

March 4, 2019

Township Committee

Township of Chesterfield

This report is provided by the Budget Advisory Committee (BAC) to the Township Committee of the Township of Chesterfield pursuant to our appointment to add a public element to the review of the Township's 2019 operating budget.

We would like to thank and acknowledge the assistance of the Wendy Wulstein (CFO), Kyle Wilson (Manager), Committee Members Shreekant Dhopte and Denise Koetas-Dale during this process.

The BAC has met several times over the last two months with and without the township committee members. We have been provided a draft proposal of the 2019 administration recommended budget as well as supplemental material as requested.

This report will provide our findings and recommendations for the 2019 budget as well as some future financial considerations.

Those of us who can will attend the township committee budget meeting on March 11th at 5:30. Our understanding is that the committee plans to introduce the budget on March 14th.

Given the seriousness in which the BAC has approached this process we are requesting that we be given a forum at the March 11th meeting to provide an overall synopsis to the committee of what we have done this year and what some of our findings and recommendations are for this budget year.

We would like our report to be considered part of the official record of the Township.

TAXATION

Before any serious discussion can begin about any years' budget you must know what the maximum level of taxation is. Several years ago, the State of NJ passed a law that caps the increase in the tax levy (the amount billed to the taxpayers for local purpose taxes) at 2% greater than the prior year, with several exceptions. Based on the recommended administration budget the schedule below is the calculation of the maximum tax levy that the township can adopt this year.

The calculation is summarized as follows:

- A 2% increase from last year's levy
- An exclusion for the pension costs increases
- An exclusion of the debt service increases
- An addition for the value of last years new construction @ the 2018 local tax rate
- An addition of the 2017 cap bank balance that was not used in 2018

The result of these calculations is that the 2019 tax levy cannot exceed \$ 2,724,526 an increase of \$ 145,386, which represents a maximum rate increase of around 1.85 cents, if that was so desired.

Knowing this limitation on the taxation level will frame what the anticipated revenues should be, how much fund balance should be used as revenue and what the level of budgeted spending can be.

Summary Levy Cap Calculation			
	MUNICIPALITY	COUNTY	EXAMINER
0307	Chesterfield Township	Burlington	
Model Tax Levy Calculation Worksheet			
Levy Cap Calculation			
	Prior Year Amount to be Raised by Taxation for Municipal Purposes		\$2,579,140
	Cap Base Adjustment (+/-)		\$0
	Less: Prior Year Deferred Charges to Future Taxation Unfunded		\$0
	Less: Prior Year Deferred Charges: Emergencies		\$0
	Less: Prior Year Recycling Tax		\$0
	Less: Changes in Service Provider: Transfer of Service/ Function		\$0
	Net Prior Year Tax Levy for Municipal Purpose Tax for Cap Calculation		\$2,579,140
	Plus: 2% Cap increase		\$51,583
	Adjusted Tax Levy		\$2,630,723
	Plus: Assumption of Service/ Function		\$0
	Adjusted Tax Levy Prior to Exclusions		\$2,630,723
	Exclusions:		
	Allowable Shared Service Agreements Increase	\$0	
	Allowable Health Insurance Cost Increase	\$0	
	Allowable Pension Obligations Increase	\$25,551	
	Allowable LOSAP Increase	\$0	
	Allowable Capital Improvements Increase	\$0	
	Allowable Debt Service, Capital Leases and Debt Service Share of Cost Increases	\$5,760	
	Recycling Tax Appropriation	\$0	
	Deferred Charges to Future Taxation Unfunded	\$0	
	Current Year Deferred Charges: Emergencies	\$0	
	Add Total Exclusions		\$31,311
	Less Cancelled or Unexpended Exclusions		\$1,201
	Adjusted Tax Levy After Exclusions		\$2,660,833
	Additions:		
	New Ratables - Increase in Valuations (New Construction and Additions)	\$19,418,400	
	Prior Year's Local Municipal Purpose Tax Rate (per \$100)	\$0.328	
	New Ratable Adjustment to Levy		\$63,692
	2016 Cap Bank Utilized in 2019		\$0
	2017 Cap Bank Utilized in 2019		\$0
	2018 Cap Bank Utilized in 2019		\$0
	Amounts approved by Referendum		\$0
	Maximum Allowable Amount to be Raised by Taxation		\$2,724,526
	Amount to be Raised by Taxation for Municipal Purposes		\$0
	Amount to be Raised by Taxation for Municipal Purposes Under/Over Cap (+/-)		\$2,724,526

FUND BALANCE

The table below represents an analysis of the township fund balance from 2013-2018. Each year the township uses a portion of the fund balance as revenue (along with other township generated revenues) to balance the spending plan of the township and to allow the tax levy to conform with the state cap limitations.

