

Memo

To: Board of Supervisors
From: Dave Ware
Re: June 21, 2022, Long-Range Planning Session
Date: June 15, 2022

Long-Term Projections

As shown in the attached worksheet, I am projecting the Township’s General Fund balance, excluding the Operating Reserve Fund, to fall below 20% of revenues—the minimum required under the adopted financial policy—in 2027. When combined with the balance of the Operating Reserve, the combined fund balance will fall below 25% of revenues (i.e. 5% minimum for the Operating Reserve and 20% for the General Fund) in 2028 and run out of money all together in 2029.

To clarify, the Township’s financial policy requires the Township’s General Fund to not fall below 20% of annual revenues and the Operating Reserve Fund to be funded at 5% of revenues.

Summary of Forecasts of Key Economic Indicators

As summarized below, both private sector and public sector economists project the economy will struggle through at least 2022.

	Final 2021	2022	2023 and beyond
Unemployment	5.4% (PNC); 5.4% (CBO)	3.6% (PNC); 3.8% (CBO)	3.5% (PNC); 4.0% (CBO)
GDP	5.7% (PNC); 5.7% (CBO)	3.7% (PNC); 3.8% (CBO)	2.0% (PNC); 1.8% (CBO)
CPI/Inflation	4.7% (PNC); 4.7% (CBO)	6.4% (PNC); 6.1% (CBO)	2.3% (PNC); 2.3% (CBO)
Wage growth	1.3% (PNC)	1.8% (PNC)	2.8% (PNC)
Home Prices (Case-Schilling)	18.9%	4.0%	2.0%
Interest Rates (10-year Treasuries)	1.43% (PNC)	2.16% (PNC)	2.59% (PNC)

Sources: PNC= *National Economic Outlook, PNC Bank, late April 2022*; CBO=*Congressional Budget Office, May 2022 Forecast*

Forecasting Assumptions

Note that I have revised the 2022 forecast to reflect the following adjustments:

- EIT increase of 5%; Building Permit increase of 43.6%
- Increased EIT Commission based on increased collections.
- Increased interest income as rates rise by utilizing PLGIT short term investments
- Miscellaneous cost increases for selected line items (e.g. fuel)

Variable	2023	2024 and beyond
Inflation	3.5%	3.0%, then 2.0%
EIT	-3.0%	1.5%
Cable Franchise	.005%	-.25%
Police	5.5%	3.5%
Fire Company Contribution Increase	5.5%	3.5%
Salaries	3.0%	2.0%
Health Insurance	6%	6% (long-term average)
Pickle Ball/Tennis Courts Construction	\$62,000 (matching grant funds)	-
Ponds (funded from Infrastructure Sustainability Fund)	Need to get updated quotes (Bow Tree I)	Need to get updated quotes (Hershey's Mill Estates)
Miscellaneous new requests*	\$0	\$0

*Does not include a placeholder for the various projects; to be discussed.

Points of Discussion (note some of these items are included in the forecast, while others are not)

Fire Company Funding—Included in forecast

- As noted above, the forecast assumes a 5.5% contribution increase in 2023, or about \$23K, and an additional 3.5% annually from 2024-2032, a \$15-\$20K increase each year.
- Discussion on whether this level of contribution meets Goshen’s needs.

Comp Plan—Not included in forecast

- While not reflected in the projections, an update to the Comprehensive Plan should be targeted in 2025, should the Board wish to do so.
- Staff would need to investigate what types of grant funds are available for any of the items agreed on based on future timing.

East Goshen Township Park Pickle Ball/Tennis Courts—Included in forecast

The Board has approved matching funds (Jason secured \$61K in grant funds) for construction of pickle ball and tennis courts. This expense is included in the 2023 projection. The Amphitheatre Band Shell, last estimated at \$65K is currently not in the projections.

Trail Connections, Segment B Alternate Route—Not included in forecast

This has been a topic of discussion in recent meetings already, but neither engineering nor construction costs are currently included in the projections. Would the Board consider in the 2023/2024 Budget or is this a longer time horizon?

