

The Financial Status of Jenkintown PA

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Outline of Report

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Section 1: Introduction and Context

This report analyzes the financial and economic condition of the Borough of Jenkintown which affects its ability to provide pay and benefits. In general, there are three main components that need to be considered when gauging the Borough's ability to pay: the state of the economy, the economic position (income, tax base, etc.), and the financial position of the Borough. All three of these components are assessed in this report.

In short, the state of the economy has improved after a sharp decline due to the COVID-19 pandemic. However, the pace of growth has slowed in recent months and a mild recession is expected by the early part of 2024. Jenkintown's economic position generally is relatively strong when compared to similar boroughs. The Borough has improved its financial position. However, this improvement is mostly due to an increase in tax rates versus an expansion of the economic base.

The final section of this report examines the Jenkintown police officer pay along with pay from units in comparable boroughs. Jenkintown's officers generally earn less than other departments despite having a quick advancement to the top step of the pay scale. When considering all of the information, it is evident that the Borough is in a good financial position, and despite any economic concerns, has the ability to increase pay and benefits for its police officers.

Section 2: US and Regional Economic Conditions

US Economy

This section provides a brief overview of the US economy and its projected path forward. In general, a stronger economy is associated with a municipality's ability to pay. Often during negotiations, municipalities will cite a previous recession and claim that their ability to pay has diminished. Similarly, municipalities will use the threat of a future recession to make the same claim. Therefore, it is important to have a general understanding of the economy and the direction it is headed.

Due to the onset of the COVID-19 pandemic, the US economy entered a severe recession that started in March 2020. The US economy has fully recovered, but there is an elevated amount of uncertainty surrounding economic growth over the next twenty-four months. This is mostly due to inflation levels

that have not been seen since the early 1980s. The risk of a recession is heightened and most forecasters are projecting one to begin by the early part of 2024. However, it is worth noting that the outlook has been improving in recent months due to a very strong labor market. If a recession does come to fruition, it is expected to be mild and short-lived.

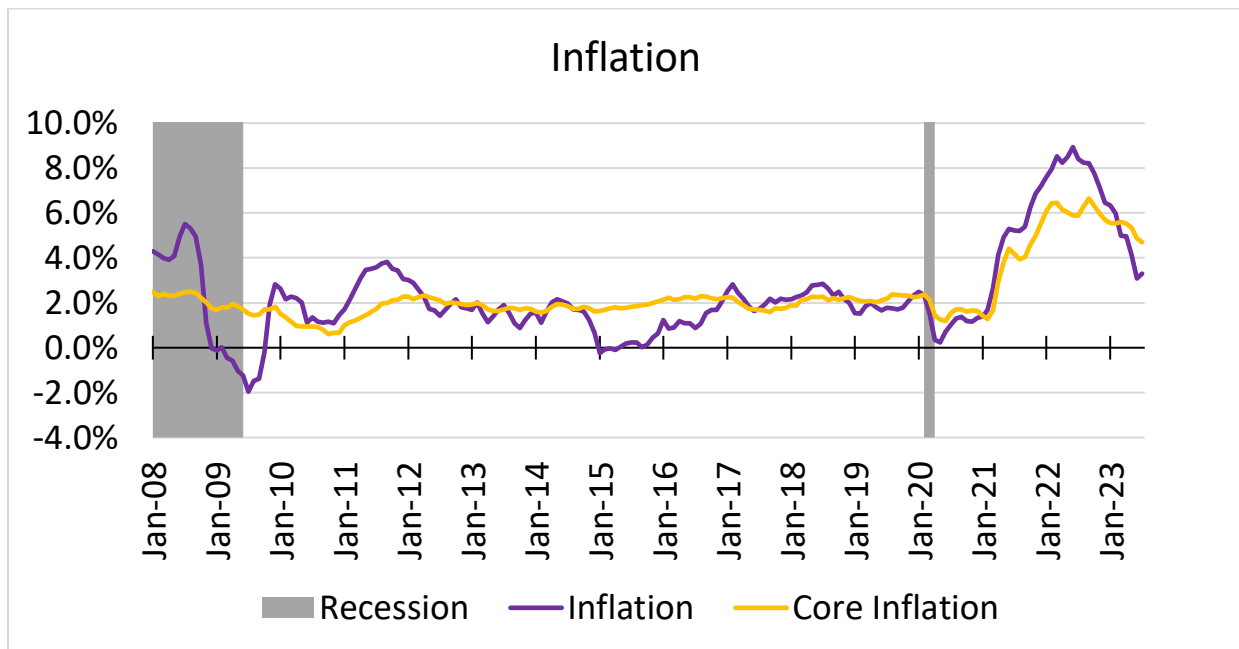
Table 2.1 displays the most recent economic forecast from Wells Fargo. As previously stated, the economy is expected to slow. Real GDP Growth is projected to be 1.7% in 2023 and is expected to remain low in 2024. Unemployment is expected to rise in 2024 and job growth is expected to decline. The most noteworthy elements of Table 2.1 are the actual and projected inflation numbers. This has been a very hot topic amongst economists and has a direct impact on wages and purchasing power. In short, inflation has been very high since late 2021 and is expected to remain elevated through the end of 2024.

Table 2.1: Wells Fargo Economic Forecast as of July, 2023

| Variable | <u>Actual</u> | | <u>Projected</u> | |
|------------------------------------|----------------------|--------------------|-------------------------|--------------------|
| | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> |
| Real GDP Growth | 5.9% | 2.1% | 1.7% | .1% |
| Unemployment Rate | 5.4% | 3.6% | 3.6% | 4.4% |
| 10-year Treasury Bond Yield | 1.4% | 2.9% | 3.6% | 3.1% |
| Monthly Employment Growth | 606K | 399K | 208K | -68K |
| Employment Cost Index | 3.3% | 4.9% | 4.5% | 3.7% |
| CPI Inflation | 4.7% | 8.0% | 4.0% | 2.5% |

