

Letter of Transmittal

November 5, 2015

TO: The Northampton Township Board of Supervisors

Introduction

The Administration is pleased to submit the proposed 2016 Budget for your review and comment. The budget document consists of three sections:

Letter of Transmittal

The Letter of Transmittal is an overview of the budget in commentary form, generally referred to as the Budget Message. It is prepared to provide the Board of Supervisors, administrative staff, and Township residents with a narrative review of significant trends and factors affecting the proposed budget and highlight areas of importance in the financial section. It also contains a summary of program and service delivery, cash position, and revenue and expense projections.

Operating, Capital, and Trust Funds Budgets

The proposed 2016 Budget consists of 19 funds detailing the projected revenues and proposed expenditures for the coming year in line item format. A three-year history of actual (audited) revenues and expenditures and year-end estimates for the current year indicate trends, and beginning and ending fund balances show cash position. A separate summary for the General Fund by revenue and expense category provides a snapshot of the Township's largest operating budget, and a summary of the 19 funds provides a broad financial picture of the organization.

Supporting Data/Budget Schedules

The Supporting Data or Budget Schedules offer an additional level of detail for specific line items in each operating budget. This information provides the Board of Supervisors and administrative staff with a detailed understanding of specific budget appropriations. Where supporting data is available, an alphabetical index provides easy reference to the supporting details. This information assists in further understanding the cost of Township services and provides more meaning to the budget projections, particularly when considering cost-cutting alternatives or forecasting revenues.

The proposed budget results from an analysis of trends in revenues and expenditures from prior years, a detailed review of individual line item projections, an evaluation of programs and services, and current economic conditions. Allocating resources in the most efficient manner is also important in maintaining accustomed service levels and providing needed capital improvements.

This budget design provides information at various levels of detail as described above to promote an understanding and evaluation of Township services from a financial perspective.

The Budget Format

The budget is prepared in a line item format using the Pennsylvania Chart of Accounts for local governments published by the State Department of Community and Economic Development (DCED). This format provides uniformity of account numbers and titles across department budgets and operating funds. Uniformity in the budget format and consistency in posting revenues and expenditures to the line item accounts allows the Administration and Department Directors to monitor variations in budget appropriations during each fiscal year and from year to year. It simplifies review of monthly financial statements and translates to improved accuracy in accounting and budgeting.

The proposed 2016 Budget includes separate operating funds for general government, fire and rescue services, refuse collection, library services, senior center operations, contracted street lighting, parks and recreation services, debt service, and state highway aid allocations. Detailing these services in separate funds allows the costs for these government functions to be easily identifiable, providing the Board of Supervisors and Township residents with a clear picture of how the Township allocates resources for its program of service delivery.

The proposed budget continues the practice of separating operating and capital budgets. Capital appropriations for general purposes are budgeted in the Capital Reserve Fund. Inter-fund transfers from the General Fund and other revenue dedicated for capital projects provide funding for any proposed capital purchases or improvements.

Capital appropriations for parks and recreation purposes are budgeted in the Recreation Capital Fund. Funding for these appropriations can be from a variety of sources including inter-fund transfers, grants, and impact fees.

Capital appropriations for fire and rescues equipment, road equipment, senior center, and library services are included in separate funds and limited to those specific government functions. The Library and Senior Center Boards of Directors can choose to fund capital appropriations from any available capital fund balance or by transfers from their respective operating budgets.

Separating capital appropriations from operating revenues and expenditures eliminates variations in government operating appropriations from year to year caused by one-time capital expenses.

In the General Fund, the *Result from Operations* (page 14) represents the difference between annual revenues and expenditures before inter-fund transfers for capital appropriations, or appropriations to other operating budgets.

This budget format has standardized the accounting function and simplified the budget preparation process. The Administration believes the budget format provides sufficient detail for readers to understand revenues and expenditure appropriations from year to year, and the broad overview of Township government financial operations necessary for contemplative analysis.

Budget Highlights

Following are highlights of the proposed 2016 Budget:

The budget maintains municipal services at current levels

Operating appropriations in the proposed 2016 Budget provide the resources needed to continue the high level of service expected by our residents. The appropriations support accustomed levels of police, fire, and rescue services, the maintenance of public roads and rights-of-way, recreation services and programs, park maintenance, refuse and recycling collections, and the operation of the Library and Senior Center. The appropriations also include debt payments on outstanding bonds, and funding for certain infrastructure improvements and capital equipment purchases. There are no proposed reductions in Township services.