The fund balance is regenerated annually in several ways:

- Collections in excess of township generated revenues – i.e. collecting more code fees than anticipated
- Collections of delinquent tax revenues in excess of the anticipated amount
- Collections of current year taxes in excess of what was budgeted. This is achieved through added and omitted assessments and a tax collection rate in excess of the rate that was projected when calculating the reserve for uncollected taxes.
 - By example the total tax levy is about \$ 22 million. The collection rate is generally 98.5%. By that calculation the reserve should be 1.5% of the \$ 22 million (\$ 330,000). The township budgets \$ 500,000 for the reserve thus generating \$ 170,000 in fund balance every year. This practice buffers the possibility of a sub-par tax collection rate.
- MRNA- (Miscellaneous Revenue Not Anticipated)-Revenue collected that was not budgeted because it was not anticipated to be collected, or the amount was unknown at budget time. Examples of this could be the sale of a municipal asset, or an insurance refund.
- The deferral of school taxes. This will be addressed separately at the end of this report.
- The lapsing of unused prior year budget appropriations. State law states that one year after a budget has been finalized any appropriations that remain unspent are automatically lapsed to fund balance.
 - The township has historically been lapsing between \$ 200,000 to \$ 350,000 of unspent spending to fund balance. The bottom of the big chart indicates the amount that has been lapsed and some of the major lines items where these unspent funds were budgeted.
 - The point of this analysis is to emphasize that in the last 6 years budgets each budget year eventually did not spend a significant portion of that budget. The unspent portion represents between 2.72 to 4.87 tax cents. In other words, the “over budgeting” in each one of these years represents a significant portion of that years’ tax increase. That portion of the bigger chart is highlighted below

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Local Tax rate	0.129	0.177	0.224	0.263	0.309
Increase in cents		4.80	4.70	3.90	4.60
Pror Year App Cancelled (TxPts)	4.87	4.39	2.72	3.80	3.81

- In 2018 the tax increase was 1.9 cents. As of the end of February the unspent 2018 budget is still \$ 627,000 or 7.84 cents of taxes.
- As you can see there are several budget categories that have been over budgeted on a consistent basis over the last 6 years.