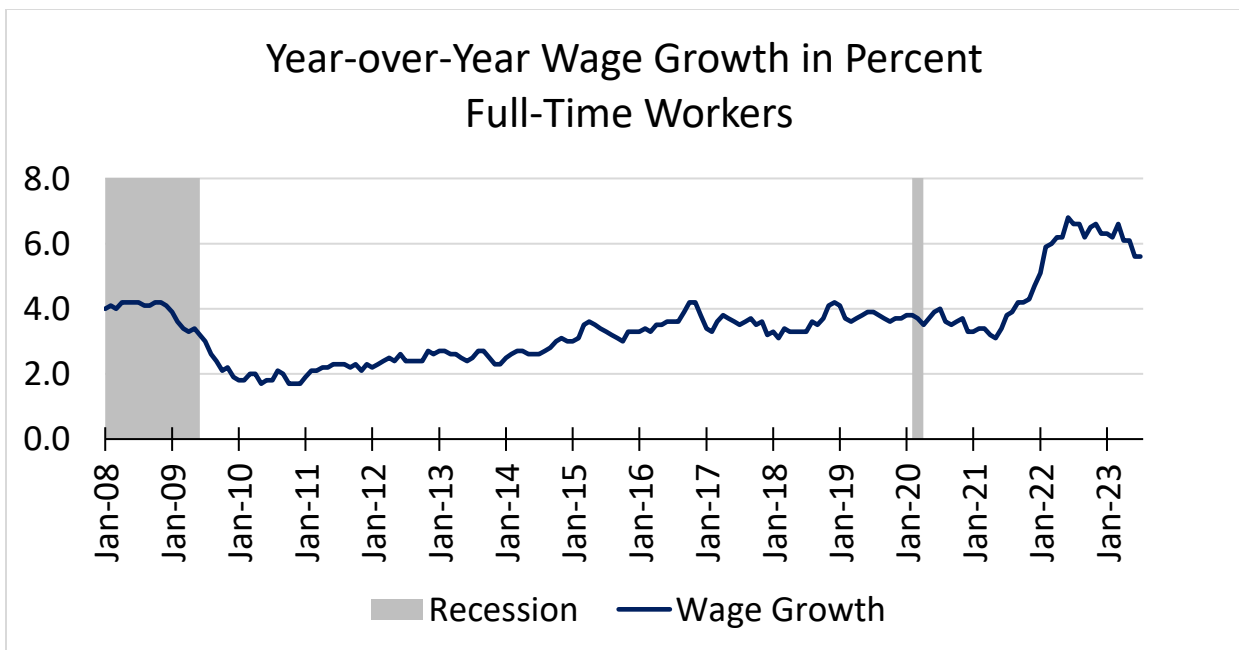
Wages and inflation are correlated and move in the same direction over time. Below are three figures that help to describe the wage-inflation relationship. Figure 2.2 displays inflation measured by the CPI-U since 2008. It increased sharply in late 2021 and reached 40-year highs during 2022. Inflation has eased, but still remains elevated by historical standards. Figure 2.3 displays year-over-year wage growth measured by the Federal Reserve Bank of Atlanta's Wage Tracker. This is considered by many economists to be the most accurate measure of wage growth due to the methodology of its calculation. Wage growth currently reads 5.6% and its acceleration coincides with the rapid rise in inflation. As inflation has eased, so has the pace of wage growth. Figure 2.4 displays both inflation and wage growth simultaneously. This figure provides yearly aggregates since most contracts provide yearly wage increases. On average, wage growth tends to exceed inflation by approximately 1.4% per year. While there are regional variations, it is important to note that as inflation increases, so should wage growth. Otherwise, there will be a reduction in the standard of living. Furthermore, this information is important when determining what wage increases your unit should negotiate.

