

Chairman John B. Rebert called the recessed meeting to order at 4:00 p.m. with the following in attendance:

Supervisor Dennis Luckenbaugh
Supervisor Tanya Crawford

Mark E. Derr, Manager
Sharon Kerchner, Treasurer
Russell Fuhrman, Public Works Director
Nelson Brenneman, Road Master
5 citizens

I. Budget

Chairman Rebert turned the meeting over to Mark Derr to review the draft budget prepared by Township staff. Mark indicated that he and the Township staff view the budget as one piece of an overall plan for the Township and that the budget incorporates costs associated with other pieces of the total plan that is being developed for the long-range success of the Township. The overall plan needs to consider not only the Township's finances as presented in the budget but must also include a long term plan for the roads, infrastructure, maintenance and replacement of the equipment needed to maintain the infrastructure, etc.

Over the past three years, 2006 through 2008, the Township spent approximately \$835,000 more than it collected. This was partially due to the investments in the regional police facility and the purchase of a new fire engine but it was also due to the growth of revenues not keeping pace with expenditures. In 2009, although there were significant budget cuts made by the Board of Supervisors, the Township still budgeted to spend approximately \$70,000 more than the anticipated revenues. This, coupled with an overall decrease in revenues, has resulted in a steady decline in the operating reserve of the Township which has decreased to approximately \$485,000, or a little over two months worth of expenditures. At the same time, the Township's infrastructure has deteriorated and is in dire need of attention. The pipes which make up the Heindel Road culvert have rusted through and are beginning to collapse along with the road which they support. In 2004 the Township recognized that the Bentz Road culvert was in need of repair, although to date, no repairs have been made. Due to additional damage and the unsafe condition of the culvert, the road was permanently closed after the June 10th storm. The endwall of the Stambaugh Road culvert has fallen into the creek resulting in the separation and collapse of the pipe under Stambaugh Road. This has resulted in the collapse of the edge of the road on the upstream side of the culvert. The downstream side of the road is also being undermined by the creek due to the lack of adequate support of the structure and protection of the bank. The rock making up the endwall of the North Rohrbaugh Road culvert has also fallen into the creek

and the road is collapsing behind it. The culvert at Ambau Road and Route 116 has silted in to the point that it will handle less than a quarter of the flow that it was designed for and upstream residents properties are being flooded during heavy rains. Due to a lack of funding and long range planning to correct the problems the Township has historically used short term fixes resulting in continual rework which results in wasting time, effort and money. Over the years we've spent a tremendous amount of money on dirt and gravel roads; however, due to lack of a long-term plan to address the stormwater issues on the roads and a lack of funding to make it happen, much of the dirt and gravel roads have eroded away into the farmers' fields and our streams. Many of our paved roads are also beginning to fail despite the best efforts of our Public Works Department. A number of these roads will require significant expenditures to bring them back to acceptable standards.

Unfortunately, the Township's future financial condition is made worse by what is currently occurring with the North Codorus Township Sewer Authority. When the Township underwent the State's required Act 537 planning for sewer, the Colonial Crossings subdivision was included in the area to be served by public sewer. Prior to constructing the Township's sewer system, the subdivision plan for Colonial Crossings was submitted to the Township. Because the area was to be served by public sewer, Cornerstone Development proposed to construct a temporary treatment plant so that they could begin construction of the development. One of the conditions for approving the development was that the temporary treatment plant to be abandoned upon final completion of the Township's sewer system and the development had to be connect to the Township system. The developer agreed and the agreement was recorded at York County Court House so that all future property owners would be notified of the requirement when they purchased their property. The agreement required all properties to be connected and pay the full connection and user fees. Cornerstone Development then engaged CMV Sewage Company, a related party, to operate their wastewater treatment plant.

In 2003 the Township created the North Codorus Township Sewer Authority to construct and manage the Township's wastewater collection and treatment facilities. The Authority borrowed \$15 million dollars for the construction of the sewer system, relying in part on the anticipated revenues from the Colonial Crossings subdivision to repay the debt. The financing required the Township to enter into a Guarantee Agreement as one of the conditions for the Authority to issue the debt. If the Authority is unable to repay the debt, the Guarantee Agreement requires the Township to make the payment. The Guarantee Agreement also requires that the Township includes an amount sufficient to make the annual debt payment in its annual operating budget. Up until 2007, the Township had sufficient operating reserves which in effect met this requirement and this was not a problem. However, due to the losses the Township has incurred over the past several years, this has now become an issue.

