**TOWNSHIP OF LOWER MERION**

**FINANCE COMMITTEE** **Wednesday, July 25, 2018**
**7:00 PM ( Approximately)**

Chairperson: C. Brian McGuire
Vice Chairperson: Todd M. Sinai, V. Scott Zelov

AGENDA

1. **FIVE YEAR (2018 – 2022) GENERAL FUND FINANCIAL FORECAST AND PRELIMINARY 2019 BUDGET PLANNING (DISCUSSION ONLY)**

## AGENDA ITEM INFORMATION

ITEM: FIVE YEAR (2018 – 2022) GENERAL FUND FINANCIAL FORECAST AND PRELIMINARY 2019 BUDGET PLANNING (DISCUSSION ONLY)

The Chief Financial Officer will provide a presentation of the Township's updated General Fund Five Year (2018 – 2022) General Fund Financial Forecast and discuss the Preliminary 2019 Budget Planning.

## PUBLIC COMMENT

### ATTACHMENTS:

| Description | Type |
|---|---|
| FIVE YEAR (2018 – 2022) GENERAL FUND FINANCIAL FORECAST AND PRELIMINARY 2019 BUDGET PLANNING (DISCUSSION ONLY) | Issue Briefing |

# Township of Lower Merion
# General Fund
# 2018 Financial Forecast Update

Finance Committee
July 25, 2018

# Overview of Presentation

I. 2017 and Year-to-Date 2018 Financial Performance

II. General Fund Revenue Trends

III. General Fund Expenditure Trends

IV. Updated General Fund Financial Forecast

# 2017 & YTD 2018
# Financial Performance

# General Fund Financial Forecast Update

## Recap Since Previous Financial Forecast (November 2017)

- 2018 Adopted Budget anticipating use of $3.2 M in fund balance
- 2018 winter storm costs above budgeted levels
- Capital Improvement Plan (CIP) Workshop on June 27th provided direction on the Board's priorities for the 2019 Capital Budget and the 2019-2024 CIP
  - Township staff will work to gather information on outstanding issues in preparation for the Proposed CIP
  - Finance will monitor Capital Projects Fund spending and come back to the Board later in the year with options to provide adequate funding for the CIP

# General Fund Financial Status

| General Fund (Million $) | 2017 Actual | 2018 Budget | 2018 Estimate | $ Variance vs. Budget | % Variance vs. Budget |
|---|---|---|---|---|---|
| Beginning Fund Balance | $ 19.7 | $ 19.0 | $ 21.2 | | |
| Revenues | 64.1 | 62.2 | 65.6 | $ 3.4 | 5.5% |
| Expenses | 62.6 | 65.4 | 65.2 | $ (0.2) | -0.3% |
| Surplus/(Deficit) | $ 1.5 | $ (3.2) | $ 0.4 | $ 3.6 | |
| Ending Fund Balance | $ 21.2 | $ 15.8 | $ 21.6 | | |
| Ending FB as a % of Operating Expenditures | 33.9% | 24.2% | 33.1% | | |

- 2017 General Fund financial performance was very positive versus budgeted levels
- 2018 revenues now projected significantly higher than budgeted
  - o Revenues increased mainly due to reimbursed expenses (PMHIC refund), business taxes and investment income
- 2018 expenditures slightly less than budgeted by nearly $0.3 million despite higher overtime and winter storm costs

# General Fund Revenue Trends

# General Fund Revenue Trends

- Growing real estate tax assessment base
  - Township's assessed value has increased each of past 6 years
  - Assessed value as of July 1st increased $17.6 million or 0.23% versus January 1st. Assessment appeals beginning, but not yet a major concern at this point
- Business tax base showing substantial growth at this time without significant business tax audit revenue
- Real estate transfer tax revenues strong compared to budget and previous years, awaiting important July/August results
- Licenses and permit revenues has slowed somewhat
- Increased revenue in reimbursed expenses due to PHMHIC refund and higher cash balances and increasing interest rates have fueled increases in investment income