Figure 2.2: CPI-U Inflation



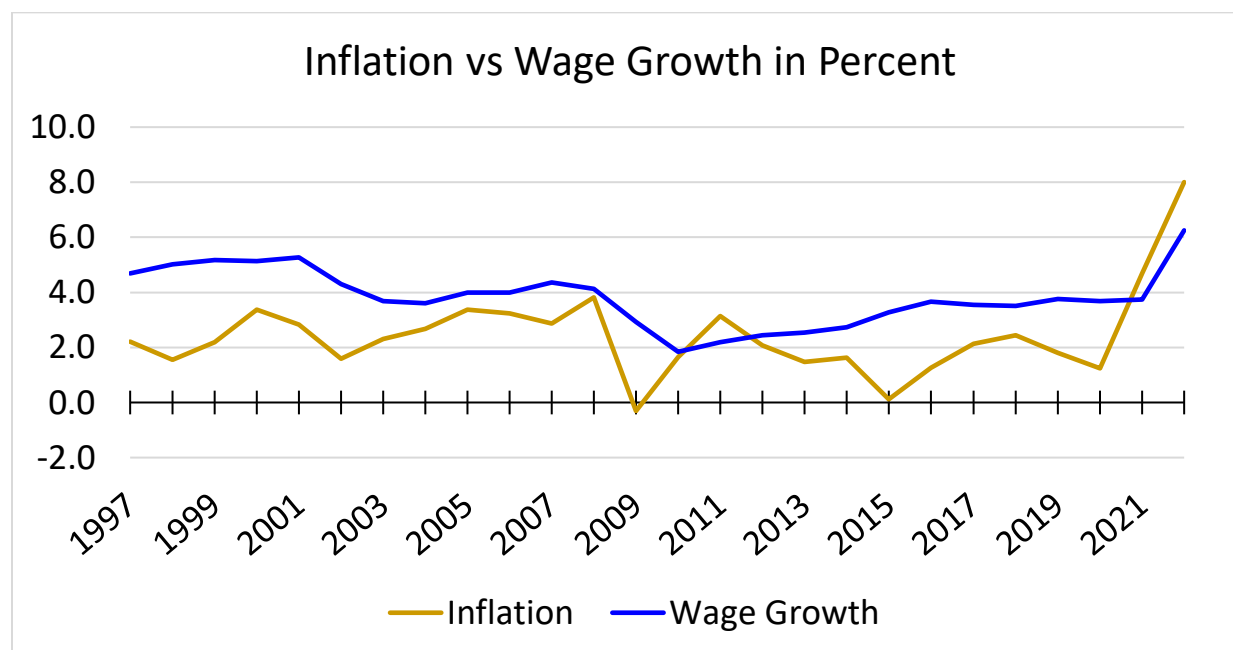
Source: Bureau of Labor Statistics

Figure 2.3: Wage Growth



Source: Federal Reserve Bank of Atlanta

Figure 2.4: Yearly Wage Growth vs. Inflation



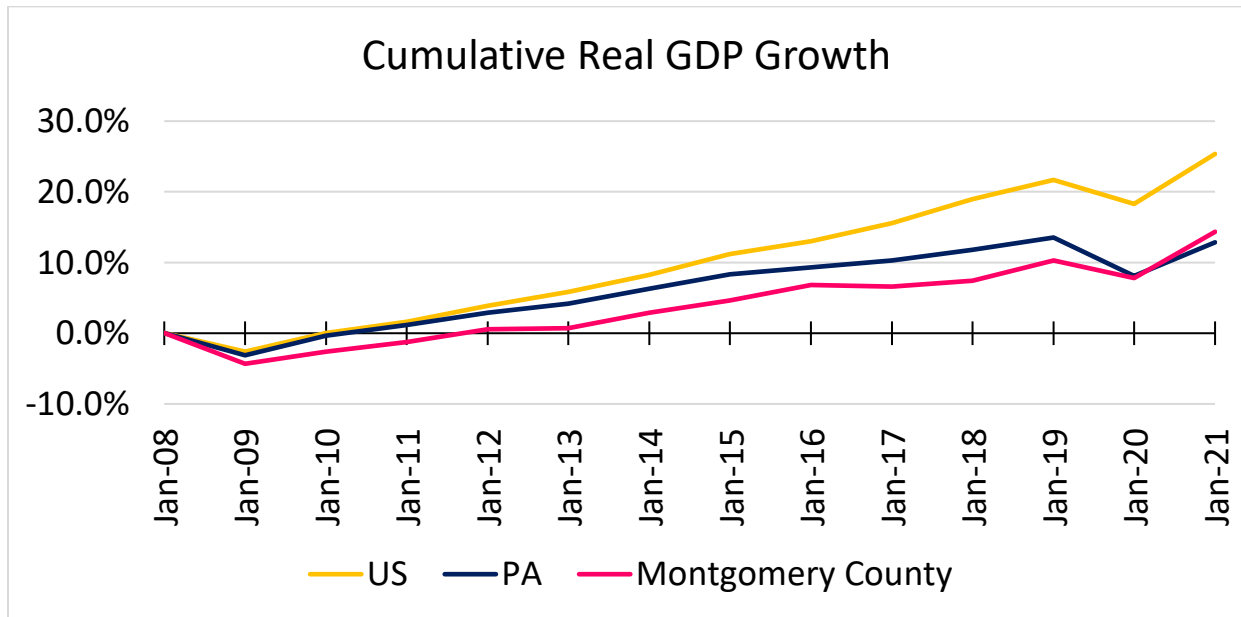
Source: Federal Reserve Bank of Atlanta; Bureau of Labor Statistics

Regional Economic Conditions

In general, Montgomery County's economic growth has lagged the US but has exceeded PA's. Figure 2.5 displays cumulative Real GDP Growth between 2008 and 2021¹. During this time, the regional economy expanded by 14.3% and grew at a particularly slow pace between 2008 and 2012. Note that Montgomery County has a relatively higher concentration of service-oriented jobs which were hit particularly hard during the Great Recession of 2008. During the COVID Recession of 2020, service-oriented jobs were not impacted as severely. This is reflected in the County's performance during this time. Overall, Montgomery County's economy has generally been expanding at a pace that is expected given its composition.

¹ Regional data for 2022 will not be released until later in 2023.

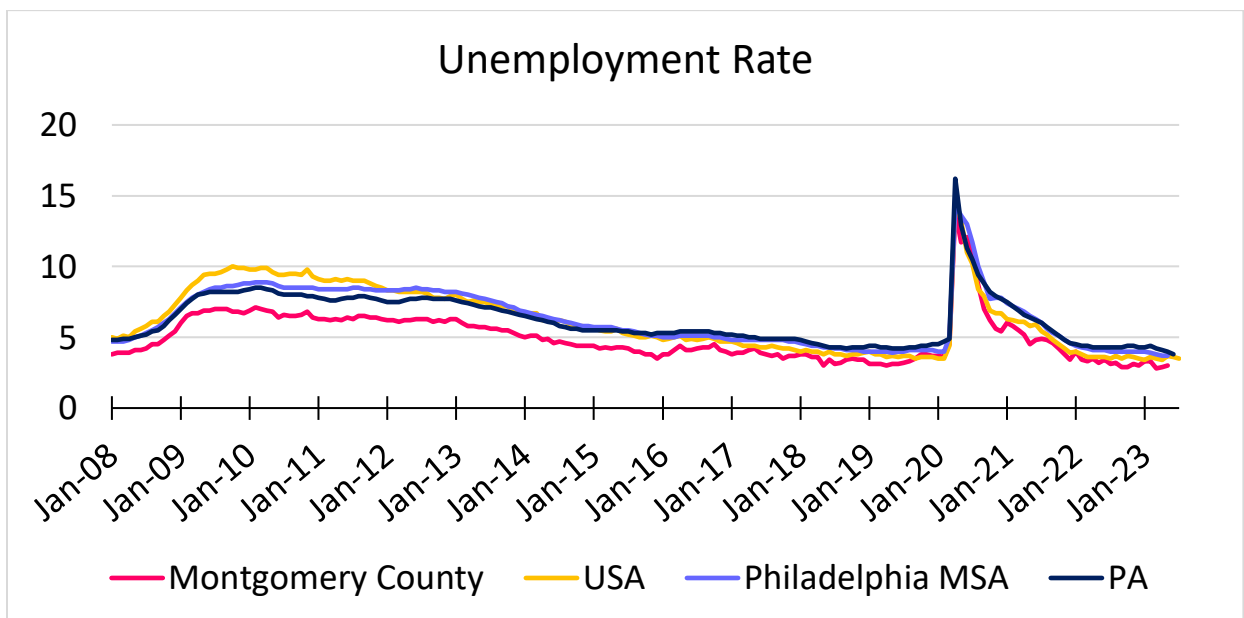
Figure 2.5: Cumulative GDP Growth



Source: Federal Reserve Bank of Saint Louis

Figure 2.6 displays unemployment rates at the national, state, and regional levels since January 2008. Note that rates for July 2023 have been released only for the US at this point. In general, the Montgomery County unemployment rate tends to follow the national rate in terms of direction but is consistently lower. The most recent reading stands at 2.9% which is approximately .6 percentage points below the current US rate. This implies that the local economy is generally stronger than the national economy, despite the slower growth previously discussed.

