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"Incorporated into a Borough, May 29, 1840"

Manager's 2010 Budget Message January 1, 2010

Introduction & General Comments

This Budget Message for the coming year will again be important in order to give our elected officials and the taxpayers an understanding of the financial and functional condition of the Borough, an outline of the fiscal plan for the new fiscal year and a summary of what to expect in the future.

This message reflects the Borough Manager's plans and recommendations as the Borough moves forward into a new calendar and fiscal year. The budget request for 2010 is a modest 2.7% increase from 2009 and that is due predominately to necessary increases in public safety and water utility related expenses. (See attached budget summary Exhibit #1)

In the 2008 and 2009 budget, the Borough had to address the need to rebuild our financial reserves in order to put the Borough in a solid fiscal position for the future. We identified the problem and proceeded in that rebuilding phase. The Council and Mayor had the foresight to see what was needed and made the difficult decisions to put a reserve rebuilding plan into place. Such a plan is working and will continue in this budget as we rebuild and replenish our emergency reserve funds. Currently the cash balance forward to 2010 is that reserve account and it is as follows:

1. Fire Fund.....	\$ 41,250
2. Water Fund.....	\$ 78,510
3. Electric Fund.....	\$219,100
4. Highway Aid Fund....	<u>\$ 43,000</u>
	\$381,860

The 2009 fiscal year gave us challenges to address with such things as, but not limited to, the following:

- Funding and constructing the Beaver Falls Water Line project
- Replacing the Main Street water line
- Improving stormwater infrastructure within the Borough

- Economic Revitalization (commercial and industrial)
- Improving our new Capital Improvement Program
- Instituting and managing the planning for a Joint Borough Comprehensive Plan with Harmony Borough
- Utility (Electric and Water) return on investment reviews to improve our utility programs
- Concentrate on internal technical resources such as the accuracy and use of the Borough GIS program
- Multi-Jurisdictional Projects
- Pension Investment Review

These challenges were addressed successfully and work on them will continue in 2010, as all are Multi-Year issues.

Each year provides new issues and challenges to address and 2010 is no exception. Those that have become apparent and are included, but not limited to, in the proposed budget are the:

- Decommissioning of our Water Plant and Raw Water reservoirs
- Upgrade to our Finished Water reservoirs to include new water tanks
- Continued infrastructure improvement such as Storm Water and Bridges
- Plan for the rehabilitation of our Community Park
- Improvement of our utility services to our present and future customers
- Need to fund necessary equipment purchases
- Improvement of the Borough Web Site

Submitted for your review and information is the 2010 Zelienople Borough Budget. The budget is a document based upon input from department heads, Council requests, and my recommendations. It is balanced as required by state law and accurately identifies all revenue and expenditures. It includes maintaining taxes with at the same level as 2010 with no proposed increases. It does however, recommend utility rate increases in order to meet debt service requirements and the increased cost of electric and the purchase of water for our system needs.

The Borough is in a very good position in terms of fairly assessing its citizens and commercial business for operation of the Borough. Utility revenue is the primary means of Borough operation rather than through the customary property tax method. This is better for our citizens because the utility rates are a much more fair and progressive way to fund the operation of the government.

Demographics

- Zelienople is a Borough of 4,123 citizens having a median age of 41.3 years. It has a land mass of approximately 2.1 square miles. The Borough is essentially “built out” with 61% of its housing valued between \$100,000 to \$200,000. However, there are still development opportunities with the proposed Glade Run development of 276 acres, that will have an effect on revenue and expenditures, as well as the provision of services, as it becomes a reality as projected over the next ten (10) years. These will be continue to be reviewed according to the New Subdivision & Land Use and Zoning Ordinances passed by council in the fall of 2007 and updated in 2009, to insure a positive experience for the Borough for years to come.

Keep in mind that the upcoming federal census in 2010 will be critical in both determining the changes in our demographics but will also provide us with information that we can use to seek funding. The Borough will be taking a proactive role in insuring our census count is accurate.

