



Cheltenham Township

Five-Year Financial Plan Plan presentation

June 17, 2020

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Multi-year planning process

Public Financial Management (PFM) developed a five-year financial plan for Cheltenham Township with technical guidance and partial financial support from the Pennsylvania Department of Community and Economic Development and its Strategic Management Planning (STMP) Program. There are three steps to develop the multi-year plan.

Financial condition assessment

- We first need to understand Township government's financial position and the critical underlying factors driving its performance. Then we project the Township's financial performance under a baseline *status quo* scenario to identify and quantify specific financial challenges.

Management review

- Township government does not exist for purely financial purposes. It exists to deliver critical services to the people who live, work, and visit the Township. Similarly, numbers alone won't tell the complete story. So we'll meet with department managers and other staff to discuss what their departments do, how they do it, and why they do it.

Initiative development and plan delivery

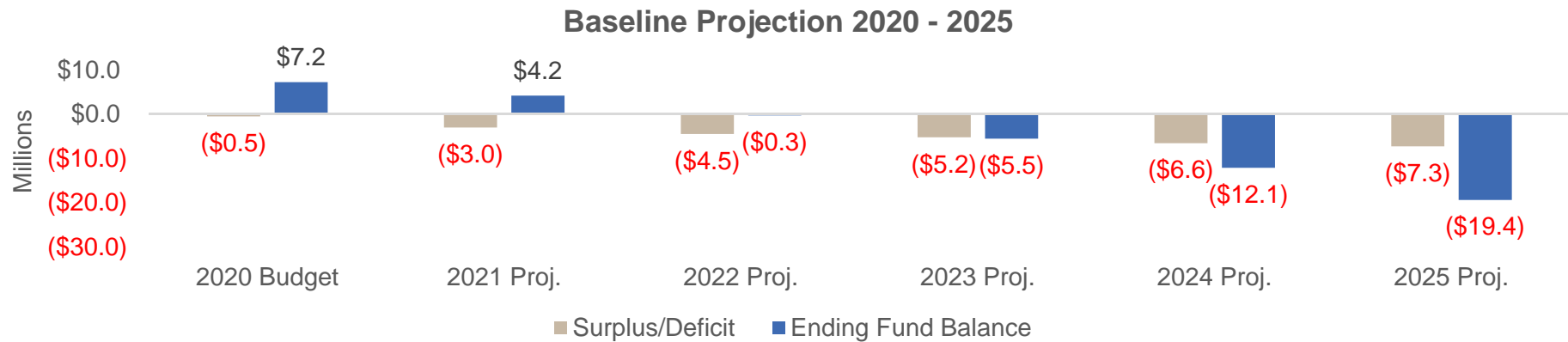
- Guided by the quantitative analysis in the financial condition assessment and the qualitative analysis in the management review, we will develop a series of recommendations (or initiatives) that connect back to a mission statement. Those initiatives are organized into one coherent plan document that we delivered to the Township.



Refresher: Baseline Projection & Mission Review



Refresher: Baseline projection



We presented this baseline to the Township in November 2019 as part of the Financial Condition Assessment.

The baseline projection shows annual deficits growing from \$0.5 million in the 2020 to \$7.3 million by 2025. Even with the deposit of \$2.0 million in sewer proceeds to the General Fund, the Township will exhaust its fund balance by 2022 absent corrective action.

On the revenue side, the baseline projection assumes no increase to the real estate tax rate or fees. Beginning in 2020, almost all sewer revenues and associated expenditures are eliminated. On the expenditure side, the baseline assumes wage increases according to the provisions in the existing labor agreements. Once the labor agreements expire, the baseline assumes wage increases to continue at the historical rates (3.5% for police and 3.0% for civilians). These wage increase patterns are not a recommendation, but rather reflective of the Township's historical trends absent corrective action.

The baseline also assumes that the Township will issue \$10 million in debt in 2020 and again in 2023. As a result of the debt issuances, the Township's annual debt service payment is projected to grow from \$0.4 million in 2020 to \$2.1 million in 2025.



COVID-19 Impact

It is important to note that the baseline as shown on the previous page is a moderate scenario, not a worst case.

At the time this report was written, many Pennsylvania municipalities already expect some EIT revenue loss due to the social restrictions in place as a result of COVID-19. Given the significant uncertainty regarding the economic trajectory, the baseline projection does not account for revenue shortfall related to COVID-19. If possible, the Township should update this projection as the revenue impact becomes clearer.

| Revenue/Expenditure Type | Potential COVID-19 Impact |
|--------------------------|--|
| Property tax | <ul style="list-style-type: none"> • Low impact for residential properties, some potential for commercial tax appeals |
| Earned income tax | <ul style="list-style-type: none"> • Decline expected with rising unemployment and furloughs • Some decline may be offset by those who will now work from home more instead of commuting to Philadelphia |
| Local service tax | <ul style="list-style-type: none"> • Decline expected with rising unemployment |
| Real estate transfer tax | <ul style="list-style-type: none"> • Temporary slowdown in sales due to stay at home restrictions • Long-term cooldown in market possible |
| Business receipts tax | <ul style="list-style-type: none"> • 2020 revenues will not be affected since those are based on 2019 receipts • Decline expected in 2021 |
| Operating expenditures | <ul style="list-style-type: none"> • Some savings will likely be achieved “organically” as a result of restrictions on social activity (e.g. reduced costs from cancellation of events, lower facility and fuel costs for closed operations etc.) |
| Personnel costs | <ul style="list-style-type: none"> • Savings from employee furloughs • Some savings may be possible with hiring freeze and continued position control • Pension is generally not an immediate issue since there is a lag from actuarial valuation to budgeting and the extent of market declines is still TBD |



Mission review

While helping Cheltenham Township gain fiscal stability is the primary goal of this Five-year Plan, this should not be the ultimate goal of Township government. As evidenced in the Township's current mission statement, good stewardship of the Township's financial resources is one of the key goals of Township government, but the ultimate mission is much broader.

It is the mission of the Township of Cheltenham to provide outstanding municipal governance and services that meet the needs of our residents and businesses in a cost-effective and professional manner. It is the Township's vision to celebrate our vibrant, diverse, and historic community, to enhance and maintain quality of life, and to achieve economic and environmental sustainability by promoting actions and opportunities consistent with good stewardship of our natural and financial resources.

When we met with the commissioners earlier this year, they expressed interest in refining this mission statement to more accurately reflect their vision for the Township, which we encourage the Township to do as a priority this year. The mission statement is also not a static, unchanging decree. It should and will change over time as the Township's priorities, circumstances, and performance do. But it provides an important starting point for the rest of the recommendations in this Plan.



From mission to measurement

While the current mission statement is only a starting point and will be further refined by the commissioners, Township leaders should be able to start identifying the largest obstacles to fulfilling its mission. Then government leaders can set a limited number of goals intentionally chosen to overcome those obstacles. The goals then inform the strategies, which are the actions that specific units of Township government will take to achieve these goals and advance the mission.

Having a strategy does not guarantee that it will be successfully executed, or even that successful execution will advance the mission as intended. So, whenever possible, the Township should have measures so leaders can gauge whether a strategy is working. The combination of goals, strategies, and performance measures provides a framework for evaluating what works and deciding how to allocate the Township's limited resources accordingly.