# General Fund Revenue Trends

- 2018 General Fund Revenue Estimated Actual is $3.35 million or 5.4% higher than the 2018 Budget
  - Positive revenue performance led by reimbursed expenses, business taxes and investment income

| General Fund Revenue | 2018 Adopted Budget | (July 2018) 2018 Forecast | $ Variance | % Variance |
|---|---|---|---|---|
| Reimbursed Expenses | $ 250,000 | $ 2,200,000 | $ 1,950,000 | 780.0% |
| Business & Mercantile Tax | 10,625,000 | 12,000,000 | 1,375,000 | 12.9% |
| Investment Income | 345,000 | 530,000 | 185,000 | 53.6% |
| Real Estate Transfer Taxes | 4,200,000 | 4,300,000 | 100,000 | 2.4% |
| Parking Revenue | 1,050,000 | 1,150,000 | 100,000 | 9.5% |
| All Other Revenues (Net) | 40,763,900 | 40,668,100 | (95,800) | -0.2% |
| Building and Electrical Permits | 2,850,000 | 2,750,000 | (100,000) | -3.5% |
| Franchise Fees | 1,575,000 | 1,490,000 | (85,000) | -5.4% |
| Zoning & Subdivision Fees | 575,000 | 500,000 | (75,000) | -13.0% |
| Net Increase (Forecasted) | $ 62,233,900 | $ 65,588,100 | $ 3,354,200 | 5.4% |

# General Fund Revenue Trends

- 2018 General Fund Revenue Estimated Actual is $1.5 million or 2.4% higher than 2017 Actual
  - Again, revenue performance led by business taxes, reimbursed expenses and investment income
  - Projected declines in permit related categories

| General Fund Revenue | 2017 Actual | (July 2018) 2018 Forecast | $ Variance | % Variance |
|---|---|---|---|---|
| Business & Mercantile Tax | $ 10,411,124 | $ 12,000,000 | $ 1,588,876 | 15.3% |
| Reimbursed Expenses | 1,544,541 | 2,200,000 | 655,459 | 42.4% |
| Investment Income | 421,458 | 530,000 | 108,542 | 25.8% |
| Real Estate Taxes - Current | 30,838,661 | 30,940,000 | 101,339 | 0.3% |
| All Other Revenues (Net) | 16,566,180 | 16,118,100 | (448,080) | -2.7% |
| Building and Electrical Permits | 2,896,718 | 2,750,000 | (146,718) | -5.1% |
| Zoning & Subdivision Fees | 625,862 | 500,000 | (125,862) | -20.1% |
| Intergovernmental | 180,956 | 75,000 | (105,956) | -58.6% |
| Plumbing Permits | 576,636 | 475,000 | (101,636) | -17.6% |
| Net Increase (Forecasted) | $ 64,062,136 | $ 65,588,100 | $ 1,525,964 | 2.4% |

# General Fund Expenditure Trends

# General Fund Expenditure Trends

- Personnel costs (wages and benefits)
  - Personnel turnover has slowed somewhat versus previous two years. Open positions being filled; projected vacancy savings as a result of staff turnover are on target
  - Overtime expenses are projected higher than budgeted due to severe winter weather
  - Employee benefits have increased due to higher benefit enrollment and higher overtime driving increased payroll taxes
- Debt Service costs
  - While still a sizable portion of expenditures, overall debt service supported by the General Fund has decreased on a budgetary basis the past two years with the potential to decrease even further in 2019 if no new debt is issued in 2018

# General Fund Expenditure Trends

- 2018 General Fund Expenditure Estimated Actual is $281,760 or 0.4% less than the 2018 Adopted Budget

| General Fund Expenditures | 2018 Adopted Budget | 2018 Estimated Actual | $ Variance | % Variance |
|---|---|---|---|---|
| Salaries | $ 28,836,033 | $ 27,850,636 | $ (985,397) | -3.4% |
| Professional Technical Services | 2,258,514 | 2,109,814 | (148,700) | -6.6% |
| Contracted Services | 1,016,237 | 936,237 | (80,000) | -7.9% |
| Insurance and Claims | 641,198 | 584,730 | (56,468) | -8.8% |
| All Other Expenditures (Net) | 19,820,884 | 19,748,937 | (71,947) | -0.4% |
| Materials & Operating Supplies | 1,097,702 | 1,151,250 | 53,548 | 4.9% |
| Other Compensation | 2,951,463 | 3,041,033 | 89,570 | 3.0% |
| Employee Benefits | 9,892,068 | 10,113,202 | 221,134 | 2.2% |
| Other Charges and Transfer | (1,064,285) | (367,785) | 696,500 | -65.4% |
| Total GF Expenditures | 65,449,814 | 65,168,054 | (281,760) | -0.4% |