- The business climate appears to be stable, but it is no surprise that there is anecdotal information which indicates that businesses are struggling in our current economy. The Borough does not have a specific economic development department to either track the situation or handle business opportunities, but we have begun to make the local government an important factor in assisting the business district and to find ways to make Zelenople an attractive location for commercial and low impact industrial opportunities. We will continue to be as proactive as possible to assist in this area, even though we do not have the resources to carry this out ourselves. That being said, we will continue to try and partner with other entities to serve the economic development effort, geared to both the commercial and industrial districts, as a prime goal for the Borough to pursue in 2010. This budget does continue our initial steps to allow the Borough to address this concern.

Taxes

Borough of Zelenople

Taxation in the Borough is as follows:

- ❖ Real estate millage was lowered to 4.56 mills in 2009 from 5.8 mills due to the Butler County Commissioners decision to change assessed value from 75% to 100% in 2009. Each municipality had been required to adjust their millage to a revenue neutral position and had the opportunity to advance their millage 5% above that position if the elected officials deem it necessary. The 2009 budget reflected the 5% option. There is no change proposed in the 2010 budget and it is distributed as follows:
 - General Fund – 1.81 mills expected revenue is \$ 52,010
 - Library – 0.39 mills expected revenue is \$ 11,207
 - Fire Department – 2.36 mills expected revenue is \$ 67,814
 - Total 4.56 mills \$131,031
- (Each mill is valued at approximately \$28,734)
- ❖ Per Capita tax is assessed on all residents over the age of 18 at \$5.00 per person. An exemption must be applied for anyone whose annual income is below \$5,000. No change is proposed.
- ❖ Earned Income is assessed on all residents at ½ % of annual income. No change is proposed.
- ❖ Real Estate Transfers are ½ % for all real estate transactions. No change is proposed.
- ❖ Local Services Tax is \$52 on all individuals who work in Zelenople. No change is proposed.

The above information must be put into context with the entire tax bill for the resident as follows.

Seneca Valley School District

- ❖ Real Estate millage – 97.24
- ❖ Earned Income – ½ % of annual income
- ❖ Occupational Assessment Tax - \$10 per person over the age of 18 years.

Butler County

- ❖ Real Estate – 23.63 mills

The Borough remains the smallest part of an individual’s Real Estate tax burden as shown:

Taxing Authority	millage	Percentage of Total
Borough	4.56	3.6 %
School District	97.24	77.5 %
Butler County	<u>23.63</u>	<u>18.8 %</u>
	125.43	100.0 %

The Borough’s assessed value of property increased slightly to \$28,734,864 from \$28,693,188 in 2009. Each mill is valued at approximately \$28,734. Figures are based on the September 2009 Butler County reports & rates. The budget has been prepared with this assumption.

Sources of Income

Zelienople has five major sources of revenue income on which to operate. (1) Property Tax, (2) Earned Income Tax, (3) Local Services Tax, (4) Revenue from the sale of Electricity distribution, and (5) Revenue from the Sale of Water distribution.

Fees for services are also another source of funds but are relatively minor in comparison to the ones above. Even though these have been modest in the past, as continued growth occurs, these reimbursements can be significant. The Borough has to maintain fee levels to be in line with real costs, to avoid raising them significantly due to the lack of increases over many years. The cost of development must be covered through reimbursement fees from the various developers. Council had taken action to make sure this occurred and was fully in place in 2009 and to ensure it is maintained in 2010.

Fund Structure

The Borough’s financial structure is separated into seven (7) funds as follows:

1. General Fund
5. Water Fund

2. Fire Fund
3. Library Fund
4. Highway Aid Fund
6. Electric Fund
7. Sinking Fund

Fiscal Situation – Overview

The Borough has had a strong history of prudent and frugal government spending and this has certainly been carried through into the 2010 adopted budget. In the past, the Borough had the luxury of strong reserves that have been used to offset expenditures and large capital costs. However, excluding transfers of funds from the two utilities, the Borough had run a General Fund deficit from 1999 through 2006. This practice came to an end in 2007 when action was taken to strengthen the fiscal situation through a mixture of budget reductions, revenue increases from the utility rates and a strong commitment to the establishment of capital reserves as noted above. This practice is being maintained in 2010.