The financial condition assessment identifies a number of obstacles that the Township is facing from a financial perspective. Unless the Township finds a way to overcome those obstacles using the goals and strategies as outlined in this Plan, Cheltenham Township government will continue to incur large deficits and struggle to deliver quality municipal services absent large tax increases. It will also lack the resources to make the strategic investments it needs to maintain its infrastructure and attract businesses and residents to live, work, and play in the Township.

But if Cheltenham is able to make the hard decisions as outlined in this Plan, it will be able to start addressing the structural issues as identified in the financial condition assessment. It will also be able to be a constructive partner in addressing larger community issues such as environment protection and preserving its recreational assets. The ultimate goal of this multi-year plan, therefore, is not only to improve Cheltenham's financial position. It is to strengthen the Township's financial position so that it can make the investments it needs to make so that it can continue to deliver quality services and celebrate its diversity and history.





Plan Strategies



Four core strategies to close the gap

Revenue enhancement: For Township government to have a financially sustainable path moving forward, its tax base must grow so the revenues grow without tax rate increases. But economic development alone will not be able to solve Cheltenham's revenue challenge. Cheltenham also needs to diversify its revenue base and improve cost recovery so that it becomes less reliant upon the real estate tax to generate revenues sufficient to provide core services.

Workforce strategies: With personnel costs representing almost 80 percent of the Township's General Fund budget, strategies to manage workforce cost growth have to be part of the solution to reduce the budget gap. The Plan provides a comprehensive workforce strategy that keeps future growth in cash compensation at inflationary levels for those employed by Cheltenham Township and stabilizes employee benefit cost growth. Many of the recommendations will have to be accomplished through labor negotiations, which is why the Township should continue using an external labor counsel and track the savings relative to the baseline projection.

Process efficiency: The majority of the Township's operating budget is spent on mandatory services such as maintaining and promoting public safety and cleanliness. To control operating expenditures without compromising the quality of municipal services, Cheltenham needs to gain efficiencies by managing service demands and considering alternative ways to deliver services. This chapter therefore provides recommendations on how each of the major departments – Public Works, EMS, Police, and Fire – can achieve operational efficiencies in front line services.

Program prioritization: Cheltenham Township currently provides some discretionary services, including those that the Township is not required to deliver under the First Class Township Code or to maintain an effective organization, and could be potentially eliminated or funded by sources other than the General Fund revenues. Because of the magnitude of Cheltenham's projected deficits, community dialogue around program prioritization will be a critical strategy for maintaining Cheltenham's long-term financial health.



Revenue enhancement

The revenue enhancement strategy provides ways to measure the impact of economic development projects and increase the real estate tax base so that tax revenues grow “naturally” before having to increase the tax rate itself. To help improve Cheltenham’s revenue diversity, this strategy also provides guiding next steps for levying new fees.

Enact a stormwater fee (2020-2021)

The scale of the Township’s storm water system, the risk associated with its age, the many competing demands for capital funding, and the limitations on the Township’s ability to use its existing funding sources to meet these needs all lead to the conclusion that the Township needs to establish a dedicated revenue stream to cover the full cost of storm water system maintenance and improvements. **A fee is an appropriate way to deal with the costs of maintaining and improving the system because every parcel owner – not just those subject to municipal taxes – benefit from a properly functioning storm water system.** The Township already engaged a design and consulting firm at the time this report was released to conduct a stormwater study, with the goal of establishing a stormwater fee beginning in 2022.

Enact a street light assessment (2022-2023)

After the Township completes the storm water management process, it should explore whether that same concept can be applied to street lights. Our preliminary review is that Act 331 of 1931 (the First Class Township Code) enables townships to assess all benefited properties for the costs of public improvements, which includes the installation, maintenance, or operation of lighting that services the streets and sidewalks within the Township.

Cheltenham may understandably be hesitant to establish a new fee levied on Township property owners who are already paying the County, School District, and Township real estate taxes. However, if the Township can charge the fee on a wider range of property owners, including those who are exempt from the real estate tax, then the burden can be spread more equitably to all the people and organizations that benefit from well-lit streets.



Other revenue enhancement initiatives

- **Measure the impact of economic development projects and target projects with the largest revenue impact:** Because of Pennsylvania’s unique tax structure, Cheltenham needs to focus on economic development that makes the most difference in revenues.

To illustrate why it is important to set economic development goals and measure the Township’s progress against them, the table to the right shows the amount of assessed value increase that is required to generate an additional \$1.0 million in revenues annually. In order to increase its real estate tax revenues by \$1.0 million (equivalent to 0.55 mills), the Township would need to generate over \$100 million in development. Cheltenham needs to determine what a realistic economic development goal looks like and work to achieve that while making progress to fill the rest of the budget gap.

| Revenue Increase from Assessed Value Growth | |
|---|---------------|
| Real estate revenues | \$1,000,000 |
| Tax Rate | 9.57 mills |
| Assessed value increase | \$107,730,585 |

- **Strengthen code enforcement:** Cheltenham Township needs to have safe, clean, and attractive neighborhoods to retain residents and draw new ones from outside the Township. Quality neighborhoods will also encourage property owners to invest more in their properties, which in turn increases assessed values and tax revenues. We recommend the Township develop a rental registration and inspection program to proactively enforce code ordinances and keep landlords accountable for the condition of their properties.
- **Regularly increase fees and fines:** The Township has already been regularly updating some of its service charges, and should continue to do so throughout the projection period so that it at least maintains, if not improves, cost recovery. Fees are sometimes described as being “fairer” than taxes since the person who uses the service pays for it, or at least pays a higher share of the total cost than someone not using the service. Fees are also considered more “efficient” because residents can theoretically adjust how much they use a service as the price changes, unlike a real estate tax when a person cannot pay more or less based on how much that person uses the Township’s police or fire service.



Workforce strategies

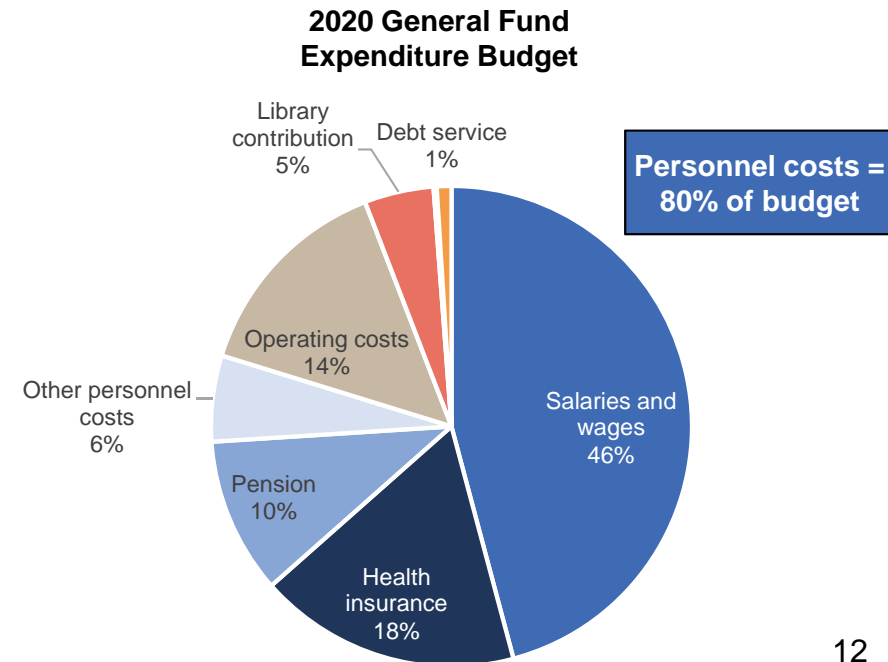
Cheltenham has a unique opportunity and critical responsibility in the next round of collective bargaining. All three bargaining agreements that govern employee compensation will expire at the end of 2021.