Capital appropriations maintain critical infrastructure and equipment

Proposed capital appropriations include on-going computer system replacements and software upgrades (including migration to a new version of the financial accounting software), installation of energy saving light fixtures in the Recreation Center, replacement vehicles for the police and public works departments, ballistic vests, body cameras, cameras for the police vehicles, and traffic signal upgrades. The budget also includes funding to resurface or treat approximately 17.55 miles of Township roads, replace curbs, rebuild storm sewer inlets, repair bridges and fund lease purchase payments on vehicles and equipment acquired between 2011 and 2015. These lease purchase contracts have three, five, and seven year terms depending on the life expectancy of the equipment. Road improvements include 12.3 miles of milling and resurfacing, 5.25 miles of micro surfacing, and 1.7 miles of in-place recycling. Loan payments to the County for the emergency communications radios for the police and volunteer fire departments are also included.

Capital appropriations for the Parks and Recreation Department include: (1) installation of LED light fixtures, replacement of an HVAC unit, replacement of the dance floor and new ceiling tiles at the Recreation Center, (2) construction of an outdoor restroom facility, bleachers, and landscaping at the Civic Center, and (3) paver and basketball court repairs at Municipal Park. There are also on-going lease purchase payments for vehicles and equipment.

The 2015 bond issue refinanced existing debt and provided \$10 Million in funding for road resurfacing, police facility construction, public works building additions, and park improvements. Civic Center improvements are almost complete, and roadway base repairs were completed this year in advance of milling and resurfacing in 2016. Other projects are in the design phase.

The Finance Department developed a ten (10) year capital improvement plan in 2012 that serves as a guide when programming capital appropriations. The Department updates the plan annually with input and advice from Department Directors and the Township Manager. The plan is included under Schedule J of the budget document and forms the basis for proposed capital appropriations in the 2016 budget.

There are no new staff positions in the proposed budget

Present staffing levels are adequate to maintain Township services in the near future and there are no new positions proposed in the 2016 budget. There are also no proposed staff reductions. Unless the Board of Supervisors adds new programs or services, additional staffing is not necessary; however, changes or reassignment of duties among existing employees may be required from time to time.

The proposed budget maintains current tax rates

With dedicated funding for capital facilities and equipment replacements, additional tax revenue to fund current operating and capital appropriations is not required, and there is no proposed real estate tax increase for the 2016 fiscal year.

At the current tax levy of 12.9275 mills, real estate taxes for a home assessed at the median value of \$35,600 will pay \$460 per year or \$38 per month for Township services.

Budget Overview

The General Fund is the largest operating fund and accounts for many common local government services. These include police services, planning, zoning, and code enforcement services, general administration, financial accounting services, legal, engineering and information technology expenses, tax collection services, facilities maintenance, fleet maintenance, and public works services.

Appropriations from the General Fund are available for any legal expenditure; however, tax levies for special purposes such as the fire and rescues services, parks and recreation services, library services and debt payments are available only for that purpose. For example, the Township cannot use proceeds from the fire tax for police services. Revenues and expenditures in each fund are specific to that fund and its legally allowable purpose(s).

The General Fund, Library Fund, Refuse Fund, Senior Center Fund, Street Light Fund, and Park and Recreation Fund account for all personnel, fringe benefit, insurance, utility and routine maintenance and operational expenditures. Appropriations from other funds are limited to capital improvements or other designated purposes. Examples include debt payments, refuse collection costs, emergency medical services, and volunteer fire company support.

Each Operating and Capital Fund in the proposed budget shows beginning fund balances, projected revenues, proposed expenditures and ending fund balances for the new fiscal year, and highlights the cost for those separate and distinct government functions.

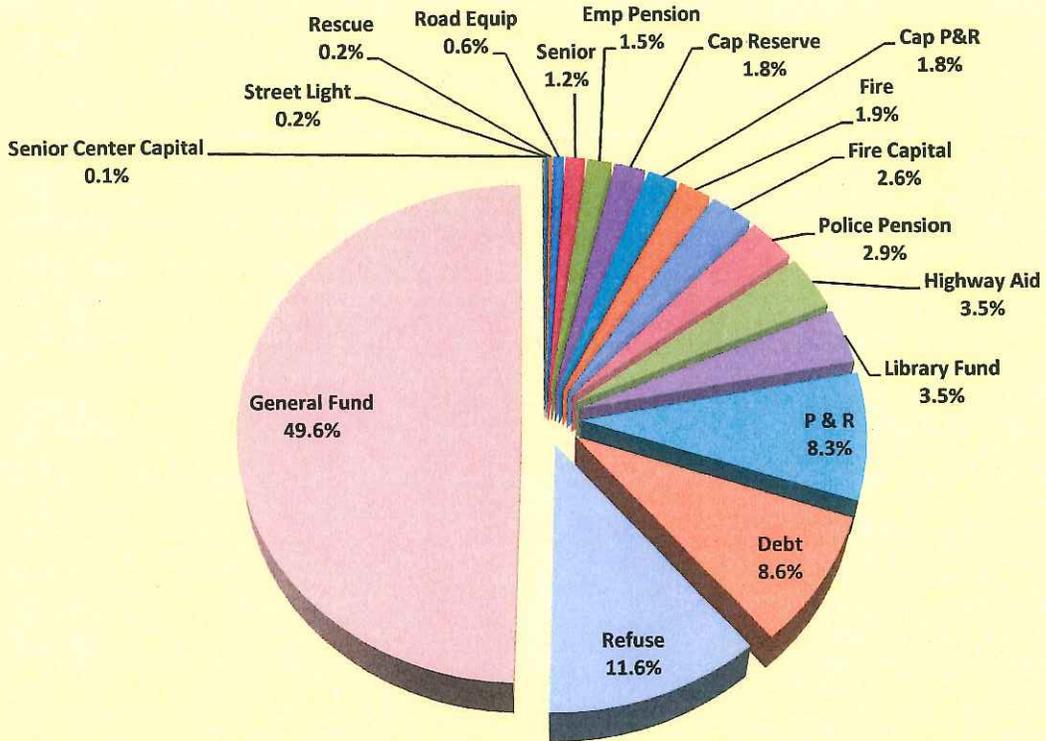
Personnel costs remain the largest single expense in the operating budgets representing 76% of total appropriations in the operating funds. Insurance, utilities, professional services, and contracted services (not including refuse collections) account for an additional 8 percent of budgeted expenditures. These percentages are typical in local governments (as public service agencies) and demonstrate that significant cost cutting can only occur with staff reductions that directly affect service delivery.