Figure 2.6: Unemployment Rate



Source: Bureau of Labor Statistics

Section 3: Jenkintown Economic Position

This section discusses Jenkintown's economic position relative to other similarly sized boroughs in Montgomery County. Included are Median Household Income and Median Earnings for Male Full-Time Year-Round Workers, which serve as indicators for the Borough's income base. As income levels increase, more income tax revenue can be generated which ultimately increases the Borough's ability to pay wages and benefits.

Table 3.1 displays income and labor force statistics for comparable boroughs in Montgomery County. In terms of income, Jenkintown ranks second in Median Household Income and third in Median Earnings for Male Full-Time Year-Round workers. It also has the lowest poverty rate which is a very desirable attribute. However, it has one of the higher unemployment rates at 6.8%. From an economic standpoint, the results for Jenkintown are mostly positive. Incomes are relatively high, while unemployment is somewhat elevated. Note, that these figures represent an average between 2016 and 2021 and that the current unemployment rate may be lower.

Table 3.1: Economic Statistics

| | <u>Unemployment Rate</u> | <u>Median Household Income</u> | <u>Median Earnings Male FT-YR</u> | <u>Poverty Rate</u> |
|-------------------|--------------------------|--------------------------------|-----------------------------------|---------------------|
| Ambler | 7.9% | 74,868 | 59,360 | 5.1% |
| Conshohocken | 3.1% | 112,212 | 84,192 | 1.9% |
| Hatboro | 5.5% | 95,822 | 55,970 | 3.7% |
| Jenkintown | 6.8% | 120,172 | 76,194 | 1.6% |
| Lansdale | 4.0% | 77,416 | 57,427 | 4.8% |
| United States | 5.5% | 69,021 | 57,803 | 8.9% |
| West Conshohocken | 2.3% | 122,813 | 83,571 | 5.8% |
| Jenkintown Rank | 6 out of 7 | 2 out of 7 | 3 out of 7 | 1 out of 7 |

Source: American Community Survey 2021 Five-Year Estimates

Table 3.2 displays 2021² Police Department spending per capita for each of the comparable boroughs. Jenkintown spent approximately \$346 per resident for police related expenses. This ranks roughly around the median and is mostly consistent with the other boroughs. West Conshohocken and Conshohocken both spent considerably more at \$1,278 and \$548, respectively.

Table 3.2: Police Department Spending Per Capita

| | <u>Population</u> | <u>Police Spending</u> | <u>Police Spending Per Capita</u> |
|-------------------|-------------------|------------------------|-----------------------------------|
| Ambler | 6,807 | 2,041,085 | 300 |
| Conshohocken | 9,261 | 5,071,013 | 548 |
| Hatboro | 8,238 | 2,519,583 | 306 |
| Jenkintown | 4,719 | 1,631,963 | 346 |
| Lansdale | 18,773 | 6,939,817 | 370 |
| West Conshohocken | 1,493 | 1,907,791 | 1,278 |

Source: PA Department of Community and Economic Development

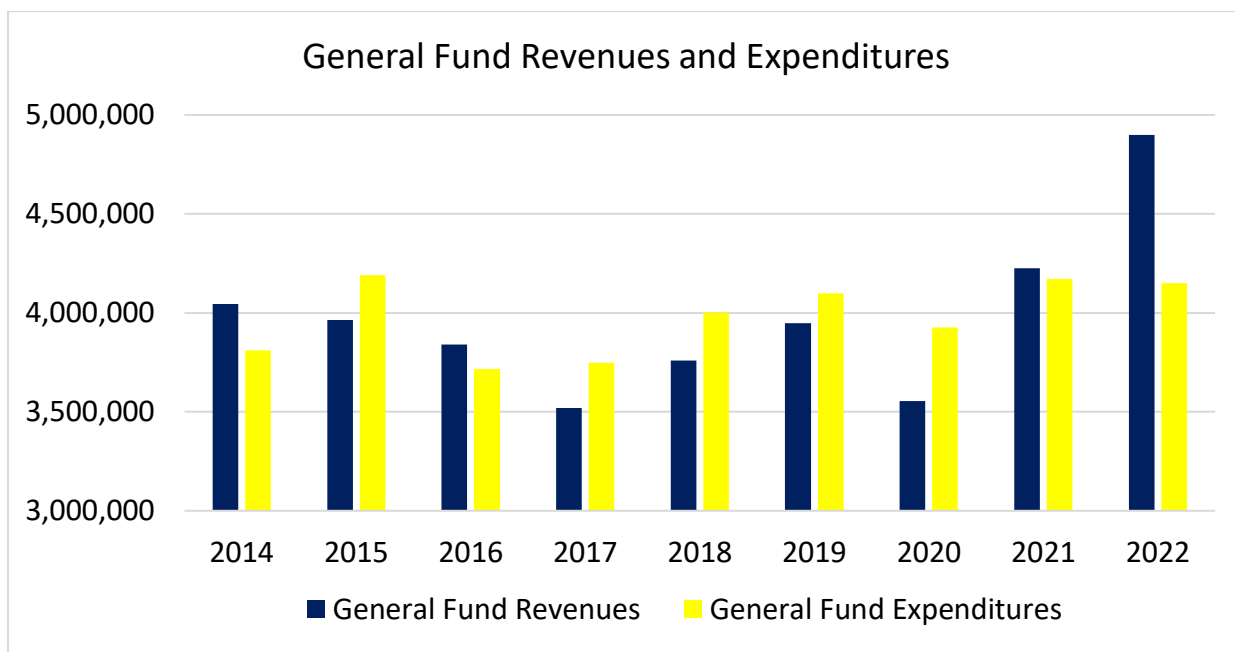
² 2021 is the most recent year for which data are available. The exception is West Conshohocken where the most recent data are from 2020.