# General Fund Expenditure Trends

- 2018 General Fund Expenditure Estimated Actual is $2.6 million or 4.1% higher than 2017 Actual
  - o Generally Estimated Actual declines throughout the year

| General Fund Expenditures | 2017 Actual | (July 2018) 2018 Forecast | $ Variance | % Variance |
|---|---|---|---|---|
| Employee Benefits | $ 2,870,817 | $ 2,719,554 | $ (151,263) | -5.3% |
| Township Equipment Rental | 1,807,318 | 1,657,559 | (149,759) | -8.3% |
| Equipment, Software, Furniture | 240,631 | 124,700 | (115,931) | -48.2% |
| All Other Expenditures (Net) | 26,776,762 | 27,083,666 | 306,904 | 1.1% |
| Materials and Operating Supplies | 976,274 | 1,151,250 | 174,976 | 17.9% |
| Contracted Services | 745,205 | 936,237 | 191,032 | 25.6% |
| Communication Expenses | 744,333 | 971,204 | 226,871 | 30.5% |
| Other Charges and Transfers | (684,954) | (367,785) | 317,169 | -46.3% |
| Other Compensation | 2,639,752 | 3,041,033 | 401,281 | 15.2% |
| Salaries | 26,478,776 | 27,850,636 | 1,371,860 | 5.2% |
| Total Expenditures | $ 62,594,914 | $ 65,168,054 | $ 2,573,140 | 4.1% |

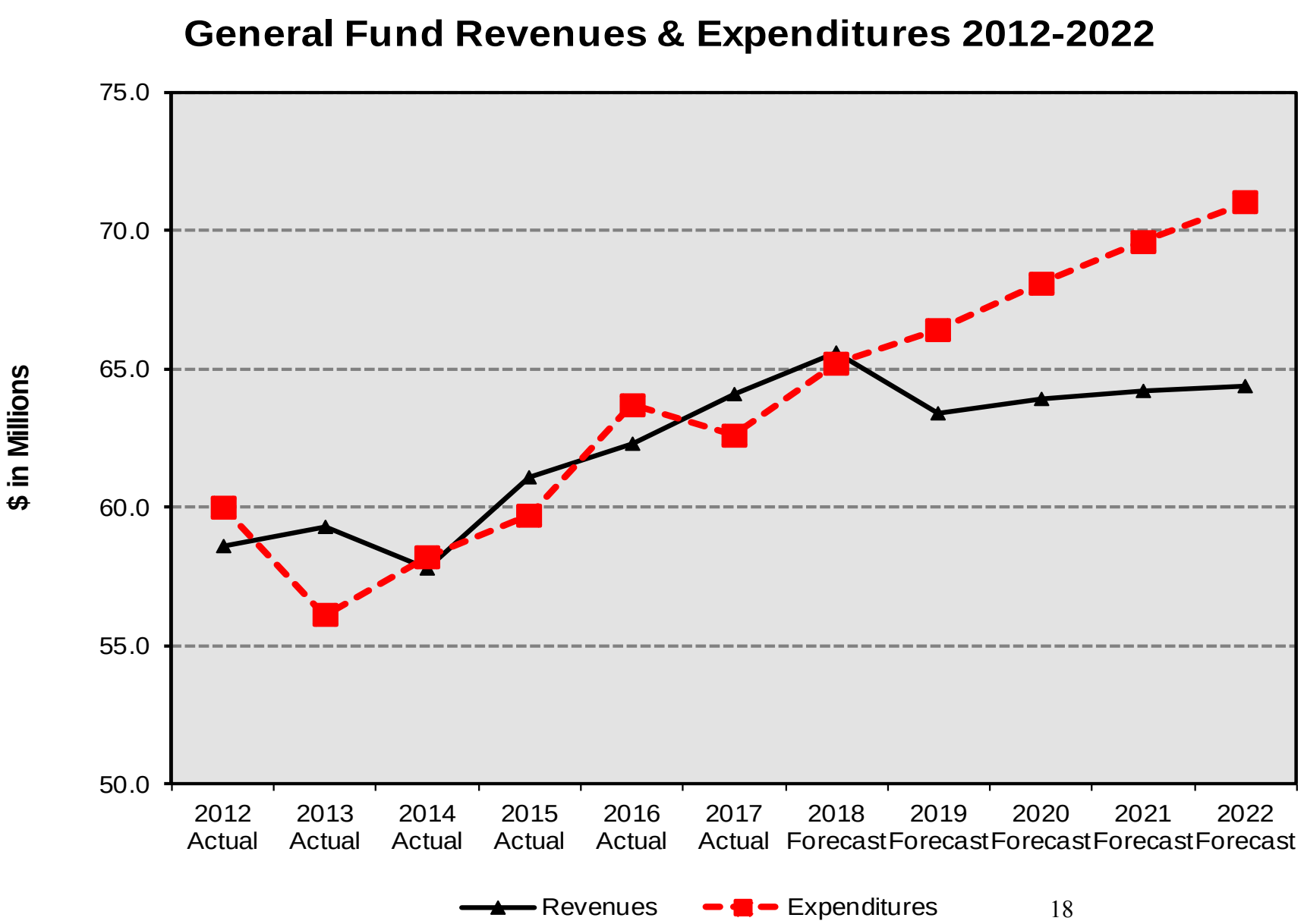
# Updated General Fund Financial Forecast