With personnel costs representing almost 80 percent of the Township's General Fund budget, strategies to managing workforce cost growth have to be part of the solution to reduce the budget gap. If one of Cheltenham's challenges is the structural imbalance where recurring expenditures consistently grow at a faster rate than recurring revenues, then it must control its personnel cost growth and bring them in line with the revenues that are available to pay for them.

We recommend two broad goals in response to the trend where cash compensation grows at a faster rate the revenue growth absent corrective action – keeping future growth in cash compensation at inflationary levels for those employed by Cheltenham Township throughout this projection period and stabilizing growth in employee benefits costs.

Initiatives for consideration:

- Moderate wage increases for non-represented employees beginning in 2021 and for union employees beginning in 2022
- Restructure other forms of cash compensation such as step increases, longevity payments, and sick leave program
- Control health benefits and pension growth through increased cost-sharing, benefit design changes, and eligibility audit





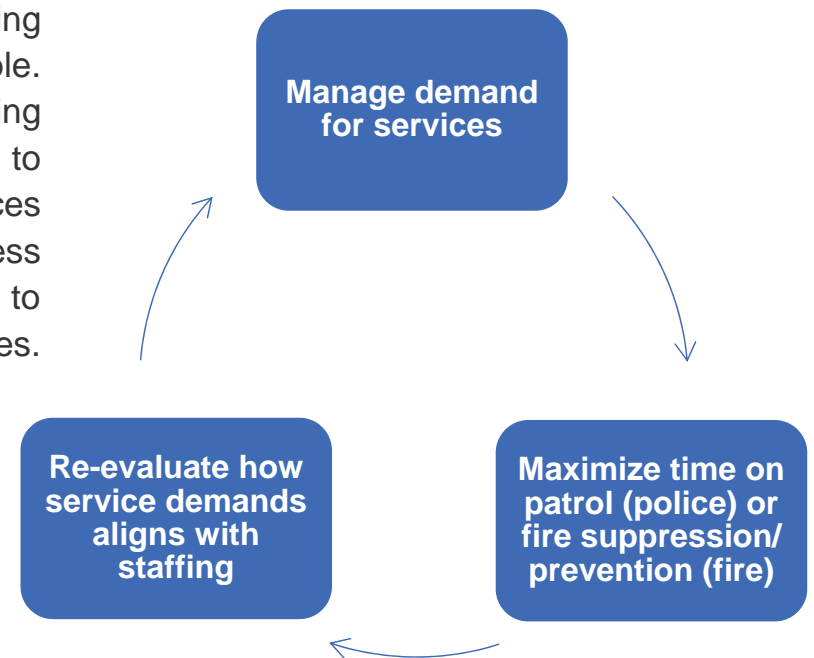
Guiding principle for process efficiency initiatives

One of the Plan objectives is to realign the Township's services to its core mission. Instead of focusing the question on whether there is room to reduce the size of Township government, the key question that Cheltenham first needs to answer is whether it can streamline its management of service demands. Unless the Township can gain efficiencies in how it deliver services, reducing capacity would only mean that resources are spread thinner across departments.

If the Township can begin to implement initiatives that manage the service demands in a way help that creates a more efficient workforce, then the Township can use the opportunity to evaluate whether the staffing structure aligns with the service demands and resource available. Cheltenham's financial challenges are severe enough that leaving positions vacant is already a common practice used by the Township to generate short-term savings. Instead of reducing department resources by leaving positions vacant without a comprehensive plan to address service demands, the Township should use a data-driven approach to measure Departments' progress in implementing the efficiency initiatives. This strategy provides guidance to help Cheltenham achieve that.

Initiatives for consideration:

- Re-evaluate the alarm registration and fine system
- Manage service demands in Police and Fire Departments
- Improve call for service (CFS) data management
- Alternate service delivery model for EMS¹
- Regain flexibility to manage staffing levels in Public Works
- Evaluate opportunities for efficiencies once the fire study is completed

