

Financial Status in the Budget Process

The Government Finance Officer's Association (GFOA) recommends that the financial status and direction of the government from both short and long term perspectives be considered during the Budget Process. A local government's financial health should be evaluated from three different perspectives: Near-term financing, Financial Position and Economic Condition.

Near-term financing situation asks the questions, "will the government be able to pay its bills (both expected and unexpected) on time?" Following, the withdrawal of Sellersville Borough from the Regional Police Commission, East Rockhill's additional police operating expenses had a drastic effect on the Township's cash management. In 2003, 2004 and 2005 the answer would have been "no". During these years, the Township had spent its fund balance from prior years and continued to spend more than it received in revenues and other sources, frequently borrowing from other funds and thereby creating a negative fund balance in the General Fund. While steady progress towards near-term cash management stability has been made, the Township still needs to borrow a sum of money for operating expenses in anticipation of our tax revenue. It is anticipated that this practice will cease in 2010.

Financial position asks the question "is the government's financial health improving or deteriorating?" Since the Township began including its non-liquid assets in its financial statements in 2004, the Township's net assets have increased each year. However, the increases have been relatively small. This is a reflection of the fact that the Township has not been able to purchase or construct any large scale capital improvements. Beginning in 2007, the Township began re-building its cash reserves. Despite having a tough year with declining real estate transfer tax revenues and not receiving a DEP recycling performance grant, the Township had excess revenue over expenditures. This was decreased to a mere \$3,000 after the Township made a payment to other funds in an effort to reduce the negative fund balance. I anticipate an excess of revenues over expenditures of between \$250,000 and \$275,000 at the close of 2008. The \$220,000 returned to East Rockhill Township from the Police Commission for its share of the Sellersville settlement is included in this estimate. This excess cash on hand will reduce the negative fund balance to a low of \$-21,680 although it will not rid us of the "due to" balances because it is needed for operating flexibility. GFOA recommends a *minimum* un-reserved balance of cash reserves of at least 15% of regular general fund operating revenues, or one to two months of regular general fund operating expenditures; for East Rockhill Township this translates to between \$270,000 and \$285,000.

Economic condition asks the question "is it likely that today's financial position will improve or deteriorate?" East Rockhill Township is balancing on the edge of a financial precipice. Despite efforts beginning in mid 2006 to improve financial management practices by reducing expenditures, the Township has been faced with external economic trends and legislated revenue collection changes that has led to a significant reduction in revenue (real estate transfer tax, building related fees, emergency service tax, gas tax proceeds) and significant increases in expenditures (fuel related increases, utility increases, pension plan and now police services). There is no foreseeable end to these trends. Additionally, East Rockhill Township's tax base is quite narrow. With a stale resale environment, and virtually no new construction activities in the Township, the Township cannot count on revenue from new development to "grow our way" out of financial imbalance. For the past three years East Rockhill has benefited from "one-time" revenues to help us through tough times. In 2006, the Shopping Center transferred ownership resulting in a large transfer tax receipt and Verizon required multiple road opening permits. In 2007 the High School Construction and Renovation project resulted in larger than usual building permit receipts and in 2008 easement agreements with PBA, Community College expansion permits and the Sellersville settlement all resulted in larger than usual receipts. While these occurrences have all improved the Township's financial position, they cannot be counted on in the future and can distort the current financial position. Based on these factors, I am faced with the conclusion that without intervention (tax increase), a change in economic trends or a broadening of the tax base, today's financial position could deteriorate despite our best efforts and intentions.

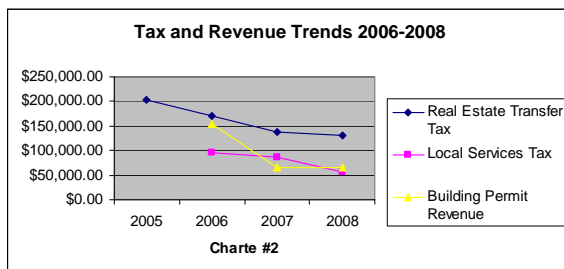
In summary, our strategies to improve our near-term financing abilities and financial position have been successful but our economic condition is uncertain and our resources and ability to “get by” is limited making the financial outlook for East Rockhill anxious. This uncertainty in both the greater economy and our revenue and expenditure projections increases the importance of cash reserves.

