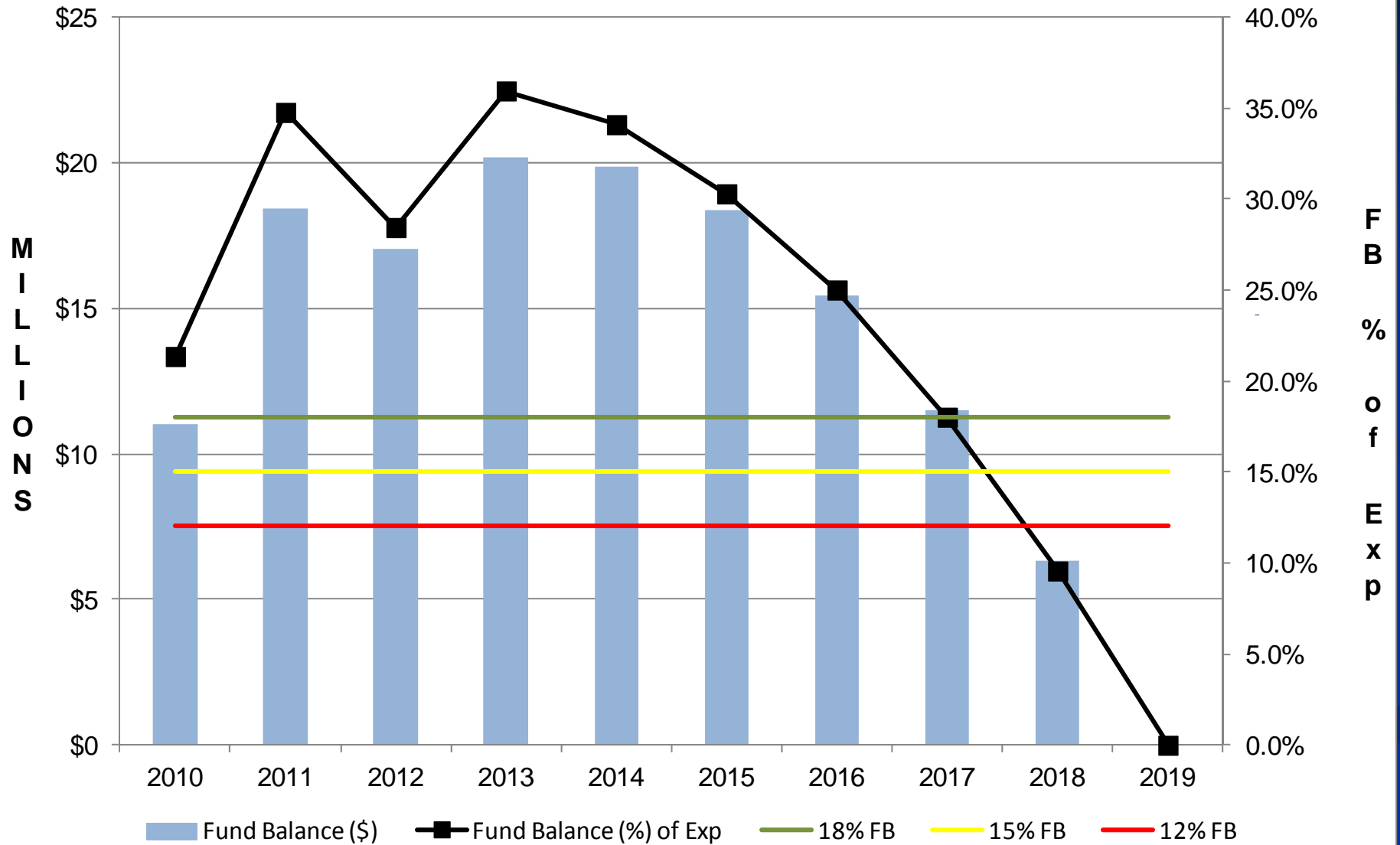
- ❖ No real estate tax increases
- ❖ Expenditures without changes to current service levels
- ❖ Growing annual deficits without additional revenue or significant expenditure reductions
- ❖ Fund Balance levels at or above 18% of expenditures through 2017

# General Fund 5-Year Financial Forecast (updated July 2015)





# GF 5-Year Financial Forecast - Fund Balance



# GF 5-Year Financial Forecast (2015-2019)

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## ❖ Overall Summary:

- Moderate revenue growth of approximately 1.2% annually
- Expenditure growth totaling 3.2% annually
  - Expenditure Cost Drivers:
    - ✓ Employee health care (8%)
    - ✓ Debt service for CIP (3.3%)
    - ✓ Payroll costs
- How to use the financial flexibility the Township's fund balance provides to not only balance our current year's budget, but help further transition Lower Merion to a more structurally balanced budget

# 2015-2016 Financial Planning

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- Budget Workshop including Departmental Budget Presentations scheduled for September 10<sup>th</sup>
- Distribution of Proposed 2016 Budget and CIP Budget (2016-2021) Friday, Nov 6<sup>th</sup> (tentative)
- First Public Hearing on Proposed 2016 Budget and 2016-2021 CIP: Nov 18<sup>th</sup>
- Second Public Hearing on Proposed 2016 Budget and 2016-2021 CIP: Dec 2<sup>nd</sup>
- Adoption of 2016 Budget and 2016-2021 CIP: Dec 16<sup>th</sup> (BOC regular meeting)
- Questions/comments from the Board of Commissioners