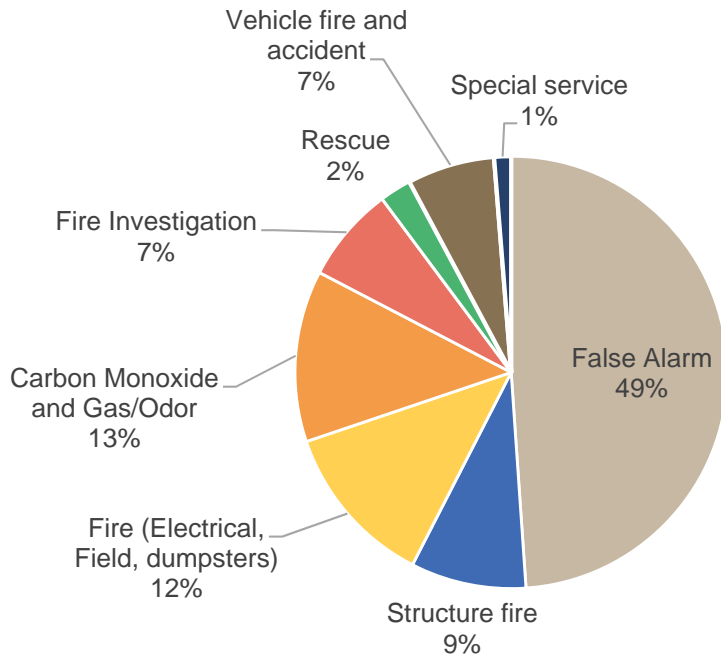




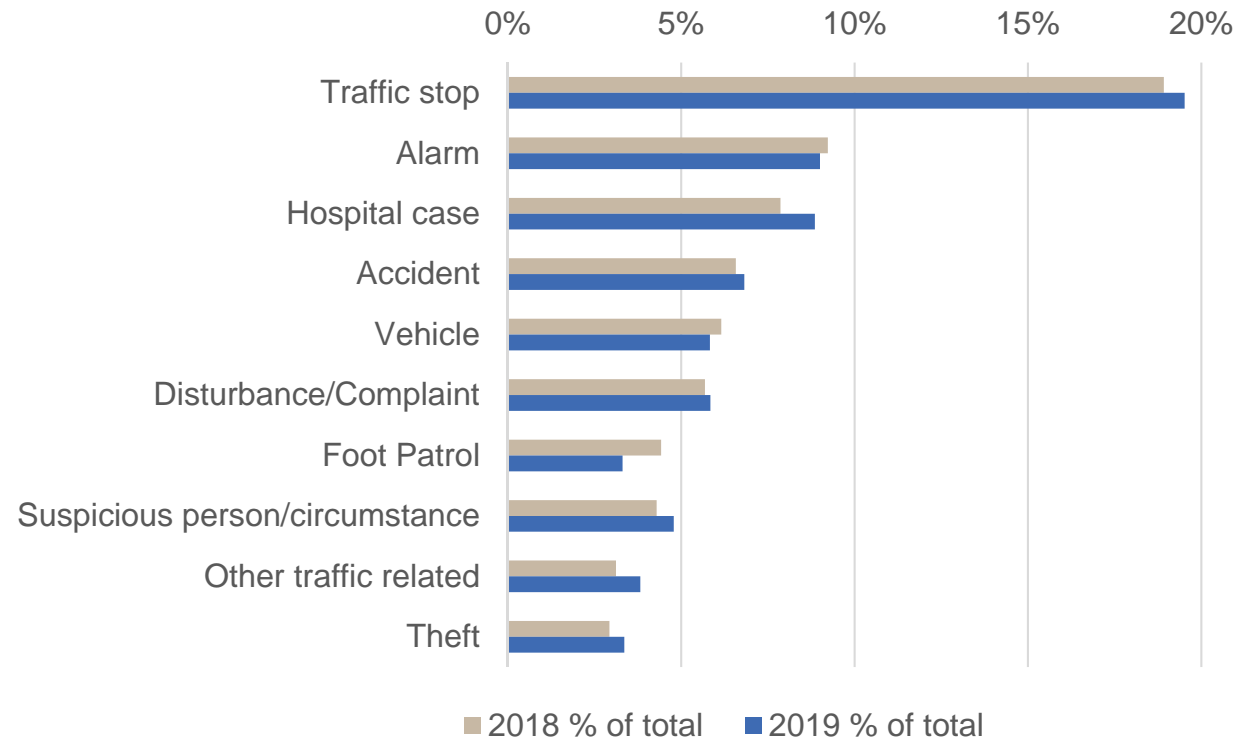
False Alarm calls by Police and Fire

Approximately half (or 538) of the Fire Department's response is for false fire alarms and almost 10 percent (or 2,800) of the responses by the Police Department is related to alarms, the second largest type of police response after traffic stop. Nationally, at least 90 percent of the alarm calls are false alarms.¹ Cheltenham must find a way to free up its police officers and firefighters so that they can use more of their time on promoting public safety instead of responding to false alarms.

2019 Fire Calls by Type



Top Ten Types of Police Calls Percent of Total Calls for Service by Type, 2018 and 2019





Recommendation: Re-evaluate the alarm registration and fine system

Cheltenham needs to re-evaluate its current alarm registration and fine system so that police and fire resources are redirected to work that actually promote and maintain public safety. The following lists a few action items to better enforce its current alarm registration program:

- **Fee and fine enforcement:** The Fire Department answers to over 500 fire alarm calls and the Police Department answers to another 1,800 burglar alarm calls annually, and at least 90 percent of these calls are false alarms. Despite the high number of false alarm calls responded, the Township only collected an average of \$81,000 in annual fee revenues but almost no fine revenue. To ensure fairness for residents who are paying the alarm registration fee, the Township should cross-check between the addresses triggering the false alarm and the permit database and issue the fine across all households that fail the register the alarm. Doing so will help increase compliance to the current ordinance and ensure equity amongst taxpayers.
- **Redesign fee structure:** The Township should also consider establishing a formal stratified fee system that charges higher amounts for more frequent violations, which is a common practice among other Pennsylvania municipalities. Doing so will allow the Township to recover more of the costs associated with responding to false alarms as well as provide a deterrent for their occurrence. The Township can also establish a different fee structure for residential and commercial alarms as well as a separate fee for burglar and firm alarms to better track the type of false alarms incurred by different properties and customize a deterrent program accordingly.
- **Adopt a verified alarm ordinance:** As a standard practice, many alarm companies already call the property owner and secondary contacts verifying if the alarm is a false alarm before forwarding the call to the local enforcement agencies. Cheltenham Township can encourage that practice by adopting an ordinance requiring alarm companies to confirm an emergency is occurring before dispatching local enforcement to the site of the alarm. Township officials report that many responses are made to the high-rise residences, but that they are rarely initiated by the same resident. Some coordinated effort with building management for education and verification could possibly reduce the number of required responses.



Program prioritization

Pennsylvania local governments allocate most of their operating budgets to services that are required by Pennsylvania law. For example, as a first class township, Cheltenham Township government must provide services including those that maintain and promote public safety and cleanliness.

Other services may not be statutorily required, but are necessary to maintain for any large organization. For example, any organization the size of Cheltenham Township government will have to maintain its facilities, have a human resources department that performs benefits administration and hiring functions, and a finance department that develops the budget and keeps track of revenues and expenditures. Where applicable, we provide recommendations to help the Township deliver its mandatory services and administrative services more effectively.

There is a third type of service that Cheltenham Township government currently provides, which are discretionary services. These are amenities that the Township is not required to deliver under the first class township code or to maintain an effective organization, and could be potentially eliminated or funded by alternative sources other than the General Fund revenues. This strategy focuses on the following non-mandatory services as an illustration of how Township government should rethink its resource allocation to focus on core supports and achieve sustainable finances:

- Annual contribution to the Cheltenham Library System;
- Maintenance and ownership of buildings not used for core services;
- Large array of parks and recreational facilities; and
- Streetscape and trail improvements and other discretionary capital investments.



Levy a dedicated library tax

From 2013 to 2018, the Township's contribution to the library increased from \$1.5 million to \$1.7 million, representing an average annual increase of 2.5 percent. The corresponding tax levy increased from 0.8 mill to 0.9 mill.

Library Contribution and Tax Levy, 2013 - 2018

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | CAGR |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------|
| Library contribution | \$1,499,886 | \$1,499,886 | \$1,548,000 | \$1,548,000 | \$1,623,000 | \$1,693,000 | 2.5% |
| Library tax levy | 0.8009 | 0.8032 | 0.8267 | 0.8317 | 0.8637 | 0.8979 | 2.3% |

Even though the Township does not have a statutory requirement to increase funding every year, Cheltenham's library system struggles with the same budget challenge as Township government, where recurring expenditures increase every year as a result of personnel and operating cost growth. Because over 85 percent of the library's revenues come from the Township, the revenue available to Cheltenham's library system is largely dependent upon the level of contribution the Township is willing and able to make in any given year. Therefore, under the current funding approach, the library contribution becomes one of the many competing demands Township leaders have to manage given limited resources. It also drains resources away from the Township's core services.

The Library system is clearly a beloved institution with strong community support. Residents and interest groups that support the library system appear to value it enough to pay more in taxes to support it. Doing so would mean that the control over the tax levy used to fund the library would shift from Township government to the Library Board, but it would allow Township leaders to focus on the resource allocation decisions for Cheltenham's core services. In order to levy a dedicated library tax, the Township will have to put a referendum on the ballot. The Borough of Hatboro passed a referendum in May 2019 to levy a dedicated library tax to operate and maintain its library building.



Process for implementing a library tax

This initiative assumes that the Township would put the referendum on the November 2020 ballot and, with voters' approval, levy a dedicated library tax beginning in 2021. Based on a total taxable assessed value of \$1.868 million, the library would need to levy a 0.95-mill dedicated tax to generate the same amount of revenues it received from the Township in 2020 (\$1.7 million).