Hershey’s Mill Estates Sewer Replacement—N/A (Sewer Fund)

This project is currently in the permitting phase and we are awaiting possible grant funds that were applied for in May. An answer should be forthcoming in November and the project would resume after the rainy season later in 2022.

Milltown Dam/Park & Milltown Park—Not included in forecast

The Dam is awaiting DEP permit approval. Once approved, the project could go out to bid. Although \$1.9M has been earmarked for the project from the 2017 General Obligation Bond proceeds, the most recent cost estimate indicates a price tag over \$4.8M. While EGT has secured \$915K in grants, an additional \$2.0M will be needed to complete the original project’s scope. Additionally, a potential Milltown Park project has been aired although no funds have been forecasted at this time.

Westtown Way Pump Station—N/A (Sewer Fund)

The West Goshen Sewer Authority bid out improvements to the Westtown Way Pump Station in late 2021. 54% of the flows through this pump station come from East Goshen. Our share of the revised cost estimate for this project is about \$1.9M, about \$600K more than what WGSA’s engineer originally estimated, and was the basis for our 2017 bond sale. The reason for the overrun is the need make structural modification to the building to facilitate the removal of the pumps.

When coupled with earlier overruns for the “Phase II” improvements (comag and dewatering systems) at WGSTP, the sewer portion of the bond proceeds are around \$1.1M short. The Board has approved the use of \$915K of ARPA funds received from the federal government to cover the majority of the additional cost, while the Sewer Capital Reserve Fund will make up the remaining expense.

Financial/permitting system—Included in forecast

We have used AMS as our financial/permitting system for two decades. The Board approved purchase of a new system, Edmunds GovTech. The remaining purchase costs are included in my estimated 2022 Projection and ongoing hosting/portal/software costs are included in the Long Range plan. The system is currently targeted to begin implementation in early July.

What If Scenarios

Last year the Board was disappointed not having some proposed tax increase scenarios to solve a potential looming, growing revenue shortfall. This year I have included 3 tax increase scenarios. The worksheet titled “What If Scenario – Real Estate Tax Increases #1” shows forecasted year-end fund balances with a 0.3 millage increase (to 1.55 mills) in 2025, a further 0.35 millage increase (to 1.9 mills) in 2028, and a further 0.35 millage increase (to 2.25 mills) in 2030. At these tax rates and with no expense reductions, the Township would more or less maintain a fund balance in line with our financial policies through 2031 although reserves would be considerably depleted.

The worksheet titled “What If Scenario – Real Estate Tax Increases #2” shows forecasted year-end fund balances with a one-time 1.0 millage increase (to 2.25 mills) in 2025. At these tax rates and with no expense reductions, the Township would maintain a fund balance in line with our financial policies through 2032 with minimal impact to our General Fund and Operating Reserve Fund balances.

The worksheet titled “What If Scenario – Real Estate Tax Increases #3” shows forecasted year-end fund balances with a one-time 0.5 millage increase (to 1.75 mills) in 2025. At these tax rates and with no expense reductions, the Township would more or less maintain a fund balance in line with our financial policies through 2030 although reserves would be considerably depleted, running completely out of money in 2032. This scenario is primarily to indicate the difference between a full 1.0 millage increase vs. a 0.5 millage increase on the fund balances.

As a simple rule of thumb, each 0.1 mill increase in the real estate tax rate generates about \$160,000 in additional revenue and adds about \$25 to a “typical” homeowner’s real estate bill.

Mill rate of area municipalities

Uwchlan	0.12
Willistown*	0.28
East Whiteland*	0.45
West Whiteland	0.71
East Goshen	1.25
East Bradford	1.75
West Goshen	2.00
East Brandywine	2.50
Westtown	3.50
Malvern*	4.67
West Chester	7.70

**GVSD municipalities do not share 1% EIT with SD*