Utilities

In 2009, we engaged in a study to obtain a clear picture of our return on investment for both utilities. We must make sure that the value of the utilities, the level of expenditures and operating costs and the amount of our investment in them insures that we are able to operate in the black. This study has been completed and was submitted to council in 2009. It is also available to the public if requested. Such studies will be updated yearly to insure current and accurate information. The results of these studies had an impact on both decisions to improve operating efficiencies and rates in the borough utilities.

Capital Investments

Needed infrastructure development and improvements have been made, but many such plans have been put on hold due to either the lack of funds available or the need to use resources for other priorities. 2010 is the third year we have included a comprehensive Capital Improvement Plan (CIP) that outlines the Capital needs of the Borough for the next five (5) years to address such concerns. We continue to improve the CIP each year as both staff and council have become more adept at its use. Note that such a plan is continually updated each year showing the project costs for the next five (5) years. This includes a narrative on how these projected projects and equipment will be funded.

The attached CIP summary (Exhibit #2) shows that the 2010 operating budget programs \$6,176,643, which includes \$5,800,000 for the debt service on the Beaver Falls Water Line project and the Main Street water line project. Therefore, there is \$376,643 in other capital projects and equipment, where the Borough is using the “pay-as-you-go” approach to fund the equipment and projects. Capital planning has also occurred for the Borough to begin the self-financing of a major project, where funds are reserved for the next few years to pay for the replacement of the Green Lane bridge as well as related infrastructure improvements at the site.

Health Care

There are costs that have to be budgeted but are still somewhat out of our immediate control. Health care is a major cost item in this category. The Borough is again fortunate in 2010 in that the increased health care costs have been kept to 12% over the 2009 number. However, health

care costs continue to be a volatile cost, which we will monitor and consider options for lowering our obligations in the future.

Pension

Pension obligations continue to be a very costly but necessary expenditure. The Borough is not only seeking ways to lower the public cost portion without decreasing the pension commitment to its employees, but also seeking ways to better the pension investment program in this very uncertain investment market that our Nation is in at this time. We are also establishing an Employee Pension Advisory Committee that will give recommendations to Council concerning the pension programs currently in place.

Taxes and Revenue

Taxes have remained stable in Zelienople Borough for many years. Due to the reliance on our municipal utilities for maintaining operating revenue, taxes have taken a secondary role in providing needed funding for normal borough operations. This will continue to be the case into the near future. You should know that there have been lobbying efforts and proposed legislation for potential changes in state legislation in 2009 that would have caused a very negative situation for the Borough to continue as a viable electric company. The Borough, through the various state associations, has taken an active role in challenging these legislative efforts. If we were to lose the electric utility revenue, it would require an increase in millage by 45.33 mills to replace existing revenue in order to maintain normal operations. Thus far we have been successful to protect the Borough's interests and we will continue to be vigilant in the future.

Summary

Zelienople continues to have the challenge of a very common problem that other Borough's have faced, which is a rising of costs, increase demand for services and a slowing of revenue income due to limited growth. The elected and appointed officials have always had the best of the community at heart and have tried to continue services while not burdening the taxpayer. Such is a course of action that will continue into the future.

General Fund

The General Fund is the most complicated as it includes the heart of service provisions such as general administration, police, streets, parks, library, zoning & code enforcement.

Administration:

This account has remained stable with little change. There is no change in the make up of the staffing for this department. We will continue to be as frugal and responsive as possible to our citizens.

Police & Public Safety:

The Borough of Zelienople has had a long history of providing excellent public safety services. Police, fire, fire police, and emergency management have all been an integral part of our service to the community. Although public safety is the primary concern of this government, it has to be in a manner that is also fiscally responsible.

The Borough has completed contract negotiations with the Police Bargaining Unit and a successful Collective Bargaining Agreement in 2009 was secured. It was a fair and just contract that benefits both the police force and the Borough to insure public safety as well as a balanced and cost effective contract that will be in place through December 2012.

Since 1999, the police budget had risen at the rate of 9.5% per year. This was driven primarily by contractual obligations such as wage increases, overtime costs, health insurance and pension increases. However, this trend changed in 2009 where there was significant effort made to make positive changes in such items as scheduling and overtime costs that were mutually agreed upon between management and the officers.