Section 4: Jenkintown Financial Position

The main focus of this section is on the General Fund which provides funding for the majority of the Borough's operations. The General Fund receives its revenues through taxes, fees, fines, charges, and grants from the US and State governments. In short, the Borough's financial position has improved since 2020, but remains below its position in 2014.

Figure 4.1 displays total General Fund Revenues and Expenditures from 2014 through 2022. In every year from 2015 through 2020, the Borough ran a deficit where expenditures exceeded revenues. Approximately 70% of the General Fund's revenues come from taxes. Real Estate, Earned Income, and Business Gross Receipt taxes are the main contributors to the Borough's tax revenues. Figure 4.2 displays the Borough's total tax revenues. In general, tax revenues declined until 2020 while both 2021 and 2022 saw increases.

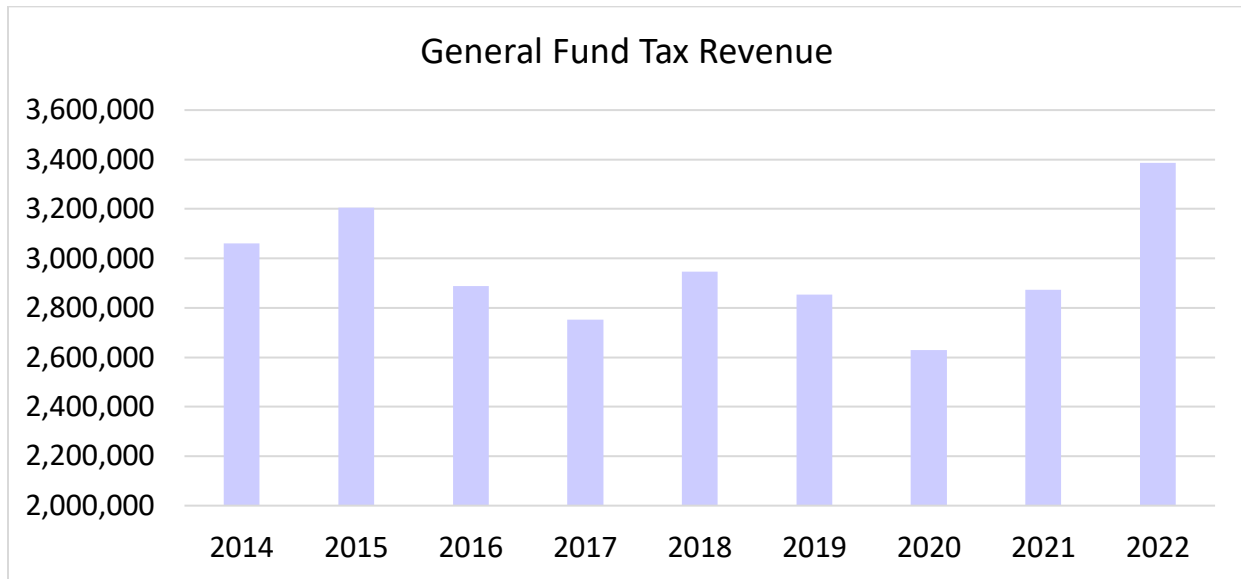
Figure 4.1: General Fund Revenues and Expenditures



Source: PA Department of Community and Economic Development

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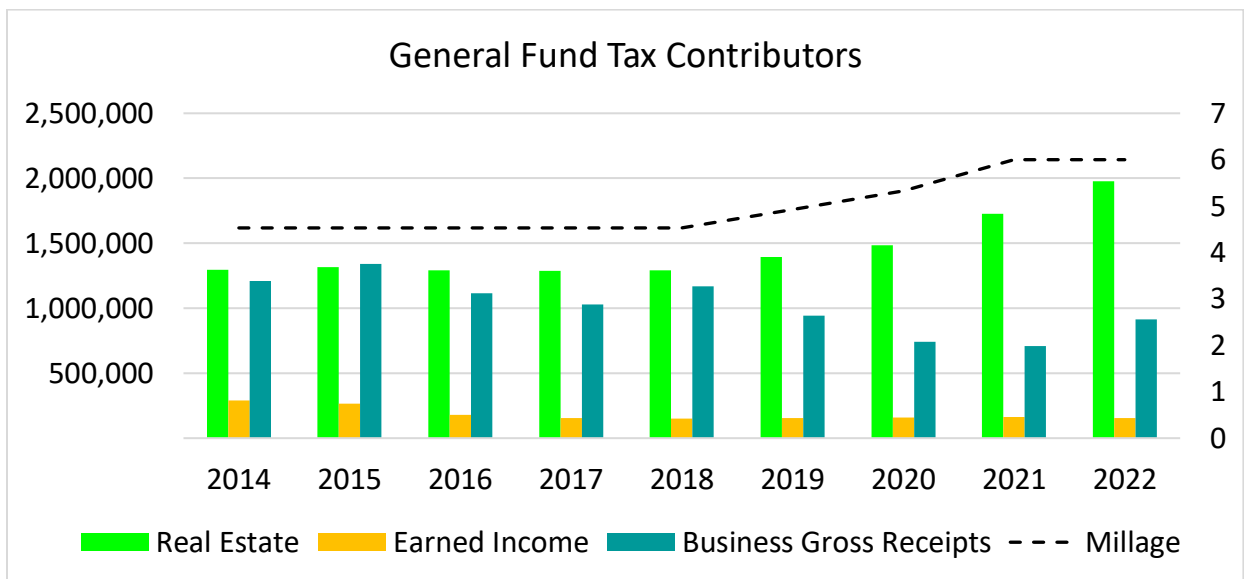
Figure 4.2: General Fund Tax Revenue



Source: PA Department of Community and Economic Development

Figure 4.3 displays the Borough's largest tax revenue contributors; real estate, earned income, and business gross receipts taxes. Included is the general purpose millage rate for each year. Both the business gross receipts and earned income taxes have declined since 2014 which is indicative of a deteriorating tax base. The main contributor of this decline is the movement of several large businesses out of the Borough. Real estate tax revenues have increased year over year since 2018. A rising millage rate, however, is the main driver of this increase. Jenkintown is a well-developed Borough with little space available for new construction. Therefore, the only way the Borough can raise property tax revenue is to raise the millage rate. This is not uncommon as most well-developed municipalities face this same challenge.