Cash reserves for a Township are similar to a savings account for a private citizen. If a citizen has just enough money to meet monthly expenses and suddenly is faced with increased monthly expenses, the checking account becomes over-drawn and sweeps from the savings account occur. If this continues to occur every month, there will be a point in time when the saving account is depleted and there is no safety net. Townships with bountiful cash reserves can use them to off-set deficits that are seen as temporary. However, if it is likely the deficiency could be protracted or re-occur; or if reserves are low to begin with as is the case in East Rockhill Township, this practice is short-sited and can exasperate both near term financing ability and financial position.

2009 Budget Overview

The East Rockhill Township Board of Supervisors considers that its budget is a fundamental instrument of accountability and an essential pre-requisite to balancing current services, new services, capital projects with long term sustainability, debt & long term obligations and community tax burden. It is with this in mind that I have prepared the 2009 Draft Budget for the Board’s consideration.

A key issue in preparing the 2009 budget is the state of the economy at large and the impact of economic trends on the Township’s ability to continue existing service levels with the appropriate degree of sustainability. The impact of the economy at large and the impact of economic trends on Township residents also needed to be considered.



Regular General Fund Revenues have been declining since 2006. In particular, revenues from building related permit fees, and tax receipts from real estate transfers have declined significantly since their peaks in 2006. In addition, lower interest rates mean reduced investment earnings are projected for 2009.

At the same time that revenues and receipts have been on the decline, expenditures and expenses have been

rising. Liquid Asphalt prices in January of 2006 were \$258 per liquid ton. In August of 2008 the price was \$656.00 per ton. Liquid Asphalt prices are just one example of a material or commodity that has seen drastic increases in cost. Electric costs have risen and are projected to increase 30-45% in January of 2010 following removal of the electric generation price cap. Fuel costs and fuel related service costs are in-flux and are difficult to project. Personnel costs such as insurances and pension requirements have also increased by an aggregate of 35%. The proposed allocation for Police Services is also \$53,000 higher in 2009.

Before considering a tax increase the Township made the following decisions to counter the adverse economic conditions.

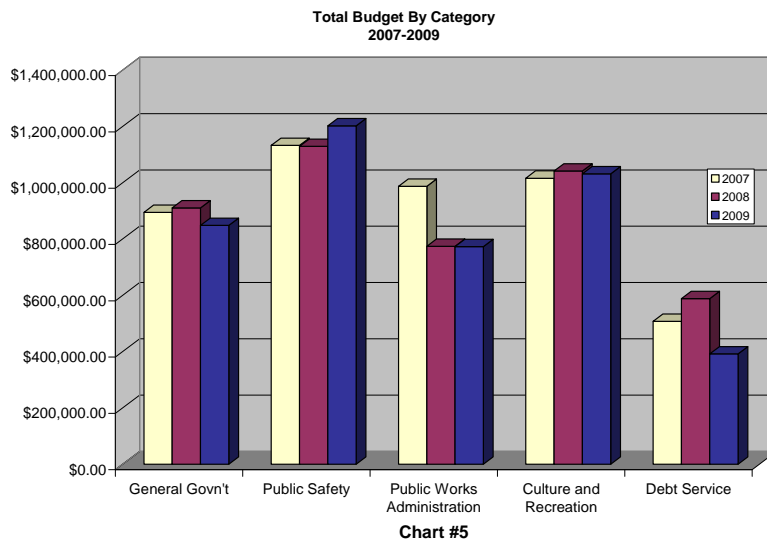
- All non-essential and obligation free expenditures have been cut from the 2009 Budget. Only capital expenses off-set by proposed grant revenue are proposed.
- Employees are projected to receive a 3% wage increase but this is offset by a 1.5% increase in employee-made pension contributions.
- A staff reduction through attrition is planned
- New health care coverage was quoted and obtain that reduces the planned premium increase by changing provider networks and increasing employee co-pays.