With the new contract in place, as well as a continued effort for cost savings on the part of both labor and management, the long term projected increases that had been anticipated and noted in last years budget message have been averted. In its place is a much more stable environment with increases being much more modest. The long-term effect of it should not only slow the projected increases in the cost of police protection but should also allow for a more effective police department that insures the safety of the officers and the public. We will continue to work toward containing costs and hope to keep budgets within reasonable levels while maintaining a positive relationship between borough management and the police officers.

Roads & Streets:

Arguably the second most important municipal function behind public safety, are safe and useable streets. The Borough does all it can to maintain roads and streets so that they are safe and easy to use. This includes road maintenance, signage, paving, curb and gutters, stormwater control and winter maintenance. All are budgeted in this category. This activity has also remained stable, but will require future resources to improve the storm water situation in parts of town. In addition, we will have to rebuild the curbs in many parts of the Borough as well. Both of these projects are expensive and will require more than the normal operating budget funding. I continue to recommend we look at long-term financing to fund such efforts. Preliminary engineering work has been done for curb and storm water projects and the final engineering work will enable the execution of several projects in 2010.

It must be noted that the cost of winter maintenance continues to vary due to the fluctuating costs of salt related to supply and demand issues. The Borough purchases salt through a competitive bidding process of the Commonwealth as well as through a Council of Governments (COG). In the 2008/2009 winter season the cost of the salt was \$76.95 / ton under the State contract. For the

2009/2010 winter season the cost under the State contract is \$61.93 / ton and under the COG contract the cost is \$60/ton. Just as important as cost is availability. This is why we held two contracts to insure to the best of our ability, the unimpeded flow of salt for our use. Bear in mind this is not guaranteed but it is to the borough's advantage.

Parks and Recreation:

The citizens of the Borough enjoy quality parks and recreation as best as the Borough can provide. We will continue to investigate the need for recreation programming and additional facilities in the Borough. The primary recreational facility is the Community Park, which became the responsibility of the Borough in 2004 and is operated in tandem with the Community Park Association Board. Currently we are funding the park at a little over \$50,000 per year and these funds have been used to improve the infrastructure of the park that has been neglected over the years due to lack of funding. To this end, we have significantly improved infrastructure at the Community Park in the past four years as it can be afforded.

The Borough Council and Borough Administration have been very concerned as to the long-term viability of the park and what it can provide to our citizens. In order to plan for the future, Zelenople completed a comprehensive Master Plan and Feasibility Study in late 2008 that was designed to plan for the improvement of the Community Park facilities and to determine the viability of the Community Park Pool in the future. We are now investigating ways to implement this plan through the Community Development Block Grant program, grant opportunities, Zelenople government funding, Friends of the Park assistance, regional funding as well as private donations from groups and individuals. The Park Board and the Borough have developed a good working relationship to help insure that the park and pool remain a viable operation for all in the region. In addition to any action by the Borough, the Park Board must develop entrepreneurial ideas for funding expenses associated with the operations of the park.

The findings indicate that there will need to be an infusion of approximately \$4,779,592 in new funds to accommodate needed upgrading and changes. Of course, these costs can be phased in conjunction with possible grant and alternative funding sources and in fact that has already begun with the complete renovation of the upper restroom facilities and the extensive pool house renovation completed in 2009. Additional park improvements are in planning for 2010.

Overall, the study calls for park improvements of \$3,763,952 while necessary pool improvements include a basic package of \$534,800 with other needed features costing an additional \$480,840 for a total of \$1,015,640. Since it is anticipated that the Borough will have to take more responsibility on behalf of the park as other funding sources are drying up and demand for the park's services increase, as noted by the study results, a new funding source may be needed in coming years and may include real estate taxation.

This is a very exciting and challenging long-range project that will require cooperation between all entities that benefit from the resources the park has to offer.

Library:

The Library continues to be an important part of the Zelenople community and is operating very well but very modestly. It will meet its operational obligations, however, it has minimal reserves for expansion of services or improvements of its current operation. Like the Community Park, it

is suggested that the Borough and the Library Board develop entrepreneurial ideas for alternative funding sources. In the meantime, Zelenople Borough is committed to the Library's operation and this budget funds continued operational support to the Library for \$30,000 in 2010. This is funded through direct 2010 real estate tax dollars of \$11,568 and additional budgeted Borough support of \$18,432.