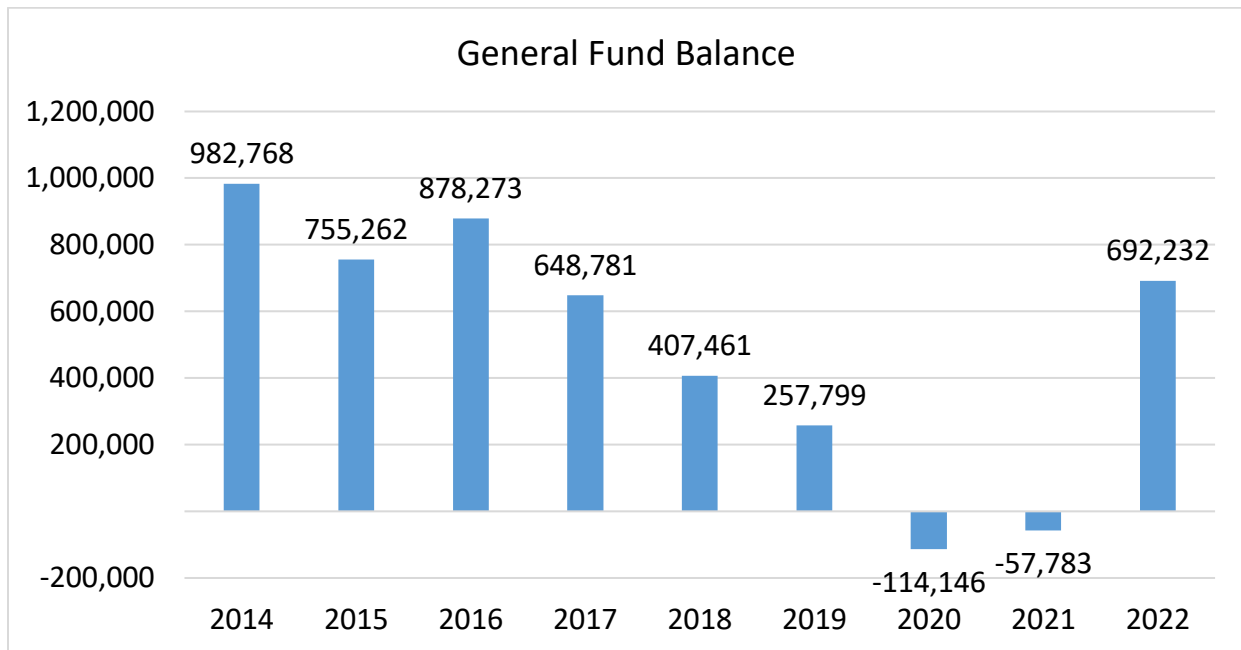
Figure 4.3: General Fund Tax Contributors



Source: PA Department of Community and Economic Development

Figure 4.4 displays the General Fund balance since 2014. Any surplus of revenues over expenditures accumulates as a fund balance and carries forward from year to year. In short, the fund balance is the amount by which assets exceed liabilities. An increasing fund balance is an indicator of financial strength and improvement. Between 2014 and 2021, the fund balance declined considerably which is associated with a weakened financial position. 2020 and 2021 were especially poor years due to the pandemic and the impact of the shut-down on business activity. Being that Jenkintown generates a substantial amount of revenue through business gross receipt tax, it is not surprising that the fund balance declined during this time. In 2022, however, the fund balance realized a sharp increase to over \$690K. This is due to 1) American Rescue Plan Funds to offset revenue declines to the pandemic, and 2) increased revenue due to the millage rate increase.

Figure 4.4: General Fund Balance



Source: PA Department of Community and Economic Development

The General Fund Balance can be broken into two major components; restricted and unrestricted funds. The former are funds that have a constrained use by their providers or through a legislative action. For example, grants from the US government would be restricted to a particular use such as a capital project. Unrestricted funds, however, have no constraint and can be used however the municipality sees fit. These funds can be further classified as committed, assigned, or unassigned. Regardless of their classification within the unrestricted fund balance portion, there are no legal restrictions on how those funds can be utilized.

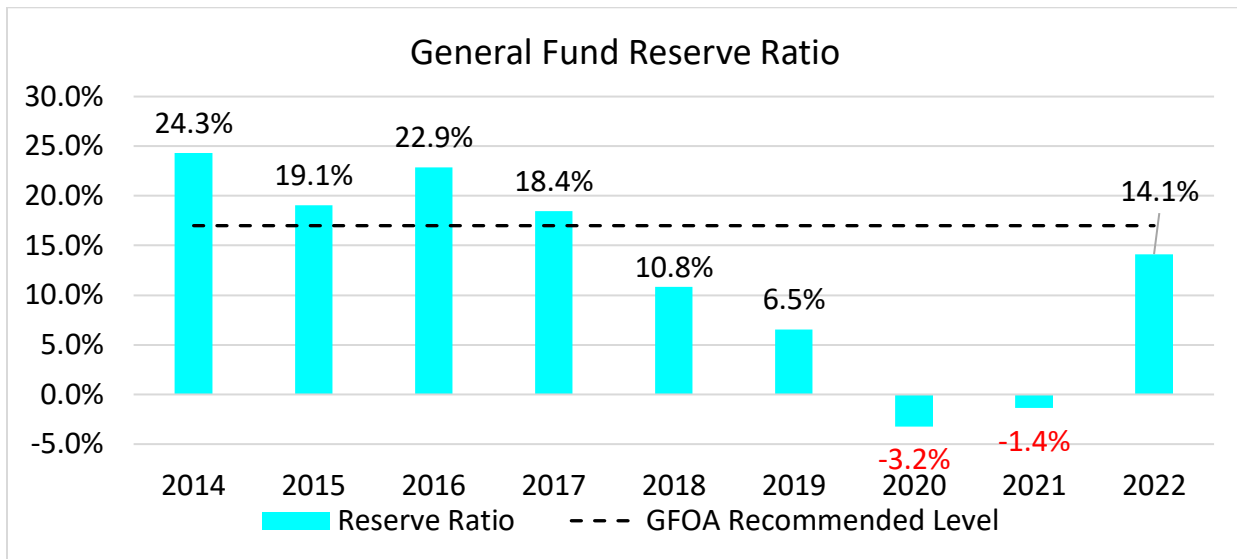
One of the GFOA's (Government Finance Officers Association) best practices is that municipalities hold approximately two months of operating expenses as reserves, which equates to a reserve ratio³ of approximately 17%. This action helps to buffer against any sudden shortfall or emergency. Figure 4.5 displays the Borough's General Fund Balance⁴ and its corresponding reserve ratio. The most recent reading stands at 14.1%. While the reserve ratio sits below the recommended level, it has improved

³ The reserve ratio is the unrestricted fund balance as a percent of operating expenditures.