Total appropriations for all funds in the 2016 proposed budget is \$30.7 million.

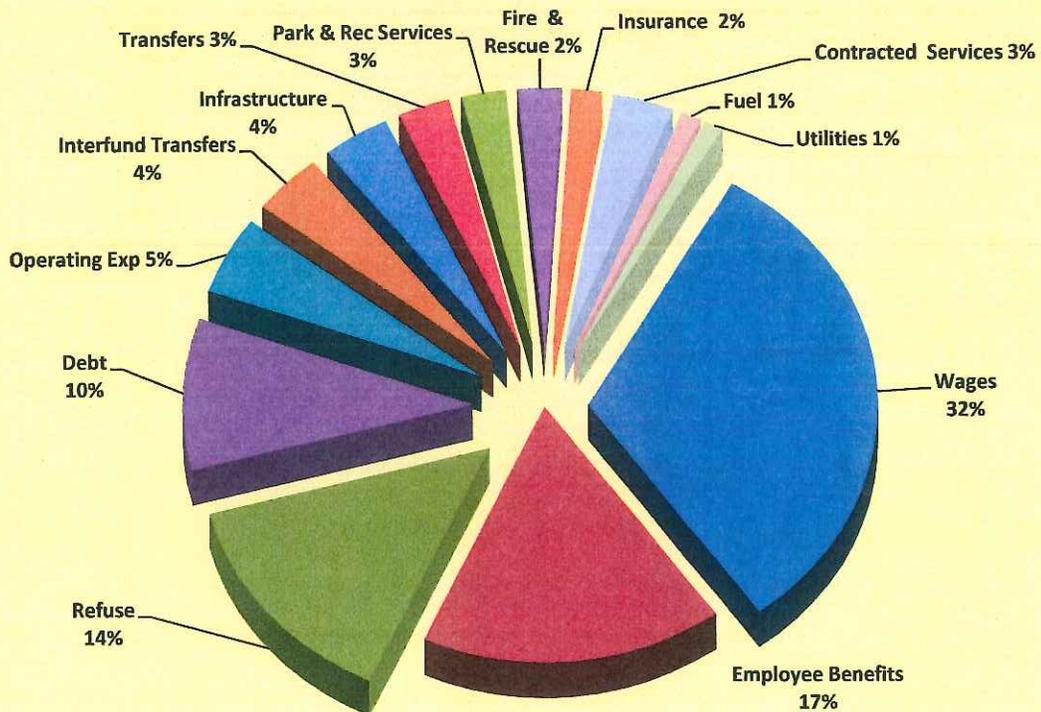
General Fund appropriations totals \$15.46 Million. Appropriations in other operating budgets include the Fire Protection Fund (\$603,000), Rescue Squad Fund (\$72,000), Refuse Collection Fund (\$3.87 Million), Library Fund (\$1.19 Million), Senior Center Fund (\$370,000), Street Light Fund (\$40,000) Parks and Recreation Fund (\$2.46 Million), Debt Service Fund (\$2.41 Million) and Highway Aid Fund (\$1.15 Million). Combined capital funds total \$1.6 Million and pension funds total 1.47 Million.

The charts on the following page show proposed appropriations by fund and expense category:

2016 APPROPRIATIONS BY FUND



2016 EXPENSE CATEGORIES



Following is a narrative summary of the financial position of each fund including a discussion about projected revenues and proposed expenditures for 2016:

General Fund

The General Fund is the operating budget for general municipal purposes and includes appropriations for general government operations such as administration and finance, legal, engineering and other professional services, police and code enforcement, paid emergency rescue and fire services, planning and zoning administration, technology, highway facilities and fleet maintenance. There are also appropriations to support the work of appointed boards and commissions.

