



TOWNSHIP OF WARMINSTER

Members

Kenneth Hayes, Chair
Robert Welsh, Vice-Chair
Nora Finello, Secretary
Paul Luff, Member
Michael Ferris, Member

Budget Committee

MEMORANDUM

TO: Warminster Township Board of Supervisors and Gregg Schuster, Township Manager
FROM: Warminster Township Budget Committee
DATE: October 17, 2018

RE: Warminster Township
Proposed Township Manager 2019 Budget Review

As outlined in the March 15, 2018 Resolution 2018-12, the Budget Committee (Committee) reviewed information provided by Mr. Gregg Schuster, Township Manager, and his staff. The Committee reviewed and discussed previous years' budgets, pension obligations, tax rates, and forward predicting financial models to better understand Township finances and develop options to reach long term financial stability. Based on the information provided, structural deficits are expected to occur in three funds as follows:

1. General Fund - related to increased minimum municipal obligation (MMO) pension costs, reduced one-time development fees, and higher health insurance costs;
2. Parks & Recreation - historically underfunded and predicted with increased maintenance costs because of the Warminster Community Park (WCP) improvements; and
3. Debt Fund - because of debt issuance for WCP improvements and Shenandoah Woods land purchase and storm water basin construction.

Discussions with Township personnel coupled with current and historical review of the Township finances brought unanimous agreement within the Committee that the potential for financial instability were due to the following:

1. Operating expenses increased over the last eight years with no gradual increase in the millage rate;
2. The use of an asset valuation, or "smoothing" method and not a market value defined benefit pension contribution resulted in deferring pension contributions into the future; and
3. The estimated increase in MMO and operating costs are predicted to deplete the General Fund by year 2020.

The Committee reviewed the 2019 Township Manager Proposed Budget dated October 1, 2018 and discussed specific recommendations of changes to the budget and long term options during the October 16, 2018 meeting. Although members had differing opinions on specific recommendations, the general consensus was the

Township will face a General Fund deficit by year 2019 and the Board of Supervisors must take the necessary actions when developing the 2019 budget to stop the depletion of the General Fund. With that consensus in mind, recommendations to the October 1, 2018 Township Manager 2019 Proposed Budget is as follows:

1. Move storm water management to the Warminster Municipal Authority (WMA). This will reduce costs from the General Fund by approximately \$100K and reduce the Debt Fund by \$900K for the Shenandoah Woods storm water basin construction;
2. Increase the millage rate from the proposed 18.69 to 19.0 in 2019. The Township will have to petition the court for 5 mills (14.0 - 19.0), and the additional revenue will enhance the General Fund over time. The financial model predicts the 19.0 millage rate would eliminate a General Fund structural deficit until 2023, or longer. This would provide a "window" for developing a longer term financial plan.
3. Use the proposed \$533K in operating budget funds along with the \$544K in the operating reserve to fund the Police Pension Fund. This will stabilize or reduce the anticipated MMO increases in the future; and
4. Petition Bucks County to complete a property reassessment. The committee agrees this is politically unpopular and highly unlikely to occur; however, Bucks County has the lowest common level ratio assessment of all counties in the State and a reassessment would eliminate any financial instability for well into the future.

Additional options discussed but not recommended include the following:

1. If revenues from the millage rate increase do not alleviate the financial situation as the predictive model suggests, the Township may have to value all assets. The Committee agrees this recommendation is a last resort and should be considered only if unforeseen circumstances arise i.e. severe economic downturn or inaction by the county for recommendation 4 above causing the Township to face severe financial pressures or bankruptcy. The Township may be forced to consider the following:
 - a. Lease the water and sewer system back to the authority. This will increase revenue to the General Fund; however, costs at the WMA will increase resulting in a pass thru cost to the Warminster residents;
 - b. Sell the Sewer portion of the WMA. This adds an undetermined amount of revenue to the General Fund although a potential for increased costs as approved by the Public Utility Commission (PUC). Other surrounding townships are serviced by the WMA;
 - c. Sell the water and sewer systems in their entirety;
 - i. Similar to the sale of the sewer, this will provide long term financial stability; however similar to the sale of the sewer, cost increases will be approved by the PUC.
 - i. Health concerns related to perfluorinated compounds in drinking water, below the current United States Environmental Protection Agency health advisory level of 70 part per trillion. This issue could be resolved in negotiations with potential buyers;
2. Do nothing. This option will bring about insolvency more quickly and may

- force the Township into the Municipalities Financial Recovery Act, Act of 1987, P.L. 246, No. 47, or Act 47. The Pennsylvania Department of Community and Economic Development (DCED) administer Act 47. Information regarding Act 47 is accessible from the DCED webpage at <https://dced.pa.gov/programs/act47/>.
3. Increase the millage rate for the General Fund from 11.09 to 14.0 in 2019, and petition the County to increase the rate from 14.0 to 19.0 in 2020. The financial model predicts this would eliminate a General Fund structural deficit until 2023;
 4. Explore renegotiation of the 25 acres of Shenandoah Woods currently owned by the Department of Defense to allow complete Township control of the land and not just for open/recreational space.
 - d. Use the \$7M General Obligation Note (GON) to purchase the land. Zone the 25 acre parcel as Adult Community Qualified District (AQC) and sell to 55+ developers. The result may be several million dollars to pay down the pension obligation and extend the General Fund millage increases; however, this is a one-time revenue stream from building and zoning permits, impact fees, transfer tax, and other fees.
 - i. The combination of the fees and the sale of the 25 acres to a developer, coupled with the general fund mill increases listed above may extend the solvency of the General Fund beyond 2023.
 - e. The renegotiation does not take into account the following:
 - i. The existing \$100K down payment for the land purchase and possible forfeiture.
 - ii. Over ten years of negotiations with the Navy (and associated costs) and the agreement with the Department of the Interior, who controls the remaining 31 acres, to dedicate the land to the Township pending the 25 acre purchase from the Navy.
 - iii. The GON may not be transferrable to purchase land with the intention of future sale for profit.
 - iv. The Township is a municipal government and not a private entity doing business as a real estate holding company.
 5. Convert a portion of Township Park (Shenandoah Woods as a possible location) to solar fields to sell power generated from the fields to PECO;
 - f. This may create income for the Township; however the return on investment is over a substantial period of time and initial costs will be borne by the Township and remove recreational space for Township residents.
 6. Issue a pension obligation bond.
 - g. This would fully fund previous pension obligations;
 - h. This would not fund future pension obligations;
 - i. The Township would need legal and financial council;
 - j. Buck County issued a bond (using PFM financial advisors) in 2004 that appears successful in eliminating past pension obligations.

The Committee agrees the Board and Township staff have to take action and make difficult decisions to keep the Township financially solvent and maintain services our residents expect and rely on. We look forward to continued work with you to reach a viable and long term financial path for the Township.

Reviewed by: Kenneth Hayes, Robert Welsh, Nora Finello, Paul Luff, Mike Ferris