

Budget Work Session

May 19, 2020 at 5:00 PM

NOTES

Members of the Board of Supervisors in attendance included Chairperson Barbara N. Lyons, Vice Chairperson Ryan Manion, with Supervisors; Jennifer V. Herring, Nancy Santacecilia and Dan Wood.

Members of the Ways and Means Committee in attendance included Chairperson Brenda Bray, Colleen Mullin, Robert Salanik and Joseph Volk.

Members of the Pension Committee in attendance included Chairperson Ed Denton, Robert Salanik, Colleen Mullin, and Thomas Burke.

Township Staff in attendance included Township Manager Stephanie J. Mason, Director of Operations Dave Tomko, Chief of Police A. Dean Logan, Director of Parks and Recreation Karen Sweeney, Parks Superintendent Chris Mason, Finance Director Ken Wallace, and Budget Analyst Ed Ebenbach.

1. Welcome & Call to Order

Meeting called to order at 5:00 pm by Ms. Lyons.

2. Analysis of Township Financial Position

Mr. Wallace and Mr. Ebenbach presented an analysis of the Township financial position resulting from the Coronavirus pandemic.

Ms. Mason reviewed the previously presented information from April that concluded with the pausing of hiring, holding off of Capital program spending and determining how to reimburse the general fund for the new building loan. She also reviewed the 2019 financial results from earlier in the month. She noted \$1.2 million better than forecasted due to \$.7 million from the Cell Tower lease sale and \$.5 million from improved quarter 4 revenue and Capital deferrals.

Mr. Ebenbach explained the 2019 performance results & conclusions. He presented graphs illustrating what the revenue expense and income is, specifically focusing on cash throughout last year. He included how revenue exceeded expense for six months and how the year was funded. He noted the dip is caused by the initial receiving date of EIT and real estate tax.

Mr. Salanik questioned how much was actually needed in the fund balance and suggested there is no cash flow problem in January and February due to the prior December's EIT.

Mr. Wallace presented an analysis of the general fund liquidity. The components included non-cash assets, restricted and unrestricted cash, and investments. The graphics displayed the reduction of cash from the beginning of the year to mid-April and prediction to the end of the year.

Mr. Salanik inquired if the predicted cash amount of approximately \$2 million was enough and if we could cash in investments as they will mature this summer.

Mr. Wallace suggested the Board of Supervisors could agree to cash investments to temporarily refund the general fund account.

Ms. Lyons suggested keeping a healthy unrestricted cash fund balance.

Ms. Mason reviewed possible Coronavirus scenarios in the coming year. This includes possible reductions for EIT by 5-10%, real estate tax, and real estate transfer. The State aid for Pensions is received in the fall and the State liquid fuels aid has already been received for the year.

Mr. Wallace reviewed graphics for the 2020 general fund in regards to unrestricted cash. He reported the beginning balance as \$1.6 million, the end of April being approximately \$1 million, and the end budget being \$196 thousand. He projects the income will result in a balance of \$283 thousand.

Mr. Salanik suggested the Township apply for a Tax and Revenue Anticipation Note. He also noted the CARES Act may be an option.

Mr. Wallace reviewed a projected income calculator to estimate possible outcomes.

Mr. Ebenbach noted it only projects for this year and only related to the general fund. He would like to expand the model to a five year plan and all funds.

Mr. Salanik suggests waiting until the fall to make a decision.

Ms. Lyons inquired if the Township could receive the Tax and Revenue Anticipation Note loan and complete a separate borrowing.

Mr. Salanik suggests it would cost more to do so.

Mr. Wallace stated he would research.

Ms. Mason noted the Township has received the Tax and Revenue Anticipation Note in past years.

Ms. Bray inquired if a TRAN could be considered and would not see the need to borrow due to other accounts the Township holds.

Mr. Ebenbach stated other funds are restricted.

Ms. Mason suggested reimbursing the general fund to \$1.6 million to conserve cash in short term.

Mr. Ebenbach presented the Capital Priority Assessment. This assessment provided a revised 2020 capital spending plan. This plan includes redirecting programs to roads funds, deferred programs, and re-scoped programs.

Mr. Wallace and Mr. Ebenbach concluded that the Township will need to conserve cash in the short term by suspending replacement hiring, rationalize capital spending, set aside cell tower revenue and 2019 positive operations variance as hedge, borrow to reimburse general fund for new building construction spending, and reevaluate position during quarter 3.

3. Pension Funding Concerns

Mr. Denton presented the Pension Committee's funding concerns.

The 2020 Pension Advisory Committee objectives include working to develop a formal 'Discount Target Rate, update Pension financials with graphs, tables, etc., develop and implement a 'Continuing Education Plan', and more.

He also provided an update from December of 2019 regarding the Pension plan financials. The Townships Pension plans have been underfunded since 2003. Pension liabilities continue to exceed Pension assets. Despite the strong stock market performance since the global financial crisis in 2007-08, the Townships Pension Plan Deficit continues on a downward trend.

Mr. Denton provided the COVID-19 estimated impact on stock market and Pension investments. During 1Q20, the Pension Plans Investment Portfolio decreased -17.7%. The Pension Deficit increased and Funding % worsened.

He also presented the annual employee Pension calculations noting that if the Discount Rate assumption is too low, the Township will over fund the Pension Plans and if the Discount Rate assumption is too high, the Township will under fund the Pension plans. When Investment Returns exceed the 'Discount Rate' assumption, the Pension Deficit goes down.

He suggested the root cause of Pension draft occurred due to the fact that the Township did not adjust the 'Discount Rate' used to calculate the MMO and Total Pension Liability as market conditions changed. If the Discount Rate has been adjusted over the past 20 years, the calculated MMO payments would have been higher and the Pension plans would. As a result, the Township has effectively been making 'partial' payments of its true annual Pension expense.

He stated that the Pension deficit is a 'problem'. He stated it may be due to the estimated cost of delaying full funding of Pension Plans, over the next 10 years, the number of non-uniform plan members collecting benefits will likely exceed the number of Members contributing to the Plan. Growing Pension Deficit could negatively impact the Townships bond rating and underfunding the Pension Plans penalizes future taxpayers and employees who will eventually have to pay this bill. The cost increase to fully fund the Pension liability would be approximately \$1m per year.

Mr. Denton provided recommendations for the 'Discount Rate Target'. Based in Vanguards analysis of the historical returns of 'Balanced Portfolios' through 2012, a 65%/35% Portfolio had an average annual return of approximately 7.55%. Doylestown Townships Pension Investment Account returns for past six years at 6%. D. K. Brede Investment Management Co. Inc., J.P. Kennedy- T.J. Anderson & Assoc. Inc., and PAC all provide 6% as the Discount Rate Target for the next 10 Years.

Mr. Denton explained that the Pension comities recommendation is to take the "Discount Rate Target Migration Path". The PAC recommends that the Township gradually lower the Discount Rate by 1/2 % every 2 years over the next 10 years to the target rate of 6.0%.The PAC also recommends to make an "Extra Mortgage Payment" in the off years. This will lower the 'effective discount rate' in that year by ~ ¼% that the Township considers being more aggressive early on with the funding of the Non-Uniform Pension in light of the high number of retirees in the next 10 years. The PAC will continue to work with the Investment Advisor and Actuary to reevaluate the "Discount Rate Target" each year.

4. 2021 Budget Planning Schedule

Ms. Mason reported a Supervisor Pandemic Finances update would be added before the 7pm, July and August, Board of Supervisors meetings.

5. ADJOURNMENT -

Meeting adjourned by Ms. Lyons at 6:31 pm.

Respectfully submitted by

Stephanie J. Mason
Secretary