The primary revenue sources for the General Fund are real estate taxes, Act 511 taxes (earned income, per capita, local services, and transfer taxes), business licenses, permit fees, grants, state-shared entitlements, and charges for service.

The Township levies a 1% earned income tax and revenue generated from residents is shared equally with the Council Rock School District. Non-residents working in the Township pay the full 1% tax unless their home municipality levies it. Earned income taxes will generate over \$7.45 Million in 2016, representing 51% of total revenues in the General Fund. Real estate taxes represent another 15.2% of total revenue at \$2.28 Million. The proposed General Fund real estate tax rate is 3.9845 mills.

Transfer taxes are a tax on real estate sales within the Township. The tax rate is 2% of the sale price. County government receives 1 percent of the tax proceeds, and the Council Rock School District and Township share the remaining 1% equally. Transfer tax receipts steadily declined since 2006 when collections exceeded \$1.5 Million. Transfer taxes dipped to a low of \$607,000 in 2011; however, an improved real estate market has steadily increased transfer tax receipts since that time. Current projections indicate transfer tax receipts in 2015 will reach \$955,000. The 2016 projection is \$1.05 Million given increased development activity, particularly in the commercial market space.

An estimated 530 properties will transfer ownership in 2015. This represents an increase of 219 transfers from the low of 315 in 2011. Five percent of the existing housing stock (600 properties) typically transfers each year. Construction activity enhances transfer tax revenue and new home construction will increase with the Leehurst Farms and Waverly development projects among others. A healthy real estate market increases transfer tax revenue and minimizes the need for real estate tax increases.

Other significant sources of revenue in the General Fund include permit fees, cable television franchise fees, and pension system aid. Interest earnings have virtually disappeared as market rates on short-term instruments remain at or below 1%.

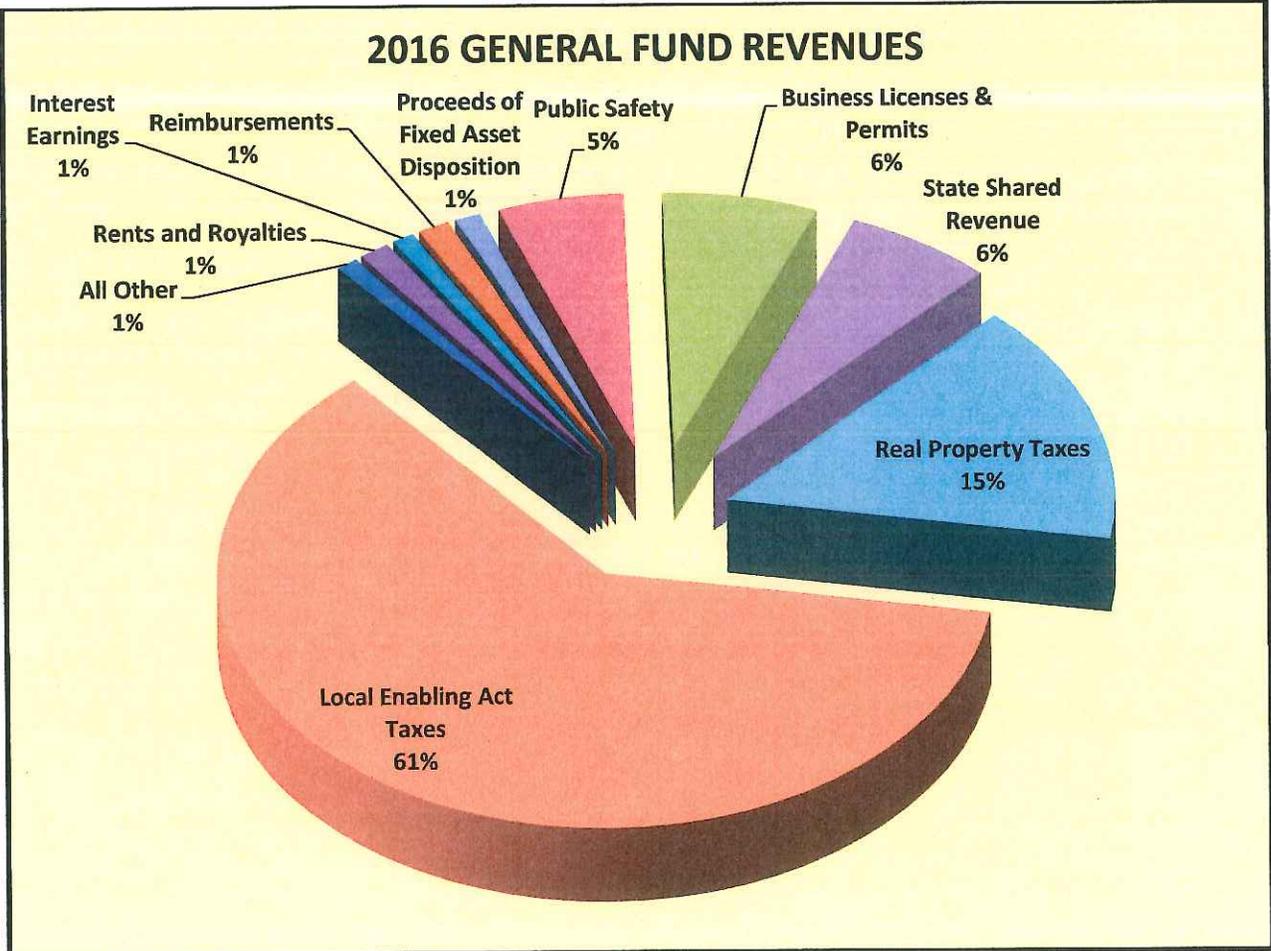
Revenue from permit fees reached a low of \$264,000 in 2009, but steadily increased as the real estate market has improved, although the Township issued only six permits for new homes in 2015. Permit fee revenue in 2015 will exceed \$546,000, approximately the same as last year; however, new home construction and commercial development should boost permit revenue in 2016. There is also a steady demand for addition and alteration permits with an average of 850 permits issued each year for these types of improvements.