Establish a library tax

Pennsylvania's library code allows a tax referendum to appear on the ballot through one of two ways. Municipal officers may submit to the qualified voters the question of the library tax at any time, or residents can petition to the municipal officers to submit the question of the library tax as long as they have qualified signatures equivalent to 3 percent of the votes cast in the last general or municipal election.¹

To put the referendum on the November 2020 election ballot, Township commissioners will have to adopt an ordinance to put a library tax to referendum and submit that question at least 60 days before the election, or by September 4, 2020. The ordinance will need to include the question put in front of the voters, including the library millage rate. For example, if Cheltenham is looking to levy a 0.95-mill library tax, this would be the question presented to voters:

"Shall Cheltenham Township establish a special library tax to provide for the operation and maintenance of the Cheltenham Library System at the rate of 0.95 mills on the dollar of assessed value on all taxable real estate within Cheltenham Township?"



Explore alternatives for Township facilities not used to deliver core services

Cheltenham Township owns 16 facilities, including departmental headquarters, community centers, libraries, and pools. While many facilities are used to deliver Township services, some are rented to third-parties or used by non-profits. In addition to the annual maintenance, janitorial, and utility costs of operating these buildings, from 2015 to 2019 the Township also invested \$2.6 million in General Obligation bonds for capital improvement projects in these facilities. About half of the capital spending was at Curtis Hall.

Finding alternatives to maintain and operate Township facilities can be difficult, of course. There may not be a market for selling or leasing the properties, they support services valued by some Township residents, and in some cases they have historic or sentimental value. Despite these challenges, it is important for the Township to pursue alternative options for these facilities.

- **Transfer property ownership:** Cheltenham's long-term goal should be to transfer properties not used for core municipal services to other entities so that it eliminates any maintenance and capital costs. Buildings that the Township should work to transfer ownership include Cheltenham Center for the Arts and the Elkins Park and Glenside library buildings.
- **Sell or lease the property:** Given that the Shovel Shop and Glenside Hall are both used solely as rentals, Township government should work with the business community and aim to market those facilities. This will likely take some time and may result in some unconventional or creative uses.
- **Repurpose the property:** Cheltenham may want to repurpose the Annex building and use that space for employee and visitor parking, storage, or even a new home for EMS vehicles (which are too large for their current spaces).
- **Partner with a third-party entity:** Cheltenham may be able to partner with non-profits with an expertise in maintaining and restoring historical buildings. Nonprofits that specialize in maintaining and operating historical facilities are also often more attuned to the availability of grant monies through the state and federal government and private philanthropies.



Connecting between policy decisions and fiscal impact

To provide the Township with the tools to review its current services for changes and make the hard prioritization decisions in the future, the following checklist shows the three key questions Township leaders should answer when proceeding with any projects or policy decisions.

Township leaders should establish this fiscal impact checklist as a part of its policy making process and require a formal plan to address questions related to funding sources for all projects that are brought before the Commissioners for approval. As an example, the Township should use this checklist to guide the discussions on whether Cheltenham should replace its vehicles with more environmental-friendly options, such as hybrid vehicles, as part of the *Ready for 100* movement.

Fiscal Impact Checklist

1. What is the net fiscal impact on the General Fund over a five-year period? *(Note: if the project is funded using bond proceeds, the fiscal impact should include any projected increase in debt service.)*
2. If the project results in net revenues or savings, what portion of the budget gap is it filling through this initiative? Will the benefits accrue to the bottom line (annual financial result, fund balance), or does the Township intend to redirect the benefit to other areas?
3. If the project results in net costs, how much does it increase the projected deficits by and what is the plan for addressing the increased deficits?

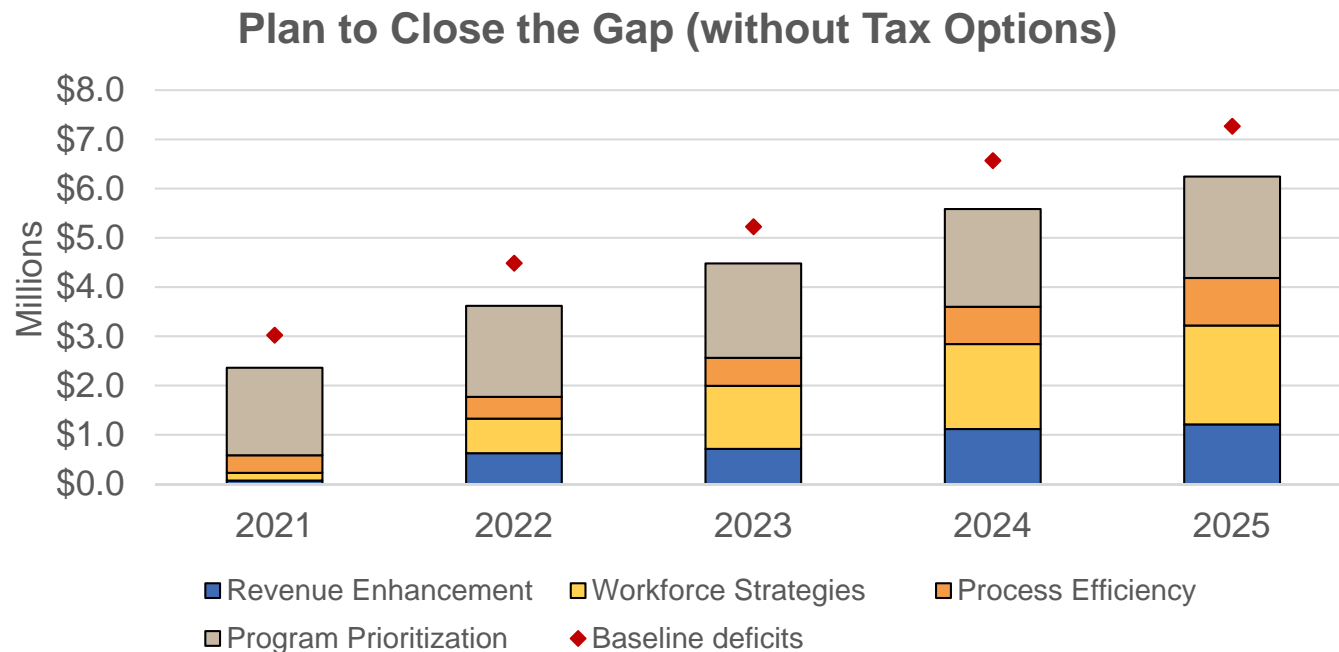
Working through these recommendations can be difficult and emotional for Township leaders and community stakeholders. But Cheltenham is at a point where this process is necessary for the Township's long-term fiscal sustainability. Even if the Township pursues all the recommendations outlined in the previous three strategies (revenue enhancement, workforce strategy, and process efficiency), it will still have a \$2.4 million deficit in 2021 that grows to \$3.1 million in 2025. Cheltenham Township government is now at a crossroads where program prioritization is necessary for its long-term financial health.



Two more strategies: Tax options and Strategic investments

Cheltenham Township government needs a well-rounded strategy to address its budget shortfalls, which is why the aforementioned four strategies will be important for Cheltenham's long-term fiscal stability. Where possible, we provide savings or revenue estimates for the recommended initiatives, but there is also the likelihood that Cheltenham will generate more or less savings than projected. If the Township is unable to generate enough revenues or savings to close the gap using these four strategies, it will have to explore tax options to close the remaining budget gap.