⁴ The Borough does not report unrestricted funds in the yearly audit report. Since most of the General Fund balance is typically unrestricted, the entire fund balance is used in calculating the reserve ratio.

significantly from -3.2% in 2020 and is headed in a positive direction. The reserve ratio may be the most important metric in determining the Borough's financial health and improvement.

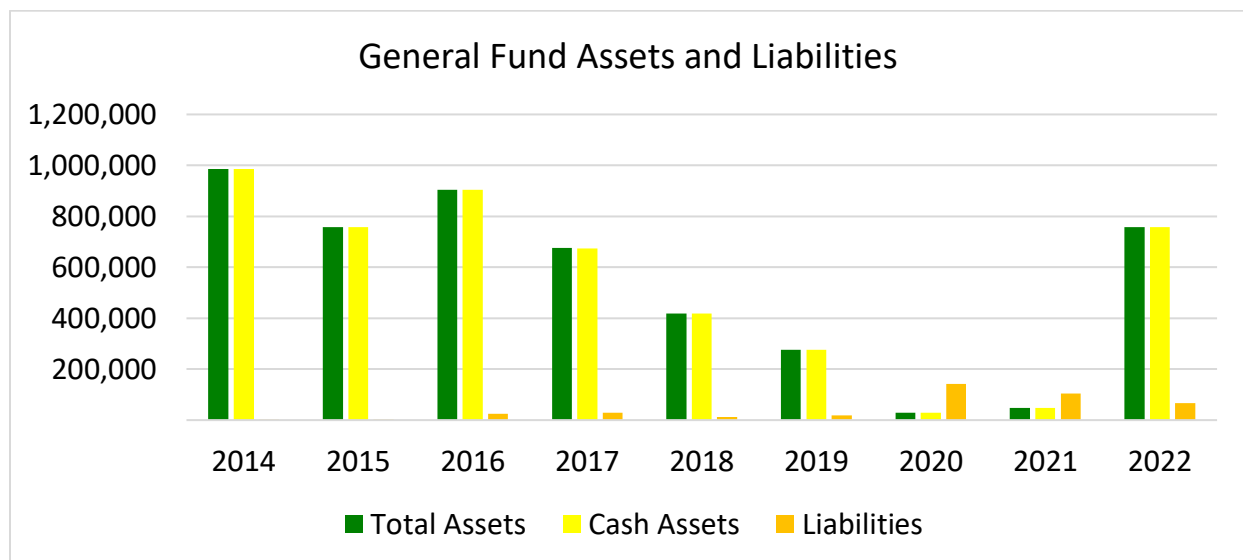
Figure 4.5: Unrestricted Fund Balance and Reserve Ratio



Source: PA Department of Community and Economic Development

While not all assets can be used to meet obligations, an increasing and/or stable asset level is an indicator of financial improvement. Figure 4.6 displays Total Assets and Liabilities held by the General Fund along with its cash position. First, assets have risen considerably since 2020, which is consistent with the General Fund balance improvement. Second, outside of 2020 and 2021, assets have far exceeded liabilities. This is a positive position and is associated with a strong balance sheet. Finally, 100% of the Borough's assets are held as cash. A balance sheet with a higher cash position implies that the Borough can meet its obligations without liquidating hard assets such as buildings or equipment; a very desirable attribute.