What has drawn more attention to the Township's Guarantee is that in 2007, upon

completion of the treatment plant, the Authority notified Cornerstone Development of the requirement to abandon their plant and connect to the Authority's system. The Authority was informed that the Public Utility Commission (PUC) would need to approve the abandonment of the treatment plant because CMV Sewage Company is regulated by the PUC. In 2008, the PUC denied CMV Sewage Company's request to abandon the plant because "the evidence presented failed to prove that the proposed transaction is in the public interest". The public interest was defined as "the ratepayers, shareholders and the regulated community" not the taxpayers or ratepayers of the Authority. As a result, the Authority has lost a significant amount of money in both legal fees involved in fighting the case as well as connection and user fees from the Colonial Crossings subdivision. Without a successful resolution of this matter, the Authority could lose in excess of \$500,000 in 2010 and result in the Township being forced to pay a portion of the Authority's debt service due to the Guarantee Agreement. The Township currently does not have \$500,000 of reserves to pay the debt. This would effectively wipe out all remaining reserves of the Township and still leave a deficit. Failure to successfully resolve the issue with CMV Sewage Company and the PUC in the very near future will result in significant rate increases for the Authority's ratepayers, substantial tax increases for Township residents, or the bankruptcy of both the Authority and the Township and the default in payment of the Authority's bonds.

When the bonds were issued, the Authority was required to purchase an insurance policy to cover the bond holders in this type of situation. The policy was written by XL Capital Assurance, a company that was caught up in this past year's financial meltdown. As a result, the policy is now virtually worthless. As a result, everything falls back to the Township and the Authority and unfortunately, the only responsible alternative is a combination of tax and user rate increases.

Based on the preceding discussion, the 2010 budget reflects an increase of .75 mills. Although the need to budget for the Sewer Authority's debt is not specifically addressed, the proposed budget would provide additional funds for a capital reserve that could be used in the event of a default. Based on a review of the real estate tax records, the average residential property in the Township is assessed at \$128,810. The .75 mill increase would result in the average homeowner paying an additional \$96.60 per year or \$8.05 per month. The average farm in the Township has an assessed value of \$123,869 which would result in a tax increase of approximately \$92.90 per year or \$7.74 per month. Mr. Luckenbaugh expressed concern for the significant number of senior citizens in the Township that would be affected by the tax increase. Information from the 2000 Census was provided which shows that 161 households or about 5.5% of the homeowners are age 65 and older. Although more recent population estimates are available, they don't provide a breakdown of the population by age. That information won't be available until after the 2010 census.

The Board and staff reviewed the various revenue and expense line items. The following items were identified as changes from the previous year's budget:

General Fund

Revenues

- Real Estate Tax rate increase from 1 to 1.75 mills.
- Earned Income Tax – slight decrease from 2009
- Refuse Hauler Fee – A license fee will be established for the 2010 garbage contract.
- Pension Reimbursements from the state are estimated lower for 2010.
- A Yard Sale Permit Fee is being reinstated.
- Refuse collections are budgeted for the remainder of the existing contract. It's anticipated that we will require the contractor to bill and collect fees for the upcoming contract.
- Proceeds from the sale of the dump truck and fire truck would be placed in the Capital Reserve Fund.