The recommendation to explore tax options is not solely because of the need to maintain fiscal balance, however. Cheltenham needs to make strategic investments in order to grow its tax base, reduce its projected deficits in the out-years, and invest in its infrastructure. Unless it creates the room in the budget to make those strategic investments, Township government will continue to lack the resources to achieve its mission.



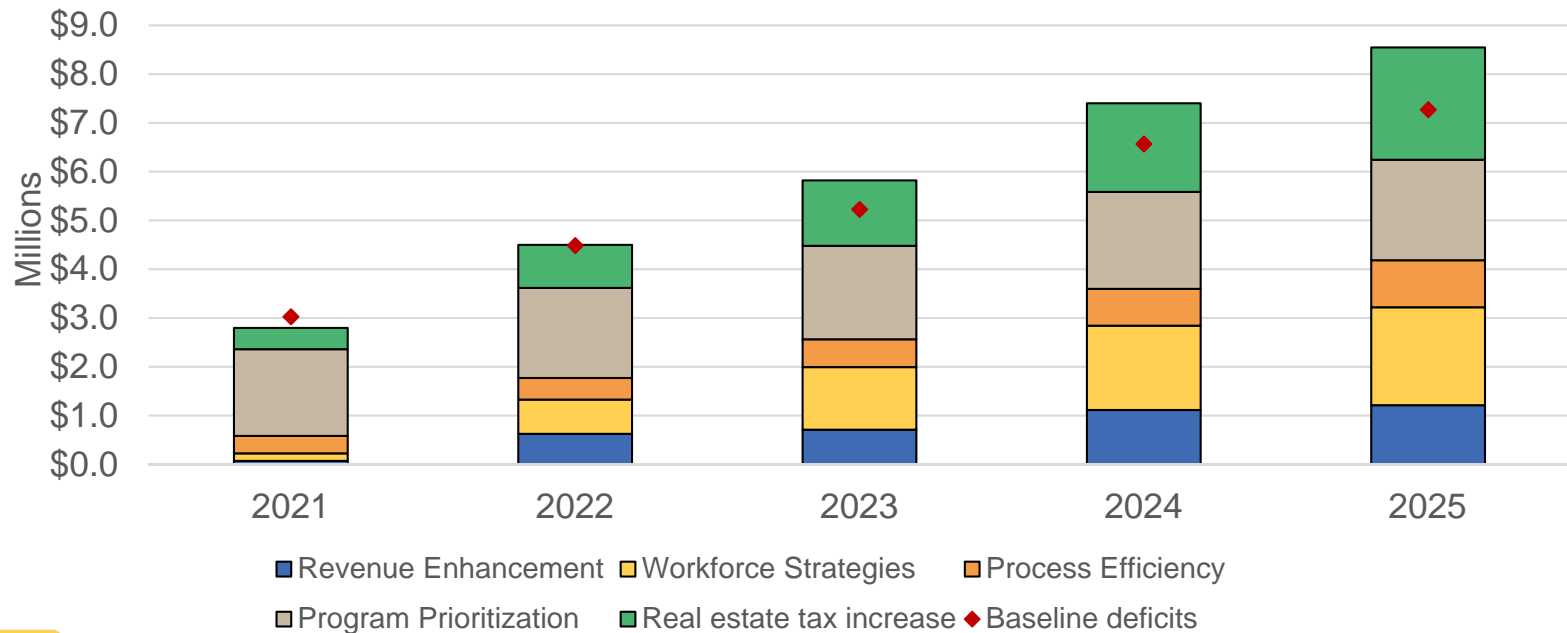


Tax Option #1: Smaller real estate tax increases

The Township has been increasing its real estate tax each year by three to five percent for the last eight years. With the recommended initiatives in progress, the Township may not need to increase the real estate tax as much as it has, but it will still likely need annual increases to eliminate the deficit and create room for strategic investments.

The chart below shows an annual real estate tax increases of 2.5 percent, growing from 9.57 mills in 2020 to 10.83 mills in 2025. This does not include a separate dedicated library tax, should Township leaders approve the ordinance and if voters approve the referendum. This scenario helps close the gap in 2021 and 2022, and provides between \$0.6 and \$1.2 million annually for strategic investments beginning in 2023.

Close the Gap Scenario (Increase Real Estate Tax Only)





Tax option #2: Gain the flexibility to set the EIT and use a mix of tax options

Alternatively, Cheltenham can use a mix of real estate and earned income tax increases to achieve the same goal, but our preliminary review is that Cheltenham would need to amend its charter in order to gain the flexibility to increase its EIT. *Cheltenham should verify our preliminary understanding with its Solicitor.*

Why is it important that Cheltenham gains the flexibility to set its EIT rate?

The reason the EIT is an important “revenue lever” for Township government is because, whereas the Township’s taxable assessed values have been slowly declining, its EIT tax base has been growing at an annual rate of 2.3 percent. So \$1 worth of resident EIT will likely be worth more than \$1 worth of real estate tax in the future. Generating revenues on a tax base that is growing instead of a tax base that has been modestly eroding will help reduce the amount of tax increases needed in the future. The following table illustrates this concept by showing the real estate tax and EIT rates required to generate \$1.0 million revenues that grow annually at 2.0 percent.

| | 2021 | 2022 | 2023 | 2024 | 2025 | Annual Growth |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Revenues generated ¹ | \$1,000,000 | \$1,020,000 | \$1,040,400 | \$1,061,208 | \$1,082,432 | 2.0% |
| Real estate tax rate | 0.55 | 0.56 | 0.58 | 0.59 | 0.60 | 2.1% |
| EIT rate | 0.11% | 0.11% | 0.11% | 0.11% | 0.11% | 0.0% |

It is important to note that gaining the flexibility to set the EIT rate does not necessarily mean that the Township needs to increase its EIT rate immediately. Practically speaking, the Township could put this question on the November 2020 ballot without actually increasing the EIT rate during the 2021 budget process, especially since it needs to work through the pros and cons of EIT increases.



Process for amending the charter

Step 1: Verify with the Solicitor

Our preliminary understanding of the Township charter is that the Board of Commissioners would have to adhere to the applicable state statute for its EIT levy limit, which in this case would be the Local Tax Enabling Act (Act 511). *The Township should verify our preliminary understanding with its Solicitor.*

Step 2: Amend the Charter

If Cheltenham Township's Home Rule charter does not give the Township the ability increase its resident EIT rate above 0.5 percent, the only way the Township can increase its EIT rate and use the additional revenue for general purposes is to amend its Charter. That process begins with a referendum initiated by an ordinance, followed by a submission to the County Board of Elections. Pennsylvania law requires the ordinance to be filed with the Board of Elections at least 13 weeks prior to the election, which means that the ordinance must be adopted and filed with the County no later than early August if the Township wants to put it on the November ballot in 2020. Once the ordinance is adopted and filed with the County, the Township must also publish the notice of the election in at least one newspaper of general circulation once a week for three consecutive weeks during the period of 30 days prior to the election.¹

| Date | Action |
|---|---|
| By August 3, 2020 | Adopt ordinance with the complete text of wording proposed to be added to and deleted from the charter |
| By August 4, 2020 | File ordinance with the Board of Elections |
| From October 4, 2020 through November 2, 2020 | Publish notice of the election in at least one newspaper of general circulation once a week for three consecutive weeks |
| November 3, 2020 | Election day |