The Township will receive \$553,000 in state aid for its employee pension plans, representing 33.5 percent of the minimum required plan contributions. This amount has remained at a consistent funding level since 2013; however, cable television franchise fees continue to increase steadily each year. The 2016 projection is \$1 Million.

Total estimated General Fund revenue in 2015 is \$14.6 Million, or under budget expectations by \$275,000. Revenue shortfalls in earned income taxes account for \$157,000 of this amount (most likely due to adjacent Middletown Township adopting the tax); permit revenue accounts for \$77,000; and failure to receive a mortgage payoff for the Spread Eagle Inn accounts for an additional \$121,000.

Projected revenue in the proposed 2016 Budget totals \$14.93 Million and represents an increase of only \$49,000 over the 2015 Budget. Per capita tax revenue of \$152,000 is not included in the 2016 Budget as previously directed. Other projected revenue increases include earned income taxes at 1.5 percent over 2015 projections (\$100,000), cable franchise fees (\$20,000), transfer taxes (\$60,000), Permit fees (\$75,000), and lease payments (\$100,000). The budget also includes \$65,000 in employee contributions toward health insurance premiums.

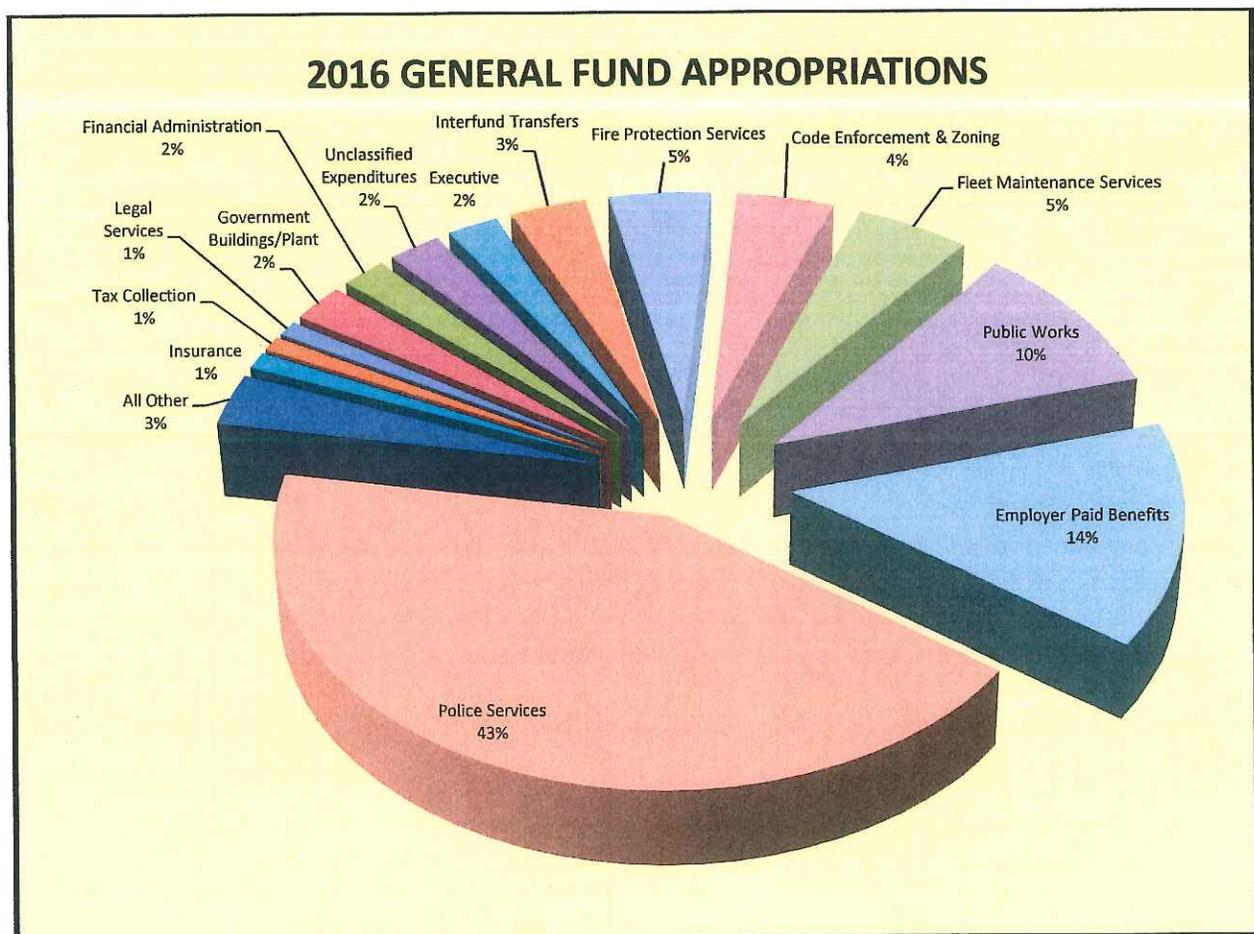
Tax collection experience, prior year collection history, contract guarantees, projected grants, state shared revenue, and economic trends are the basis for future revenue projections. Earned income taxes, transfer taxes, and permit fees have the most significant financial impact on General Fund revenue from year to year. The following chart shows the sources of General Fund revenue used for the operation of Township government:



Projected General Fund expenditures in 2015 total \$15.2 Million, approximately \$91,000 under budget. A cursory review of the projections will show that many departments will be at or below budgeted allocations for the current fiscal year. With the transfer of \$227,000 to support the Senior Center and \$297,000 transferred to the Capital Reserve Fund, the fund balance from 2014 will decrease from \$1.87 Million to \$1.34 Million or \$591,000 at year-end. Only information technology expenses, snow removal expenses, and unemployment compensation insurance premiums will exceed budget appropriations in 2015. Information technology expenses increased by changing to a managed service environment mid-year; however, it has improved the reliability and security of data processing systems.

Proposed General Fund appropriations in 2016 total \$15.46 Million, which is a 1.1% increase over the 2015 budget. The appropriations include a \$397,000 transfer for capital expenditures. Wages and employee benefits account for most of this increase at \$350,000. Total wage costs will increase 1.97%. The police department wage scale is budgeted to increase by 3%, public works employees by 2.6% increase, and non-union employees by 3%.

Healthcare premiums will increase by 5%, workers compensation premiums by 8.8%, liability insurance premiums by 2.8%, while utility costs will decrease. A change in the medical benefit plan for non-union employees will save \$91,000 next year. The Senior Center contribution will remain stable at \$227,000, and required pension plan contributions will decrease by \$68,000. Appropriations for legal services include the anticipated cost of police contract negotiations. Other expenses such as supplies, minor equipment, training, advertising, lease costs, and printing are budgeted at prior year levels. The following chart shows proposed General Fund appropriations by department:



Fire Protection Fund

The Fire Protection Fund is a primary revenue source for the operating and capital needs of the Northampton Township Volunteer Fire Company, a component government unit. The Township levies a 1.05-mill real estate tax dedicated to fire protection services that generates approximately \$596,000. The maximum allowable tax levy is three mills.

The Fire Company has three parts to its operating budget: an administrative budget for utilities, dues, insurance, and supplies; an operations budget for fire truck maintenance, fuel, fire hose, uniforms, tools and training; and a facilities budget for cleaning services, building repairs, and general maintenance. The company uses \$295,000 of its tax revenue for these expenses.

The remaining \$300,000 of the tax receipts fund a capital equipment replacement and facility improvement program. Capital reserve funds support equipment acquisitions and facility improvements according to a 20-year capital improvement plan. The Fire Company directs the amount of tax revenue for transfer to its capital reserve fund each year.

The Fire Company responds from three stations strategically located in different areas of the Township to provide the most effective response to emergency calls. The company has 70 active members that train each week and volunteer their time to support the community. Each active firefighter has achieved the minimum required 180-hour firefighter-training program, and many have additional certifications.

The Township disburses tax receipts semi-annually to the Fire Company.

Rescue Squad Fund

The Township levies a .125-mill tax levy dedicated to emergency medical services provided by the Tri-Hampton Rescue Squad. The tax levy generates approximately \$71,000. Like the Fire Company, the rescue squad uses a portion of the tax proceeds for its capital equipment replacement program. The maximum allowable tax levy is two mills.