# Updated General Fund Financial Forecast

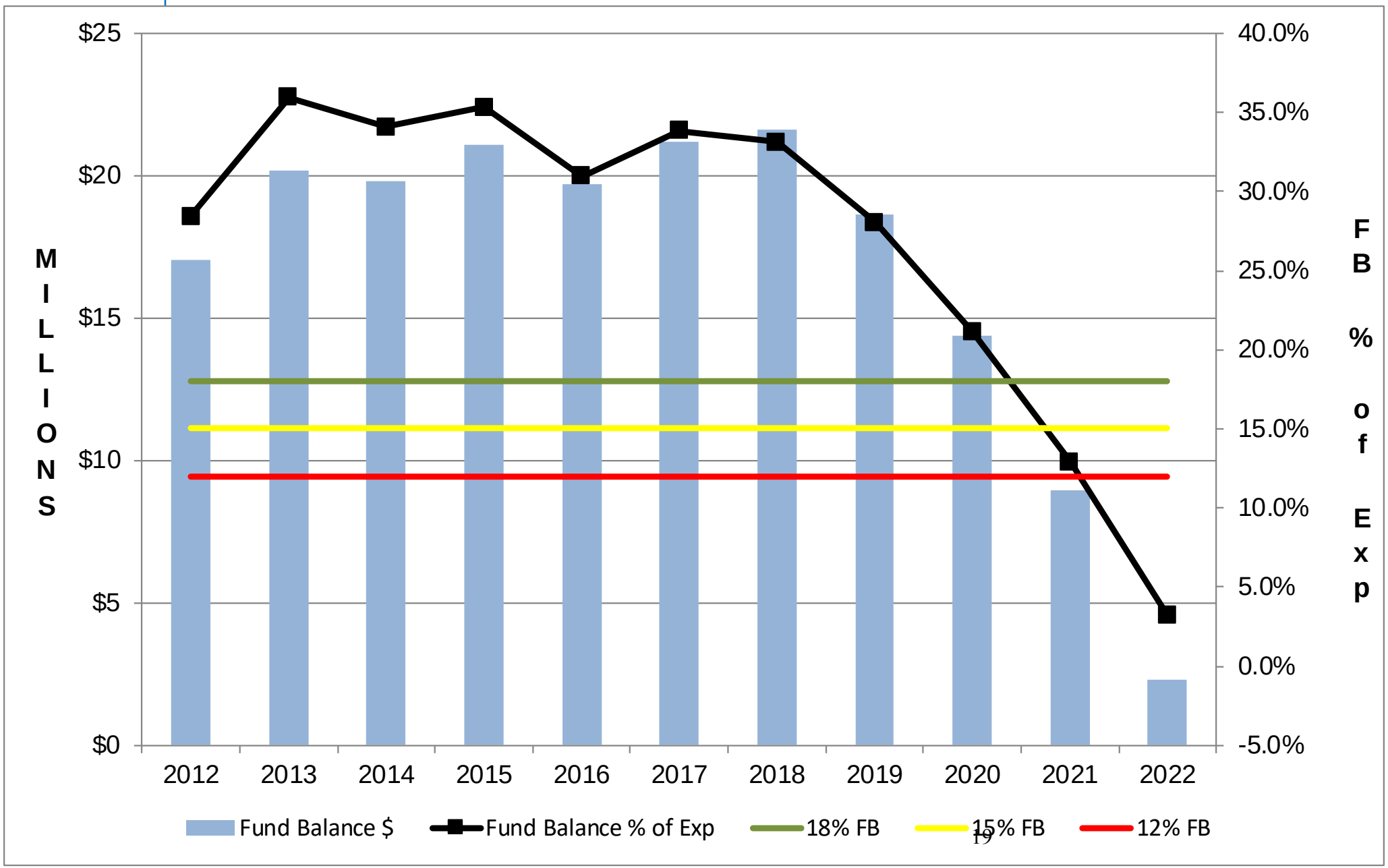
| General Fund (Million $) | 2018 Forecast | 2019 Forecast | 2020 Forecast | 2021 Forecast | 2022 Forecast |
|---|---|---|---|---|---|
| Beginning Fund Balance | $ 21.2 | $ 21.6 | $ 18.6 | $ 14.4 | $ 9.0 |
| Revenues | 65.6 | 63.4 | 63.9 | 64.2 | 64.4 |
| Expenses | 65.2 | 66.4 | 68.1 | 69.6 | 71.0 |
| Surplus/(Deficit) | 0.4 | (3.0) | (4.2) | (5.4) | (6.6) |
| Ending Fund Balance | $ 21.6 | $ 18.6 | $ 14.4 | $ 9.0 | $ 2.4 |
| Ending FB (% of Operating Expenditures) | 33.1% | 28.0% | 21.1% | 12.9% | 3.4% |
| Ending FB (% of Operating Expenditures) @ 18% | $ 11.7 | $ 12.0 | $ 12.3 | $ 12.5 | $ 12.8 |
| Ending FB (% of Operating Expenditures) @ 15% | $ 9.8 | $ 10.0 | $ 10.2 | $ 10.4 | $ 10.7 |
| Additional Funds needed to maintain 18% FB | $ (9.9) | $ (6.6) | $ (2.1) | $ 3.5 | $ 10.4 |
| Additional Funds needed to maintain 15% FB | $ (11.8) | $ (8.6) | $ (4.2) | $ 1.4 | $ 8.2 |

- Assumes no real estate tax increases through forecast period
- Structural deficit remains (while lower than past forecast) with growing annual deficits without additional revenue or restraining the growth of expenditures
- Fund balance levels above 15% of expenditures through 2020

# Updated General Fund Financial Forecast



# Updated General Fund Financial Forecast



# 2019 Budget Calendar

- Budget Workshop scheduled for September 5th
- Distribution of Proposed 2019 Budget and 2019-2024 CIP scheduled for Friday, November 2nd
- First Public Hearing on Proposed 2019 Budget: November 14th (BOC regular meeting)
- Second Public Hearing on Proposed 2019 Budget: December 5th
- Adoption of 2019 Budget and 2019-2024 CIP: December 19th (BOC regular meeting)

- Questions/comments from the Board of Commissioners