

# Township of Cheltenham

Montgomery County, Pennsylvania

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## Cheltenham Township Operating and Financial Realities *The Case for an Earned Income Tax (EIT) Referendum*

*July 14, 2020*

In June Public Financial Management (PFM) provided a five-year financial plan for Cheltenham Township with technical guidance and partial financial support from the Pennsylvania Department of Community and Economic Development (DCED) and its Strategic Management Planning (STMP) Program.

### **That Multi-Year Assessment Uncovered Serious Fiscal Challenges**

#### Township Financial Condition

- Understanding Cheltenham government's fiscal position and the critical underlying factors driving its performance, the Township's financial performance was evaluated to identify and quantify specific funding challenges. Certain concerns surfaced and recommendations for immediate actions be taken to remedy sizable and projected revenue shortfalls.

#### Our Residents and Taxpayers Deserve to Maintain their Quality of Life

- Cheltenham Township government exists well beyond purely financial purposes. It functions to deliver critical services and offers cultural and life-enhancing elements which serve the people who work, participate in, and visit the Township. Without these contributions and commitments, Cheltenham's identity and character would be missing what makes it a unique, diverse and attractive community.

### **Revenue Items - Impacted by COVID-19**

#### Property taxes

- Low impact for residential properties; some potential reductions as a result of tax appeals

#### Earned income tax

- Significant projected declines in revenues expected with rising unemployment, reduced working schedules, quarantining, and an inability to collect from Philadelphia-based workers who reside in Cheltenham

#### Local service tax

- Decline expected with rising unemployment, furloughs of Township personnel and reduced local employment

#### Real estate transfer tax

- Temporary slowdown in home and business sales due to stay at home restrictions along with the “extended cool down” in this market

#### Business receipts tax

- 2020 revenues will be modestly affected since taxes are based on 2019 receipts but a serious decline along these lines is expected in 2021 as a result of COVID-19 and reduced retail and commercial transactions

### **Expense Items - Impacted by COVID-19**

#### Operating expenditures

- Some savings will likely be achieved “organically” as a result of restrictions on activity (e.g. reduced costs from cancellation of events, lower facility and fuel costs, foreclosed operations etc.)

#### Personnel costs

- Savings from employee furloughs
- Additional savings may be possible with hiring freeze and continued position control
- Pension costs while generally not an immediate issue since there is a lag from actuarial valuation to budgeting, but the extent of the market decline and mandatory pension contributions are still TBD

*Conclusion is that even with cost-cutting measures, tax revenues are projected to be at least two to three and a half million dollars below those required to achieve a mandated, balanced budget for 2021 without these proposed actions.*

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

The EIT is an important “revenue lever” for Township government 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 employed 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 Township Real Estate based tax increases needed in the future. It is important to note that gaining the flexibility to set the EIT rate does not necessarily mean that the Township will increase its EIT rate immediately or by the full amount of increase proposed (.50%).

### **What’s Fairer about the Earned Income versus Property tax?**

The Board of Commissioners recognizes the growing burden that real estate taxes impose on our residential taxpayers, particularly seniors and retirees, and the fact that our real estate millage and special fees all fail to address the financial obligations which enable the Township to deliver the essential services you need and expect from your government.

EIT funding represents both an equitable and more substantial source of revenue, with the responsibility to pay the EIT solely on those who are or were employed during the calendar year. So

retirees and seniors not earning a paycheck or those unemployed as a result of COVID-19 layoffs or furloughs will not be obligated to pay this tax or the proposed increase.

### **Putting the referendum question on the November 2020 ballot**

The Township is seeking the ability to increase the EIT rate, potentially and conditionally during the 2021 budget, if our fiscal position especially dictates the need for an EIT increase to cover revenue shortfalls.

### **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).

#### Step 2: Amend the Charter

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.

### **Action by Critical Dates:**

1. **By August 3, 2020** – Adopt ordinance with the complete text of wording proposed to be added to and deleted from the charter.
2. **By August 4, 2020** – File ordinance with the Board of Elections.
3. **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.
4. **On November 3, 2020 (Election Day)** – Voters vote on the referendum. A majority of votes is required to approve the Referendum Question.
5. **By January 2021** – If the referendum passes, the Board of Commissioners advertises, holds public meetings to discuss the EIT increase, and votes to implement the increased percentage for the Calendar 2021 year.