The Rescue Squad provides advanced life support (ALS) services in Northampton, Upper Southampton, and Lower Southampton Townships using paid and volunteer employees. Each community provides financial support to the organization. The squad operates in Northampton Township from a facility on Township Road and uses "phantom" stations to provide broader service and faster response times during emergencies.

Total revenue for 2016 is \$71,000 and total appropriations are \$70,000. The organization has an annual operating budget of \$1.5 Million. The Township disburses tax receipts semi-annually.

Refuse Collection Fund

The Refuse Collection Fund accounts for the cost of contracted refuse collection and recycling services in the community. Revenues to the fund include annual fees charged to each property owner receiving services. The current fee is \$264 per residential household that generates over \$3.4 Million. The Township also receives approximately \$100,000 in state recycling grant funds.

The Township has four contracts for its solid waste management program: J.P. Mascaro & Sons, Inc. provides collection services for \$2.6 Million; Waste Management of Pennsylvania provides yard waste and trash disposal services for \$864,000, and provides recycling material disposal, paying the Township at market rates for those materials.

The Southwest Bucks County Solid Waste Advisory Committee (SWBSWAC) comprised of Upper Southampton Township, Lower Southampton Township, and Northampton Township publicly bids these contracts.

The Township approved a new waste collection contract in 2012 that changed the collection schedule from twice weekly to once each week, and each household received a wheeled recycling container as part of the contract. In addition, the Township instituted a single stream recycling program so residents can place all types of recycling materials into a single receptacle. These changes increased recycling collections by over 30 percent, but caused a reduction in revenue from the sale of recycled materials due to increased supply.

Waste disposal costs dropped by more than 35% in 2014 due to a favorable bid from Waste Management. The Township will pay \$48.67 per ton in 2016 to dispose of regular household trash. The rate in 2013 was \$68.91 per ton. The collection contract with J.P. Mascaro & Sons will increase from \$195.84 per household to \$208.32 in 2016. One option year remains on the contract that will increase the household rate to \$215.04.

The current household fee for trash, yard waste, and recycling collection and disposal will remain at \$264 in 2016, down from \$340 for the five-year period from 2007 to 2011.

Library Fund

The Library Fund accounts for the operation of the Free Library of Northampton Township and a Library Board of Directors (appointed by the Board of Supervisors) has oversight of library operations and finances. A 1.6 mill tax levy generates \$909,000 and is the single most significant revenue source in support of library services. Other revenue sources include state aid to libraries (\$116,000), fines (30,000), and charges for services (\$11,000). The Library Board will conduct a fundraising effort in 2016 that could raise approximately \$30,000 in additional revenue.

The current tax rate will only support library services for one more year. Reduced hours and staff reductions will be necessary without additional revenue and a tax increase for Library services is necessary in 2017 unless the Township implements those cost-cutting measures.

With the exception of personnel costs, library expenses are somewhat static. Total proposed expenditures in 2016 are \$1.19 Million with personnel costs at \$890,000; library materials and program costs at \$147,000, and utilities at \$78,000. Total proposed expenditures \$1.19 Million are 9% higher than the 2015 budget primarily due to the Affordable Care Act requirement that the Township offer medical benefits to employees working 30 or more hours each week. In addition, the Commonwealth requires that the Library budget include at least 12% of all operating expenses for program supplies as a requirement to receive state aid.

The Finance Department currently manages the financial affairs of the Library and the Public Works Department provides maintenance services at no additional cost.

Total projected revenue in 2015 is \$1.09 Million and appropriations are \$1.19 Million.

There are 22,000 card-holding patrons and over 500 people visit the library each day.

Senior Center Fund

The Senior Center Fund accounts for the operation of the James E. Kinney, Jr. Senior Center. The Center has 1,000 active members, and over 2,800 individuals participate in program activities each month. Annual dues are \$20.00.

There is no dedicated tax to support Senior Center operations. An inter-fund transfer from the Township General Fund is the primary revenue source for Center operations. This transfer was \$227,000 in 2015 and will remain the same next year.

In addition to the Township contribution, Upper Makefield Township contributes \$1,000 to the Center. Other income includes state grants (\$19,500), facility rental (\$34,000), dues (\$15,000), social events (\$17,000), and bus trips (\$14,000).

The Senior Center operates with two full-time employees, four part-time employees, and numerous volunteers to provide a variety of services and programs for its members. Significant operational costs include utilities (\$25,000), equipment maintenance (\$28,000), bus trips (\$10,000), and contracted services (\$15,000). The Public Works Department provides in-kind maintenance services.

The Township assumed responsibility for financial accounting of all Center operations in July 2014 and its Board of Directors transferred \$72,000 in operating fund balance and \$146,000 in capital funds to the Township. As part of the transition, the Senior Center budget is on the Township's financial accounting system including revenues and expenditures previously managed by Center staff. This change has proved beneficial for the Senior Center's Board of Directors, its staff, and the Township.

Total projected revenue in 2015 is \$339,000 and total appropriations are \$370,000. The Center will begin 2016 with a fund balance of \$112,000.