Zoning & Codes Office:

The Zoning and Codes office has been busy and will continue to grow in demand for its services. Although we do contract out for Building inspection services, the current Zoning & Codes Officer is part time and works about 20 hours per week. I see that role expanding as we move into the future for two very important reasons. The first is of course the changes in the Zoning Ordinance and the development of our own Subdivision/Land Development Ordinance. This is going to be a marked change in our staff responsibility and may require additional staff time to manage in the future. Secondly, the Glade Run proposed Plan Unit Developments will most assuredly require additional staff time to insure that this series of subdivisions are completed correctly and according to our ordinances.

I can assure all that the current position will be used to the fullest for our zoning and codes needs, including an increased effort on code enforcement concerns.

Fire Fund

The Fire Department is running extremely well and there are no foreseen problems. In 2009, the Governor's Department of Community and Economic Development study on the consolidation of the Zelenople and Harmony Fire Departments was completed and work is still in progress as to the option for such a venture. Any such plan will certainly include facilities and vehicle replacement options in order to serve the Borough and its citizens in the best way possible for fire protection services.

Highway Aid Fund

It is anticipated that Highway Aid funds from the State will continue to decrease slightly in 2010, however the Borough will continue its efforts to complete approximately \$150,000 in road improvements. The Highway Aid monies are the primary source of funding major road projects and paving in the Borough. An anticipated cash balance of 2009 Highway Aid funds in the amount of \$43,000 is being forwarded into 2010 with an additional amount of \$85,515 being expected from the State in 2010. The Highway Aid funding toward the 2010 projects is anticipated to be about \$128,865. The remaining balance of funding for road projects (\$21,135) will come from the Borough's General Fund.

Water Fund

In 2010, the Borough will continue the transition from its own water treatment / processing facility to purchasing finished water, thereby eliminating the need for the treatment plant and the raw water reservoirs. The decision to contract with the Beaver Falls Water Authority to provide the Borough with treated water has been made and the construction of an eleven (11) mile water

line is nearing completion. 2010 will see the completion of the line, construction of the new pump station, construction of the new water tanks for finished water distribution, decommissioning of the water treatment plant, breaching and removal of the raw water reservoirs and dam structure. Actual water flow is scheduled to begin in late summer early fall of 2010 with entire project completion expected by year-end. The cost of this project is approximately twelve (12) million dollars. A long-term loan debt instrument of 20 years is in place for \$5.8 million dollars and significant grant funding of more than \$6.5 million has been received for the project. Infrastructure debt service will be paid through a Capital Improvement Surcharge (CIS) charge increase beginning with the March 2010 bills. The cost of purchased water will require a planned water rate increase as well to maintain the system and it is anticipated that this will also commence with the March 2010 bills.

It is imperative that the water distribution system continue to be updated as the system gets older. For example, the main line that is along Main Street is close to 100 years old and needs replaced in the next few years. The engineering work was completed in 2009 and funding for this project is part of the loan mentioned above.

We will also continue with our meter replacement program in order to insure that our billings are accurate.

Electric Fund

There was an additional amount of significant work done in the electric department in terms of improvement to the system in 2009. We completed the Green Lane and Grandview extension project which had been previously planned and did so under the original budget estimate. In addition, we have planned for a replacement of old and cluttered poles on Main Street where three such poles and service were changed to make them more safe, more functional, as well as more aesthetically acceptable. Additional pole work is slated for 2010. The new power substation has been functioning well and has been thoroughly tested and cleaned as part of a comprehensive testing and maintenance program for our equipment. Such maintenance is necessary to protect the Borough's investment and will be part of a regularly scheduled program in future years.

We will also continue with our meter replacement program in order to insure our billings are accurate.

Sinking Fund

This includes payment of principal and interest for the 2004 Series A bonds. This covers General Fund and Fire Debt.

Special Notes:

1. **Emergency Management** – The Borough is continuing to improve its Emergency Management Team to better serve the community in a true emergency situation. The Emergency Management Team is comprised of knowledgeable individuals that plan for and manage an emergency event in conjunction with our local emergency services and

Butler County. The cost to the Borough is minimal but the support is important to continue this group's function.