Strategic investments

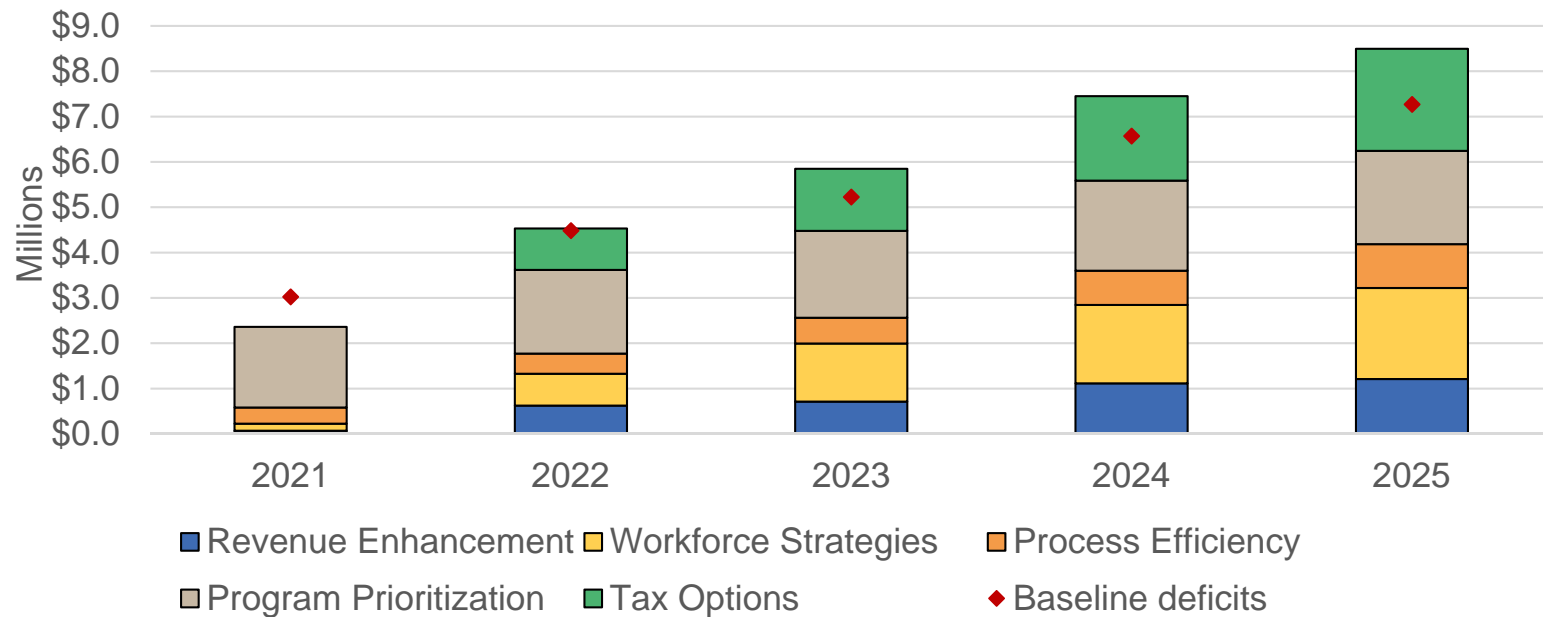
The ultimate goal of this multi-year plan is not only to improve Cheltenham's financial position. It is to strengthen the Township's financial position so that it can make the investments it needs to make so that it can continue to deliver quality services and celebrate its diversity and history. The last strategy of this Five-Year Plan provides a handful of suggestions to help Cheltenham grow its tax base, reduce its projected deficits in the out-years, and invest in its infrastructure.

- **Create an economic development strategy:** Because Cheltenham's cost of providing services continue to rise every year, one way to continuously sustain those growth is to grow the tax base so that tax revenues grow "naturally" without increasing the tax rate itself. But the road to executing a successful economic development strategy that actually grows the tax base is not without obstacles. We recommend that Township concentrate on updating its comprehensive plan this and next year and then begin its candidate search for an Economic Development Director once the comprehensive plan update is completed. If possible, the Township should also find grant funding opportunities and revitalize its main street program.
- **Develop a five-year capital planning and prioritization strategy:** One of the reasons a thoughtful capital plan with a multi-year perspective is so important is because it allows the Township to prioritize its resources with a strategic vision. The CIP and capital budget ideally would have a mix of projects with some focused on repairing, renovating, and replacing existing infrastructure and others focused on more strategic investments in new assets. A one- or two-year capital budget, on the other hand, only provides insight into the most immediate and urgent needs. We recommend conducting a facility condition assessment to accompany this initiative using a subsequent STMP grant.
- **Update pension plan assumptions:** Cheltenham Township needs to make changes to the actuarial assumptions to more accurately reflect plan experiences and expectations, but those changes can also result in a larger unfunded liability and trigger a higher legally required MMO contribution to the funds. Cheltenham first needs a better understanding of how much updating the assumption would cost the Township, and then work to incrementally make those assumption changes.



Plan to Close the Gap

Close the Gap Scenario



| | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Baseline deficits | (\$3,025,000) | (\$4,487,000) | (\$5,227,000) | (\$6,570,000) | (\$7,270,000) |
| Revenue Enhancement | \$72,000 | \$628,000 | \$714,000 | \$1,117,000 | \$1,214,000 |
| Workforce Strategies | \$154,000 | \$702,000 | \$1,280,000 | \$1,728,000 | \$2,007,000 |
| Process Efficiency | \$359,000 | \$442,000 | \$569,000 | \$755,000 | \$964,000 |
| Program Prioritization | \$1,778,000 | \$1,847,000 | \$1,917,000 | \$1,988,000 | \$2,060,000 |
| Tax Options | \$0 | \$916,000 | \$1,368,000 | \$1,866,000 | \$2,252,000 |
| Room for Strategic Investments | \$0 | \$49,000 | \$621,000 | \$882,000 | \$1,227,000 |



Plan implementation



Implementation Strategy

The exact contribution from each initiative category to the overall goal can certainly be different than the hypothetical scenario shown on the previous page. For example, the Township could get more from tax base and revenue growth and then less from another category. But it is important that the Township uses a good mix of gap-closing strategies, which will do the following:

- **Draw from all areas described in this Plan:** The Township will not achieve meaningful financial recovery by only making changes on the revenue or the expenditure side of the financial equation. It should not close the budget gap solely with revenue enhancement measures or across-the-board expenditure cuts. Instead, it should enhance revenues through both tax and non-tax options, reduce the cost growth of the workforce through labor negotiations, gain efficiencies and align the staffing structure to the service demands, and concentrate its resources on core municipal services. Each and every one of these strategies achieve a different goal and will be critical to the Township's long-term financial health.
- **Take actions earlier than later:** As illustrated in the baseline projection, the budget deficits grow bigger every year absent corrective actions. The opposite is true when the Township takes corrective actions – if the Township takes action today to close a portion of the 2021 deficit, the deficits in the out-years will begin to shrink as savings generated today will be worth more in the out-years. Cheltenham Township government should therefore seize the opportunity this year – before the start of the 2021 budget process – to make some of the hard decisions, such as putting a library tax referendum on the November ballot. Doing so will make the large out-year deficits as currently projected in the baseline more manageable.
- **Supported by an iterative process:** Multi-year planning should be an ongoing effort, not a static product. The Township already develops a multi-year projection during the budget process, and should continue to do so. It is equally important that the Township uses that projection to drive hard decisions during the budget process and in the day-to-day operations.



