



**MEMORANDUM**

**DATE:** November 9, 2009

**TO:** President and Members of Borough Council  
Mayor Mowen

**FROM:** Gary A. Nace, Borough Manager

**SUBJECT:** Proposed 2010 Budget and Program of Services

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I submit for your consideration the proposed 2010 Budget and Program of Services. This document is intended as a road map describing the Borough's programs for the upcoming year, a balanced approach to providing the highest possible level of service to our citizens and customers within the limited revenue resources available. The proposed 2010 Budget is an operational plan offering traditional municipal services within the corporate boundaries of the Borough, and police and extensive water and sewer utility operations beyond those boundaries.

**THE BUDGET AND PROGRAM OF SERVICES DOCUMENT**

Each program detail page (the left-hand page for each program) begins with a mission statement specific to that program. For example, the mission of the Electric System Operation and Maintenance Program is "To provide reliable electric service to Borough customers". This mission statement is intended to provide an important reference point for Borough employees to consider as we deliver services throughout the year. It also includes a program description that details the responsibilities of the program and specific services the program provides.

In addition, the budget document includes major program accomplishments of 2009 along with the most important objectives for 2010 that each program is concentrating on to achieve success.

The program resource requirements page (the right-hand page for each program) provides appropriation summary information by major category of expenditure, such as "Personal Services", (Permanent Salaries and Wages, Overtime, Premium Pay, Holiday Pay, Temporary Pay, FICA, Group Insurance, etc.) that comprises the "Personal Services"

category of expenditures. This summarization allows Borough Council and interested citizens to focus on what each program is expected to accomplish with the overall appropriations provided. The format provides valuable comparisons of the 2010 Budget appropriations for each program with prior year budget information. Also, this format allows comparisons of program funding requests against other programs within each fund.

### **THE CURRENT YEAR – 2009**

The current year was one of many challenges for the Borough. Among those challenges experienced during the year were:

- Hiring Police Chief William Harvey following an extensive regional recruiting process
- Migration to new financial and utility billing software
- Instituting a new portfolio of electric power supply contract resources in a wholesale market with extraordinarily high prices
- Adding a 40% increase to customer electric rates to meet the unprecedented power supply prices
- Electric sales that are 6.5% below last year through September
- Coping with the downturn in the global economy and resulting reduced tax revenues in the General Fund through putting in place a hiring freeze for most of 2009 and an expenditure freeze for the last quarter of the year
- Successfully negotiating a second five-year Law Enforcement Services agreement with Ephrata Township for the 2010 through 2014 period
- Initiating the “Concerts by the Creek” free public concert series in Grater Park
- Planning for a new outdoor swimming pool complex and initiating the design process for that project
- Accumulating Capital Reserve Fund dollars over multiple years to pay for the swimming pool complex project on a pay-as-you-go basis
- The extensive employee lay-offs at D&E Communications as a result of its merger with Windstream
- With the invaluable assistance of State Senator Michael Brubaker, worked aggressively for the passage of Senate Bill 168 to permit Borough participation in electric generation projects with other public power communities
- Commissioned an independent study of the electric purchasing strategy currently in use against the anticipated Borough system load to refine the strategy and determine the optimum level of participation in generation assets

Clearly, 2009 was a year of tremendous activity in the Ephrata community and a year of unprecedented fiscal challenges for the Borough organization.

## **BALANCING THE 2010 GENERAL FUND BUDGET**

In a typical year, Ephrata Borough finds balancing its General Fund budget a challenging undertaking. Expenditures to maintain current levels of service have been growing faster every year than revenues have been growing. While this collision course between revenues and expenditures is not a new phenomenon for mature communities like Ephrata that are essentially “built out”, it does make annual budget preparation a difficult task for staff managers and elected officials alike.

Preparation of the 2010 General Fund Budget presented an even larger than typical challenge due to clear direction from Borough Council at the beginning of the 2010 budget discussions that there would be no real estate tax nor any major utility rate increases for 2010. Council offered this direction in response to the general economic conditions of this time and the impact felt by Borough consumers when electric rates were increased in the spring of 2009.

There were several factors compounding the problem of balancing the General Fund budget for 2010. On the revenue side, Real Estate Transfer and Local Services Taxes are projected to be down from prior years’ budget estimates and the Lancaster County Tax Collection Bureau is projecting another 4% slide in Earned Income Tax revenues from the already dismal 2009 levels, for a budget-to-budget reduction of \$230,300

An important consideration on the expenditure side of the General Fund was the projected increase in Borough pension fund contributions as a result of stock market portfolio declines beginning in October 2007. At its meeting in September 2009, the Budget and Finance Committee reviewed pension funding alternatives for 2010 and endorsed the staff recommendation of the “middle ground” of the alternatives calling for an overall General Fund cost increase in 2010 of more than \$253,000 over 2009 funding levels. When the Tax Collection Bureau announced the estimated earned income tax revenue for 2010, it was clear that the General Fund would have great difficulty withstanding a pension cost increase of this magnitude.