2. **Capital Improvement Plan (CIP)** – As mentioned earlier, the Borough is in its third year of a comprehensive CIP plan by which the Council and the public is given a five (5) year plan for needed equipment and infrastructure improvements. We will continue to improve upon this document and its use. The 2010 budget includes this plan and is noted in a separate section of this document. It is important to note that the CIP is funded in two ways. The equipment portion of the CIP is addressed in the operating budget as a short-term cost that is a traditional operating cost expenditure. The large CIP projects, such as stormwater installation or replacement, are long-term costs and may be funded through operating funds but is most logically funded through long-term debt because the lifespan of such a benefit is 20, 30 or more years. Such projects should be paid for by the people who would be using it and benefiting from it over that period. Such long-term debt can be obtained through either long-term loans or by Bond Issue.

This capital improvement plan was enacted to better enable the Borough to manage tangible assets and capital projects. This plan includes needed equipment and needed projects projected over the next five years. The plan is categorized according to Borough Department and contains the planned future capital expenditures. Though the items listed are planned expenditures, they are subject to change as immediate needs, priorities, and costs may change.

3. **Economic Development** - Historically the Borough has not been formally involved in economic development activities. However, true economic development success requires a real partnership between the private sector and the municipal government. A Main Street improvement program is planned as part of the Comprehensive Plan noted below. We will work with other entities including the Chamber of Commerce to improve the commercial and industrial situation in the Borough.
4. **Borough Comprehensive Plan** – 2009 was the beginning of an in-depth Borough Comprehensive Plan, done in conjunction with Harmony Borough. The Joint Comprehensive Plan project with the Harmony Borough is fully underway with a projected completion in late 2010. A working steering committee comprised of community members from Zelienople and Harmony has been diligently meeting and giving input to the consulting firm, chosen to develop the plan. The Borough has also contributed considerable staff time and technical resources, such as GIS and project management, to the development of the Joint Comprehensive Plan. The development of a comprehensive plan is needed as the current plan dates back to the 1960's. The partnership with Harmony Borough in the planning process allowed for state funding as well as independent grants to fund the project.
5. **Utility Return on Investment Study** – A return on investment review was completed in 2009, to evaluate the business viability of both the Boroughs water and electric utilities. Both are viewed as a business operation and the Borough needs to insure they are run in a cost effective manner as well as in a manner that achieves customer satisfaction. In order to ensure continued efficiency, these reviews will be conducted in the future as well, in order to compare and contrast past verses present viability.

6. **Internal Technical Resources** – The Borough will continue to modify and expand its resources for technical improvements and use of modern resources in providing the Borough’s services. For example, we will continue to be a leader in local government use of the Graphic Information System (GIS) for all aspects of the Borough’s operations and will continue to refine our Website as a primary tool for distributing accurate information to the public.

7. **Electric Power Supply Contract** – The Borough has successfully negotiated a new electric power supply contract for the near future to insure low cost energy to our customers and residents. The Borough took a proactive position and requested proposals from numerous electric providers for our power source contract. It was our opinion that the market was right to lock in a power contract in 2009 in order to have a reasonable source of power for the next four years to replace the current contract that was ending. We were correct in doing so in 2009 and did lock in a power source that will begin in July 2010 at a very reasonable rate in the market place. Even so, the new rate will require a modest increase in electric rates to our customers, which is due to the increased cost of raw power in the market, that we will have to pay beginning with the new contract. It should be noted although it is higher than the current rate as anticipated, it is much less than feared which is very positive for the consumer.

8. **Community Development Block Grant** – The Borough has been a direct recipient of the Community Development Block Grant program (CDBG). We are hopeful 2010 will continue to bring us those funds which we can use for specifically allowable projects within the Borough. The Borough will continue to entertain project requests from outside agencies, such as the Borough’s successful partnership with the Butler County Housing and Redevelopment Authority for the Borough’s Housing Rehab program, which gives qualifying residents an opportunity for improvements to their homes. The Borough will also concentrate on using CDBG for Borough related projects whenever permitted by the state. The Borough has already made effective use of the funds for various projects at the Community Park and hopes to complete additional improvements in the park.

Respectively submitted:

Donald C. Pepe
Borough Manager