The cutbacks proposed are not sufficient to offset the impact of declining revenues and increased cost of providing basic municipal services. In order to maintain current service levels for Police, Code Enforcement, Administration and Public Works, management proposed a 1.2 mill increase to balance the budget. The Board of Supervisors reduce the tax increase to .95 mill in the final budget. The average Township property owner would pay \$238 in Township real estate tax, or 4.29% of their total real estate tax. This would be a \$36 increase from 2008 for that average assessed property owner.

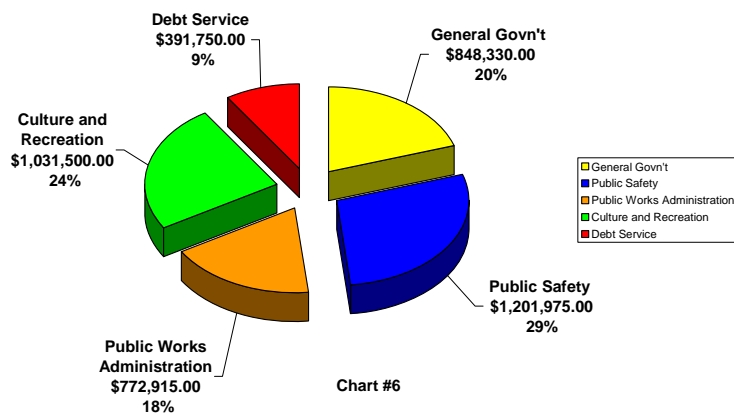
Similar challenges exist in the Sewer Fund. A \$10.00 per quarter increase in the residential sewer rental rate from \$85 per quarter to \$95.00 per quarter is proposed. Non-residential customers will also see their bill increase from \$100 per quarter to \$105 per quarter. Customers will see the increase on their first quarter bill received in April of 2009.

Summary – All Funds

The 2009 Proposed Budget, All Funds totals \$4,246,470.00. This is \$196,960 less than the 2008 Budget. The Township increased spending for Public Safety and decreased spending for general government and administrative services. Public Works Administration has leveled off after an increase in capital projects made possible by a short-term infrastructure loan in 2007. Recreation and Open Space planned expenditures have remained fairly consistent and



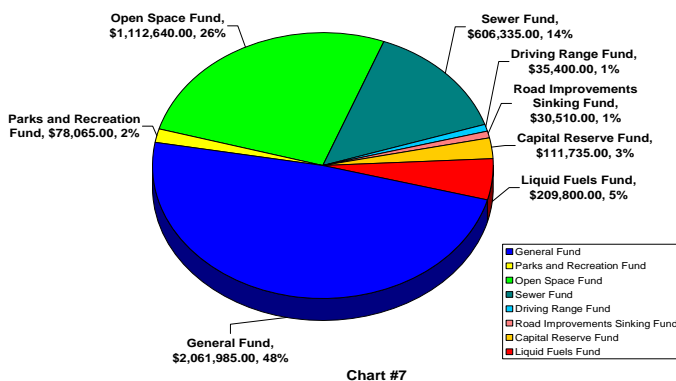
2009 Budgeted Expenditures by Category



debt service is decreasing thanks in part a reduction in the Tax Anticipation Note.

Township resources are allocated by fund. However, categories of expenses transcend all funds. Budget-wide (all Funds), the Township budget projects twenty-nine percent of its resources will be spent on Public Safety, a quarter of its budget will be spent on Open Space and Recreation, twenty percent on General Government, eighteen percent on Public Works and nine percent on Debt Service.

2009 Draft Budget by Fund



The Township's primary funds are General Fund, Open Space Fund, Sewer Fund and Liquid Fuels Funds. Other minor funds include the Capital Reserve Fund, Park and Recreation Fund, Driving Range Fund and Road Improvements Sinking Fund.