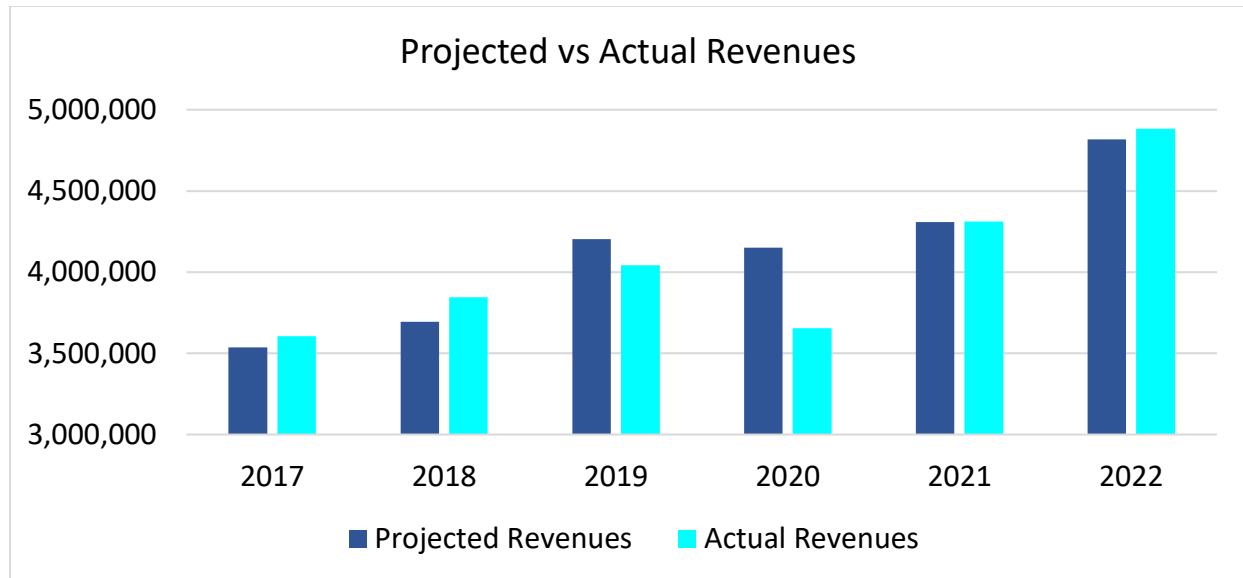
Figure 4.6: General Fund Assets



Source: PA Department of Community and Economic Development

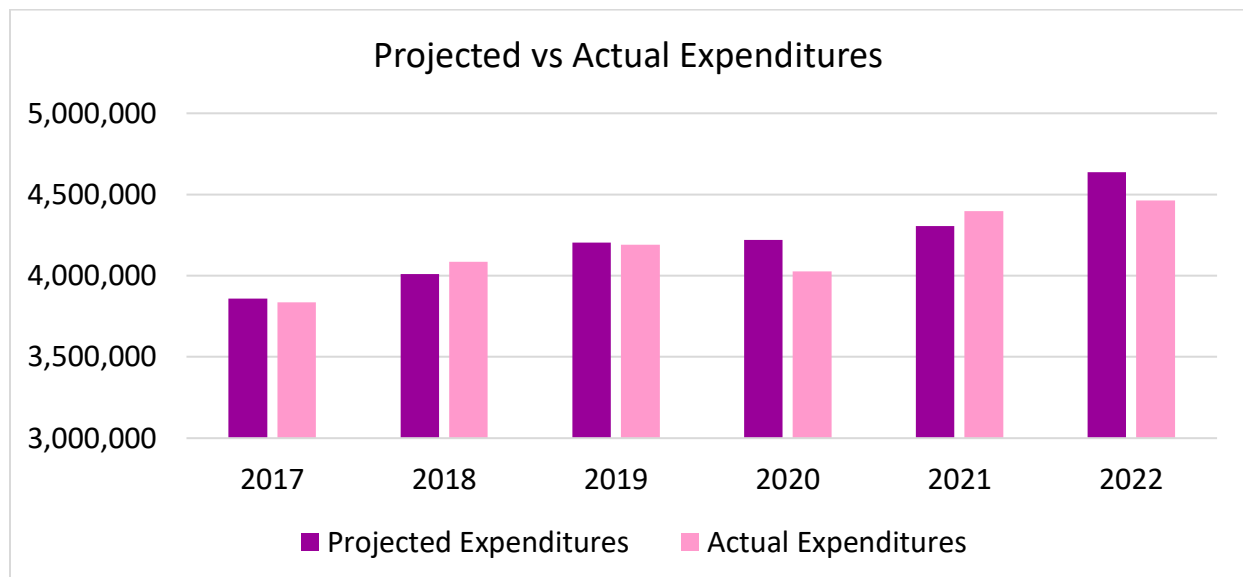
Figures 4.7 and 4.8 display actual vs. projected General Fund revenues and expenditures, respectively. This is done to offer a better representation of the Borough's forecasting accuracy. Most municipalities will intentionally under-project revenues and over-project expenditures. This is referred to as a conservative forecasting method by the GFOA and is often used to create an image of fiscal distress. In general, Jenkintown has been fairly accurate with their forecasting for both revenues and expenditures. After removing 2020 (the COVID-19 year), the Borough's forecast accuracy stands at approximately 98% for both revenues and expenditures. This is a high number and indicates that the Borough forecasts the budget fairly well. This doesn't make any implication in regards to their financial position. Rather, this fact merely means that any budget shortfall projections in future budgets may have merit.

Figure 4.7: Actual vs Projected General Fund Revenues



Source: Borough Budgets

Figure 4.8: Actual vs Projected General Fund Expenditures



Source: Borough Budgets

Section 5: Wage Comparison

This section presents a comparison of Jenkintown's police salaries along with the police salaries of the comparable boroughs. Table 5.1 displays each borough's pay scale, maximum base, years to maximum base, and salary earnings for the first ten years of employment. Note that data are not available for West Conshohocken at this point. Of the remaining boroughs, Jenkintown's maximum base ranks fourth out of five at \$105K and is approximately \$13K lower than the next unit, Lansdale.

Jenkintown reaches the maximum base by the third year of employment; the fastest of the comparable units. This is exceptional as most units (in general) reach the maximum base at around the fifth year of service. When looking at the salary earnings of the first ten years of service, Jenkintown ranks fourth out of the five at \$1M. This is approximately \$130K less than Conshohocken, \$46K less than Lansdale, and \$11K less than Hatboro.

Table 5.1: Comparable Wages

| <u>Year of Service</u> | <u>Jenkintown</u> | <u>Ambler</u> | <u>Conshohocken</u> | <u>Hatboro</u> | <u>Lansdale</u> | <u>West Conshohocken</u> |
|------------------------|-------------------|---------------|---------------------|----------------|-----------------|--------------------------|
| 1 | 73,737 | 73,531 | 77,060 | 65,374 | 71,266 | |
| 2 | 89,538 | 84,036 | 94,843 | 71,317 | 83,144 | |
| 3 | 105,338 | 94,540 | 106,698 | 83,204 | 89,082 | |
| 4 | | 105,045 | 122,703 | 95,090 | 95,023 | |
| 5 | | | | 106,976 | 118,777 | |
| 6 | | | | 118,862 | | |
| Max Base | 105,338 | 105,045 | 122,703 | 118,862 | 118,777 | |
| Years to Max | 3 | 4 | 4 | 6 | 5 | |
| Ten Year Earnings | 1,005,982 | 987,420 | 1,137,521 | 1,016,274 | 1,051,177 | |

Source: Borough CBAs

Section 6: Concluding Remarks

This report examines the economic and financial condition of Jenkintown and how it effects their ability to pay wages and benefits. In short, the current economic condition is strong, but a mild recession is expected by the beginning part of 2024. Inflation remains high and is expected to remain elevated through 2024. Since wages and inflation move together, wage growth in the general economy should also remain elevated through 2023. The region has outperformed the PA economy but has trailed the US economy to some extent.

The Borough's economic position maintains a relatively high income level relative to comparable boroughs in Montgomery County. Jenkintown's financial position has improved considerably since 2020. However, this improvement is due to higher tax rates versus an expansion of the economic base. Finally, the Jenkintown police has a pay structure that has a quick advancement to the top step, but is considerably lower than other comparable units. When considering all of the available information, the Borough has improved its financial position and has the ability to increase pay for its police officers.

If there are any questions, or if you would like to discuss any part of this document, please feel free to contact me at any time.

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