Expenditures

- Health insurance costs have decreased across all budgeted line items by approximately \$84,304. By switching insurance carriers, the Township has saved in excess of \$121,000 compared to the renewal amounts proposed by the current carrier.
- Pension costs have increased due to the financial losses incurred by the plan.
- The Township is beginning to recognize the value of its equipment and infrastructure. As a result, the 2010 budget reflects depreciation in the various line item budgets to plan for the ultimate replacement of these items. This was not previously reflected in any of the Township's budgets.
- Capital Expenditures will be paid from the Capital Reserve Fund.
- The overall budget for the Manager's position is down approximately \$14,000 from the prior year due to paying the salaries of two managers for a portion of 2009. The amount reflected for pension has increased significantly due to the method of allocating the total pension cost.
- The Tax Collector's commission has been reduced to reflect the changes made in 2008.
- Legal fees have been budgeted at a higher rate due to the on-going litigation with Colonial Crossing.
- The Engineering Budget has been increased to reflect the same level of expenditures as incurred in prior years. It also includes additional budgeted costs for a Township wide pavement management plan and additional work on the Township's storm water systems as part of an overall plan for the Township.
- The regional police budget reflects an overall increase of approximately 5.5% over the prior year's budget.
- The fire budget reflects an increase of approximately \$20,000; however, this includes the new depreciation line item in the amount of \$40,000.
- Planning and Zoning reflects an increase of approximately \$19,000 over the prior year's budgeted amount to reflect the cost of a full time zoning officer.
- Solid Waste Collection reflects the cost for completion of the existing garbage contract. Thereafter, it is assumed that the successful contractor will bill the customers based upon a contracted sum. The contractor will pay a license fee to the Township from the proceeds and use the remaining monies to pay the costs of the contract.
- Wastewater Collection – the Sewer Authority has assumed all costs associated with their employee.
- For ease of budgeting and reporting purposes, the payroll costs of all public works employees is now reflected in the Highway Maintenance Budget. The costs shown in gray in the first line under the

heading reflect the costs allocated to the various line item budgets in previous years and are shown for comparison purposes only.

- Construction and Rebuilding of Roads – with the exception of the Bentz Road Dirt and Gravel Road expenditures, all costs have been allocated to the Liquid Fuels Budget for 2010.
- Water System – no transfer has been reflected in 2010. It is assumed that the tax rate charged for fire hydrants will be increased sufficiently to offset costs.

Liquid Fuels Fund

Revenues

- The budget assumes that the remaining \$25,000 of the Block Grant funds will be received in 2010.
- A \$500,000 Pennsylvania Infrastructure Bank Loan is included in the budgeted receipts. The loan will be used for the replacement of the Bentz and Heindel Road culverts, and the repair of several other Township culverts including North Rohrbaugh and Ambau Roads. The assumptions are a 10 year loan at 1.625% interest with repayment beginning in 2011.

Expenditures

- The budget for Capital Expenditures includes a new spray tank for the mower at a cost of \$5,800, a new backhoe budgeted at \$95,000 and a new trailer budgeted at \$22,000.
- The Road Maintenance Supplies includes the costs for tar and chip for approximately 12.9 miles of roads and materials and supplies for general road maintenance.
- Construction and Rebuilding includes the replacement of the Bentz and Heindel Road culverts, and the repair of several other Township culverts including North Rohrbaugh and Ambau Roads. It also includes the overlay of all roads in the Bahn subdivision, Little John Drive, Clayoma Avenue and Linton Terrace. A complete list can be found following the Liquid Fuels Budget.

Fire Plug Fund

The Budget reflects an increase in the current tax rate from .14 mills to .21 mills. This increase will make the fund self-sustaining and eliminate the need for a \$6,000 transfer from the General Fund to pay for fire hydrant costs.

Rodney Shearer expressed concerns over the need for a full time zoning officer and the cost for adequate training to allow the individual to perform all of the inspections that the Township was proposing. He also expressed concern over the cost of some of the equipment budgeted to be replaced and questioned if the Township was trying to correct too many of the problems in one year.

Chris Dennis also questioned the need for a full time zoning officer.

Chris Distephano, the Township's auditor with Smith, Elliot, Kearns and Company expressed concern over the losses experienced by the Township over the past several years and the need to reverse the trend.

Rick Cooper, with M&T Bank, the Sewer Authority's Trustee, expressed concern for the need to adequately provide for the funds necessary to satisfy the Township's guarantee of the Sewer Authority's debt.

There being no further business to be considered by the Board, **Motion** by Luckenbaugh, second by Rebert, to adjourn the recessed meeting at 7:00 PM, all were in favor.

Respectfully submitted,

Mark Derr
Township Secretary/Manager