Timeline and Conclusion

This Five-Year Financial Plan has a total of 40 recommendations. It is not realistic for the Township to try to implement all of them immediately, but timing does matter for certain initiatives, particular for those related to referendums and collective bargaining. The timeline below provides direction on how to prioritize the key initiatives outlined in this Plan, though circumstances, needs, and opportunities will change over time, and the Township’s strategy should adapt accordingly. This implementation timeline does not include all 40 Plan initiatives, but includes the priority initiatives that will be time-sensitive for the Township’s financial recovery.

In just a few months the Township will begin its 2021 budget process and the financial challenges described in this report will take on a heightened sense of urgency. The Township will start work on a budget that ultimately has to balance available revenues against anticipated expenditures, even though the former naturally grows more slowly than the latter.

We hope that Cheltenham Township – including its leaders, department staff, and residents – will be able to build on its commitment and creativity and work together to show that it is capable of providing quality core municipal services while bolstering its ability to sustain Cheltenham as a great place to work, live, and play.

| Year | Priorities |
|------|--|
| 2020 | <ul style="list-style-type: none"> ▪ Adopt an ordinance for the library tax referendum¹ ▪ Adopt an ordinance to put the charter amendment on the ballot in order to gain the flexibility to set the EIT rate ▪ Develop the stormwater management study ▪ Consider alternative service delivery model for EMS ▪ Improve debt management |
| 2021 | <ul style="list-style-type: none"> ▪ Levy a dedicated library tax ▪ Retain the support of external public employment labor counsel for negotiations ▪ Develop a five-year capital plan ▪ Issue an RFP to update the comprehensive plan ▪ Issue an RFP to conduct a facility asset inventory |
| 2022 | <ul style="list-style-type: none"> ▪ Establish the stormwater fee ▪ Issue an RFP to develop a streetlight assessment ▪ Develop a capital budget and planning policy |
| 2023 | <ul style="list-style-type: none"> ▪ Create an Economic Development Director position ▪ Consider updating the pension funds’ assumptions ▪ Improve debt management |
| 2024 | <ul style="list-style-type: none"> ▪ Establish a streetlight assessment |



Appendix – List of Initiatives



Appendix – List of Initiatives

| Strategy | | Initiative | 2021 | 2022 | 2023 | 2024 | 2025 |
|------------------------------------|------|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Baseline projected deficits | | | (\$3,025,000) | (\$4,487,000) | (\$5,227,000) | (\$6,570,000) | (\$7,270,000) |
| Revenue Enhancement | ED01 | Measure the impact of economic development and target economic development projects with the largest revenue impact | 43,000 | 87,000 | 130,000 | 174,000 | 218,000 |
| Revenue Enhancement | ED02 | Strengthen code enforcement | TBD | TBD | TBD | TBD | TBD |
| Revenue Enhancement | ED03 | Enact a stormwater fee | 0 | 483,000 | 496,000 | 509,000 | 522,000 |
| Revenue Enhancement | ED04 | Enact a street light assessment | 0 | 0 | 0 | 315,000 | 324,000 |
| Revenue Enhancement | ED05 | Regular increases to fees and fines | 29,000 | 58,000 | 88,000 | 119,000 | 150,000 |
| Revenue Enhancement | ED06 | Develop a costing analysis for refuse operations | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS01 | Continue to retain the support of an external labor counsel | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS02 | Continue to evaluate the cost of proposals during collective bargaining | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS03 | Moderate wage growth | 82,000 | 605,000 | 1,145,000 | 1,543,000 | 1,794,000 |
| Workforce Strategies | WS04 | Restructure step increases | 0 | 21,000 | 55,000 | 100,000 | 124,000 |
| Workforce Strategies | WS05 | Restructure longevity payments | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS06 | Continue to control overtime spending | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS07 | Restructure sick incentive and sick leave payout program | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS08 | Evaluate uniform allowance | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS09 | Control health benefits growth | 72,000 | 76,000 | 80,000 | 84,000 | 89,000 |
| Workforce Strategies | WS10 | Make changes to the Commissioners Pension Plan | TBD | TBD | TBD | TBD | TBD |
| Workforce Strategies | WS11 | Purchase a HRIS software | TBD | TBD | TBD | TBD | TBD |
| Process Efficiencies | PE01 | Regain flexibility to manage staffing levels in Public Works and consider alternative service delivery options | TBD | TBD | TBD | TBD | TBD |
| Process Efficiencies | PE02 | Alternate EMS service delivery model | 140,000 | 150,000 | 200,000 | 250,000 | 316,000 |
| Process Efficiencies | PE03 | Re-evaluate alarm registration and fine system | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |



Appendix – List of Initiatives (cont'd)

| Strategy | | Initiative | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|------|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Process Efficiencies | PE04 | Align staffing structure with service demands in the Police Department | 98,000 | 153,000 | 210,000 | 326,000 | 449,000 |
| Process Efficiencies | PE05 | Improve call for service (CFS) data management | TBD | TBD | TBD | TBD | TBD |
| Process Efficiencies | PE06 | Evaluate opportunities for efficiencies once the fire study is completed | 111,000 | 130,000 | 149,000 | 168,000 | 188,000 |
| Process Efficiencies | PE07 | Pursue additional efficiency measures | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Process Efficiencies | PE08 | Manage the length of public meetings | TBD | TBD | TBD | TBD | TBD |
| Program Prioritization | PP01 | Levy a dedicated library tax | 1,756,000 | 1,800,000 | 1,845,000 | 1,891,000 | 1,938,000 |
| Program Prioritization | PP02 | Explore alternatives for Township facilities currently not used to deliver core services | TBD | TBD | TBD | TBD | TBD |
| Program Prioritization | PP03 | Alternatives for maintaining and delivering recreational services | 22,000 | 47,000 | 72,000 | 97,000 | 122,000 |
| Program Prioritization | PP04 | Conduct a cost-benefit analysis for any non-mandatory service or project | TBD | TBD | TBD | TBD | TBD |
| Program Prioritization | PP05 | Use the fiscal impact checklist for any major policy decision | TBD | TBD | TBD | TBD | TBD |
| Tax Options | TO01 | Gain the flexibility to set the EIT rate | TBD | TBD | TBD | TBD | TBD |
| Tax Options | TO02 | Chart a path to close the budget gap and create room for strategic investments | 0 | 916,000 | 1,368,000 | 1,866,000 | 2,252,000 |
| Total Initiatives to Close the Gap | | | \$2,364,000 | \$4,535,000 | \$5,848,000 | \$7,453,000 | \$8,498,000 |
| Strategic Investments | SI01 | Create an economic development strategy | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI02 | Update pension plans' assumptions | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI03 | Develop a five-year capital planning and prioritization strategy | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI04 | Use pay-as-you-go capital funding | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI05 | Conduct a facility condition assessment | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI06 | Improve debt management | TBD | TBD | TBD | TBD | TBD |
| Strategic Investments | SI07 | Continue to improve budgeting practices | TBD | TBD | TBD | TBD | TBD |
| Amount Available for Strategic Investments | | | \$0 | \$49,000 | \$621,000 | \$882,000 | \$1,227,000 |