Regeneration Category	Tax Years						
	2013	2014	2015	2016	2017	2018	
Current Year Taxes	(30,881.00)	253,099.00	464,449.00	589,841.00	533,996.00	522,235.00	
Anticipated revenue	37,416.00	69,227.00	23,948.00	75,697.00	(6,755.00)	67,071.00	
Delinquent Taxes	16,415.00	5,827.00	(17,036.00)	59,651.00	9,061.00	41,419.00	
CY Appropriations Cancelled	137.00	337.00	3,437.00	5,037.00	342.00	1,200.00	
MRNA	96,452.00	107,739.00	45,691.00	354,682.00	467,966.00	92,356.00	
PY Appropriations Cancelled	273,617.00	353,116.00	320,770.00	203,007.00	292,233.00	299,342.00	
Interfund gain (loss)	192,854.00	(46,244.00)	155,234.00	(69,813.00)	77,158.00	(151,273.00)	
Deferred School Taxes	425,108.00	481,278.00	312,091.00	523,000.00	421,327.00	211,426.00	
Other	33,947.00			910.00	101,054.00	3,599.00	
Regenerated Fund Balance	<u>1,045,065.00</u>	<u>1,224,379.00</u>	<u>1,308,584.00</u>	<u>1,742,012.00</u>	<u>1,896,382.00</u>	<u>1,087,375.00</u>	
Fund Balance Beginning of Year	3,248,472.00	2,605,537.00	2,414,916.00	2,593,500.00	3,038,512.00	3,634,894.00	
Used in Budget as Revenue	(1,688,000.00)	(1,415,000.00)	(1,130,000.00)	(1,297,000.00)	(1,300,000.00)	(1,350,000.00)	
Regenerated	<u>1,045,065.00</u>	<u>1,224,379.00</u>	<u>1,308,584.00</u>	<u>1,742,012.00</u>	<u>1,896,382.00</u>	<u>1,087,375.00</u>	
Fund Balance End of Year	2,605,537.00	2,414,916.00	2,593,500.00	3,038,512.00	3,634,894.00	3,372,269.00	
Tax Point	72,624.00	72,437.00	73,092.00	74,746.00	76,832.00	78,518.00	
Local Tax rate	0.129	0.177	0.224	0.263	0.309	0.328	
Increase in cents		4.80	4.70	3.90	4.60	1.90	
Pror Year App Cancelled (TxPts)	4.87	4.39	2.72	3.80	3.81	7.84	
Major PY Appropriations Cancelled			2014 Budget	2015 Budget	2016 Budget	2017 Budget	
Group Insurance			39,470.00	12,636.00	22,998.00	9,501.00	
Police Salaries			86,054.00	72,364.00	69,766.00	76,204.00	
Gasoline			20,007.00	19,385.00	41,719.00	28,602.00	
FICA			12,649.00	5,404.00	12,730.00	2,477.00	
Electricity			9,396.00	11,312.00	5,059.00	10,503.00	
Street Lights			6,181.00	5,940.00	3,026.00	26,458.00	
Legal			14,885.00		32,588.00		
First Aid			12,537.00			15,151.00	
UI			10,000.00				
Court Interlocal			17,890.00	6,331.00			
Parks						13,773.00	
Engineering							
Property Maintenance							
Select PY Appr Cancelled			229,069.00	127,041.00	187,886.00	168,896.00	
PY Appropriations Cancelled			320,770.00	203,007.00	292,233.00	299,342.00	

The BAC is recommending that the township utilize \$ 1,425,000 of the \$ 3,372,000 year end fund balance as revenue in this year's budget.

We believe that this utilization will still maintain a healthy fund balance that will be replenished in 2019 from the reserve for uncollected taxes and 2018 appropriations that will be lapsed at the end of 2019.

APPROPRIATIONS

The original budget that was presented to the BAC was \$ 5,252,000. The administration then made some recommended adjustments (for ambulance services and DPW Salaries) to bring that total to \$ 5,278,000.

The BAC has reviewed the budget, and these are our recommended reductions to the administration recommended budget:

- Group Health Insurance (20,000.00)- based on prior year experience
- Gasoline (15,000.00)- based on prior year experience
- Police- OT (15,000.00) based on prior year experience
- Street Lights (10,000.00) based on prior year experience
- Capital Improvement Fund (25,000.00)- the current balance in the capital fund for down payments on capital projects is \$ 191,000. This amount allows for \$ 3.8 M of improvements. We feel that this appropriation is unnecessary this year.
- Community Association (4,000.00)- reduce this contribution in half
- Historical Society (2,000.00)- reduce this contribution in half
- Jr Greyhounds (1,500.00)- reduce this contribution in half
- Unemployment (5,000.00)- reduce this contribution in half

Note we were going to recommend the reduction for the Harvest Festival but the administration did that in its last list of changes to us.

These changes would reduce the spending budget to \$ 5,180,500.

REVENUES and TAXATION

The original budget that was presented to the BAC for anticipated revenues (before fund balance and taxation) was \$ 1,183,000. Our recommended fund balance utilization of \$ 1,425,000 brings the non-taxation anticipated revenue to \$ 2,608,000.

Based on these changes the amount to be raised by taxation would be \$ 2,572,500.

The BAC has therefore recommended that there be no increase in the local tax rate of 32.8 cents.

The goals of the BAC for 2019 were to maintain the integrity of the townships' financial condition and to maintain the level of the local purpose tax rate. We believe that we have done that. The local tax rate has increased 20 cents in the last 5 years. As you can see by the

analysis above some of these increases seem unnecessary when we see how much of those years' budgets went unspent and were eventually lapsed to fund balance.