In mid-October, the Borough received investment performance reports on both pension programs. Investment portfolios have recovered to such an extent that the staff is now recommending using the January 1, 2007 pension valuation reports to set the contribution levels for 2010. The pension actuary has indicated that most of their municipal clients are using this prior valuation to establish the 2010 minimum municipal obligation and that using this prior report is in concert with Act 205. Using the prior valuation reports results in a more manageable increase in pension costs in the General Fund for 2010.

In order to overcome these challenges in revenues and expenditures facing the General Fund for 2010, this Budget and Program of Services document includes the following budget balancing features in the General Fund:

- Incorporates an indirect cost allocation study prepared by Maximus to assure that the General Fund is reimbursed for services it provides to Borough operations

- supported in part by constituents beyond Borough boundaries, including water, sewer, electric, refuse and recycling, and police services
- Eliminates one vacant Police Officer position, one Foreman position, and one Administrative Assistant position
  - Provides no compensation increase for salaried employees
  - Reduces Police Department overtime by \$30,000
  - Defers replacement of four Police Department vehicles

## **BALANCING THE ELECTRIC FUND**

Balancing the Electric Fund in the 2010 Budget and Program of Services was of crucial importance. Since the 2009 Budget and Program of Services provided for an Electric Fund deficit of \$1,340,000, it was imperative that the Fund not run a deficit in a second consecutive year. Running deficits for two years in a row results in being ineligible to participate in AMP, Inc. generation projects at a meaningful level. Ephrata Borough Council has indicated a desire to participate in these projects as soon as the necessary legislation passes in the General Assembly this autumn, so it was important to assure that the Borough could meet the financial criteria for participation. Participation in these generation projects will provide part of the Borough's supply portfolio at stable, cost-based rates rather than volatile, market-based rates.

To balance the Electric Fund for 2010, staff is recommending deviating from the standing practice concerning the annual transfer from the Electric Fund to the Capital Reserve Fund. While the practice calls for a transfer of \$1,000,000 annually, staff is recommending reducing that transfer to \$500,000 for 2010. Trimming this transfer for one year will ensure that the 2010 Electric Fund budget is balanced while Borough Council re-evaluates and refines the power supply strategy now in place. This reduction will result in a delay of the outdoor swimming pool complex project for one more season to allow for the accumulation of adequate balances in the Capital Reserve Fund to finance the project on a pay as you go basis.

## **HIGHLIGHTS OF PROPOSED BUDGET**

### **General Fund**

- Implement new code enforcement and customer contact management software to reduce customer response time and provide for centralized tracking of response performance
- 2010 begins a new five-year Law Enforcement Services contract with Ephrata Township
- Allocate \$20,000 to the Ephrata Recreation Center and \$10,000 to the Ephrata Performing Arts Center for principal repayment. Both Centers are important to the quality of life in this community as evidenced by the Borough guaranteeing recent

debt issues for both Centers. These modest contributions will provide much needed financial assistance during this economic downturn. Supporting the repayment of principal makes sense because the Borough is the guarantor of both bond issues.

- Continue moving toward state accreditation for the Police Department
- Maintain 2009 support levels for volunteer emergency services and the Ephrata Public Library

### **Water Fund**

- Management will concentrate on resolving treatment system operational issues at Well 4
- Borough staff will continue the 23 year history of successfully operating and managing the Ephrata Area Joint Authority water system
- Increase administrative charge reimbursement to the General Fund pursuant to the Maximus study

### **Electric Fund**

- Maintain current rates for all classes of customers and implement the Power Cost Adjustment in the early part of 2010
- Lock down participation in AMP-Ohio coal-fired and hydroelectric generation projects
- Freeze the administrative charge reimbursement to the General Fund at the 2009 level even though the reimbursement is greater than the Maximus study recommends

### **Sewer Fund**

- Maintain current rates for all classes of customers
- Staff will be working with Buchart Horn Engineers to complete the design project for meeting the Chesapeake Bay initiative at both wastewater treatment plants
- Although overall debt service will decline in 2010, there is little impact on the Sewer Fund because much of that incremental cost in past years was funded through capacity component tapping fees that had been set aside from new connections. Due to current economic conditions, there has been little new revenue added from new connections and there are no tapping fee revenues to allocate toward debt service in 2010.
- Increase administrative charge reimbursement to the General Fund pursuant to the Maximus study

### **Sanitation Fund**

- Maintain current rates for all customers
- The Sanitation Fund will run a deficit in 2010 made up through reduction in the unappropriated balance of the Fund
- Increase administrative charge reimbursement to the General Fund pursuant to the Maximus study

## **Capital Reserve Fund**

- The Five-Year Capital Improvement Plan was not adopted this year by Borough Council through a separate process from the Budget and Program of Services: both capital and operating budgets will be approved in December
- Due to a reduction in the Electric Fund transfer to the Capital Reserve Fund, the pool construction is being delayed until 2011 to allow for the accumulation of sufficient funds for the project
- The outdoor swimming pool complex takes up a large percentage of Fund resources for the next three years

## **ACKNOWLEDGEMENTS**

Much credit must be directed to those Borough budget managers who met their budget targets for 2010 by submitting budget requests at or below 2009 appropriation levels. These managers have done a wonderful job of minimizing expenditures while maintaining high levels of service to the community. I also want to thank Director of Administration and Finance Gail Bare for the many hours she invested in producing this responsible financial plan and excellent program of services document.