DEFERRED SCHOOL TAXES

The last issue we would like to discuss for future consideration is the use of deferring school taxes as a means of generating municipal fund balance.

The town has deferred \$ 8.2 M of school taxes since it began this practice.

Most of you are aware that in this part of the state most towns operate on a calendar year, in that the fiscal year begins on January 1st and ends on December 31st. Municipal tax levies are then done for a calendar year. For school districts, their year begins on July 1st and ends on June 30th. School districts have tax levies that run from July 1st to June 30th.

Municipalities have two ways of raising school taxes. The first is the calendar year method. Under this method, the town would include in their annual tax levy those amounts to be paid to the school board in that calendar year. For example, in 2018 the town would include for school taxes the last half of the 2017-2018 school levy, and the first half of the 2018-2019 school levy.

The second method for raising school taxes is the fiscal year method. Under this method, the town raises the entire school levy in the current calendar year. For example, in 2018 the entire 2018-2019 levy would be included in the tax levy. Under this method, you could end up with a school tax payable amounting to 50% of the amount collected at year end. It is under this method that gives rise to the concept of "deferred school taxes".

Under the fiscal method of school tax collection, the state allows for a "deferral" of up to 50% of the school taxes that are due. Every 10 or 15 years or so, someone will publish an article on how deferred school taxes is an untapped source of fund balance (by reducing the school taxes payable at year end for the deferral, you create surplus).

This is not a sound fiscal policy because it is based on a false premise. The "surplus" being generated was not created by the operation of the municipality. There may also come a point when there are no taxes to defer in a given year and the town has come to rely on it to balance the budget.

This can be reversed by applying some of the fund balance back to the school taxes payable, thus reducing the deferral.

The recommendation of the BAC is for the township auditor discuss this matter with the full committee, explain the implications and provide his best advice on the matter.

FUTURE PRESSING NEEDS FOR CONSIDERATION

We view our BAC as a group of knowledgeable taxpayers familiar with many of the financial issues that tend to burden any municipality if left unattended or ignored. The answer of "that is the way things have always been done" sounds as hollow as it does for a reason. We have all seen town after town (and our own state government) dismiss and ignore issues as they have

grown because they do not have the foresight to address them because of some loyalty to the manner in which things were handled in the past. Our population has leapt tremendously in the past 10 years (witness our new \$ 40M elementary school) and that population has created issues that must be addressed at the local level.

- CAP ISSUES
 - Police department in/out of cap issue- This has been an ongoing issue that should be addressed with the Twp Committee, the BAC and the auditor. The lapsing of unused appropriations that has been outlined in this report should be looked at to see how that may impact the future need to seek LFB approval for the spending cap problem.

- CAPITAL PLANNING AND NEEDS
 - Is there a plan for vehicle replacements?
 - How many police vehicles do we need over the next 3 – 5 years?
 - How many trucks will DPW require over the next 3-5 years and what are they?
 - What equipment needs to be replaced in all departments and when?
 - We have a DPW garage that is poor to say the least. The old municipal building needs to be renovated or demolished and becomes more of an issue every day it sits vacant.

- STAFFING ISSUES
 - There is a need to address future department staffing, especially in DPW. The township does not have adequate staff to maintain the public spaces that are now present in the township. This is a department that needs to grow accordingly with the township.

- EMS and FIRE SERVICES

In light of the recent fire consolidation and the bid for EMS Services from the Mansfield Squad the BAC is recommending that the Township Committee form a sub-committee to study the issue of the delivery of emergency services to the residents.

If you have any questions on this report, please email the members of the Budget Advisory Committee.

We would once again like to express our appreciation on being members of this committee which we feel is an important part of the financial management of our community. Several of our members have significant municipal experience that can be drawn upon to assure that Chesterfield Township maintains a level of service to its residents and taxpayers while maintaining the fiscal integrity and stability that has alluded other municipalities.

Thank you

Respectfully submitted,

Joseph P Monzo
William Boerth
Stacy S D'Artagan
Daniel Schaffener
Vickie Toor