Street Light Enterprise Fund

The Street Light Enterprise Fund accounts for the cost of contracted services provided by the Public Works Department for street lighting maintenance in other jurisdictions. The Township established the program in 1988 through the Bucks County Consortium after municipalities began purchasing their street lighting systems from PECO and assumed maintenance responsibility for those systems. The Township presently serves seven municipalities and maintains over 4,600 streetlights, including 320 lights in Northampton Township. Two public works employees experienced in the maintenance and operation of streetlights spend 14% of their time on the program.

Fees support the cost of personnel, supplies, and equipment. Since employee salaries are a budgeted item, the fees offset a portion of the Township's fixed costs for public works personnel. Periodic fees adjustments fund cost increases and build reserve for an eventual vehicle replacement. The enterprise may not exist long-term as communities change their streetlights to LED fixtures that have an estimated 25-year life.

Total projected revenue in 2016 is \$55,000 and appropriations are \$40,000. The fund had deficits of \$16,000 and in 2014 and 2015 that will decrease to \$2,300 in 2016.

Park and Recreation Fund

The Park and Recreation Fund is the operating budget for recreation programs and services. The Fund has three main sections: Recreation Administration, Participant Recreation, and Parks Maintenance.

Recreation Administration accounts for general costs associated with the overall management of the department and includes administrative staff salaries and fringe benefits. Recreation Administration costs are budgeted at \$347,000 in 2016.

Participant Recreation includes the cost for summer camp operations, instructor fees, ticket purchases, and other program related expenses. Program fees and charges fund the cost of participant recreation services total \$1.58 Million. More than 5,600 individuals participated in recreation programs this year. There were an additional 750 summer camp participants, and 2,000 attended the "Sights and Sounds of Summer" series.

Parks Maintenance costs are budgeted at \$436,000 in 2016, a slight reduction from the current year. These costs include routine parks and facility maintenance and repairs, supplies, utility costs, and contracted services. Three full-time and four seasonal employees maintain 225 acres of parkland, numerous buildings and other recreation amenities.

A 1.5 mill tax generates \$852,000 for parks and recreation services. This tax rate has remained the same since 2009.

Current year revenue in the Parks and Recreation Fund will be \$46,000 under budget mainly due to a drop in program fees. Current year expenditures will be \$61,000 under budget.

Total projected revenue in 2016 is \$2.48 Million and total appropriations are \$2.46 Million. There are no appropriations to the Recreation Capital Reserve Fund. Both projected revenues and expenditures in 2016 are less than the current year because the department adjusts its budgets each year to anticipated service and program demands.

Debt Service Fund

The Debt Service Fund accounts for debt obligations on outstanding bonds, notes, and loans. The Township refinanced existing debt and borrowed an additional \$10 Million in 2015 for several capital projects. These include construction of a new police station, additions and modifications to public works buildings, Newtown-Richboro Road improvements, Civic Center improvements, and road resurfacing. The structure of new debt service payments in the 2015 bond issue now matches revenue from current debt service taxes and avoids a projected tax increase in 2017.

The Township currently has \$25 Million in outstanding bonds and notes. Principal payments are approximately \$2 Million each year through 2021. These payments drop to \$1.5 in 2022 and 2023, then drop again to about \$750,000 through 2035. The bonds have an average interest rate of 3 percent. The outstanding principal balance will be \$23.2 Million as of December 31, 2016.

The current tax levy of 4.303 mills generates approximately \$2.44 Million toward debt service payments and is sufficient to fund required debt service payments for the term of the issue.

Capital Reserve Fund

The Capital Reserve Fund accounts for general capital equipment purchases and infrastructure improvement projects. Examples of capital expenditures include roadway and drainage facility improvements, traffic signal enhancements, equipment acquisition, property acquisition, and facilities construction and repair.

Revenues in the Capital Reserve Fund come from a variety of sources including grants, loans, developer contributions and a transfer from the General Fund (\$297,000) dedicated to capital appropriations.

A ten (10) year Capital Improvement Plan identifies capital needs on a long-term basis. The Administration updates the plan annually. Capital funding is currently available through 2016. The Township will receive \$165,000 from a PennDOT grant to fund a \$230,000 crosswalk and handicapped ramp project in Richboro next year.

Appropriations in the 2015 capital budget include four replacement police vehicles, computer hardware and software upgrades to the financial accounting system, ballistic vests, bridge repairs, traffic signal improvements, and loan payments on vehicles and equipment purchased since 2011. Payments on a new police and fire communication system begin in 2016 through a loan with the County Government.

Total projected revenue in 2015 is \$501,000 and appropriations are \$759,000.

Recreation Capital Reserve Fund

The Recreation Capital Fund provides financial resources to maintain and improve recreation facilities and infrastructure. An inter-fund transfer from the Parks and Recreation Operating Fund to the Recreation Capital Fund supports capital improvements. This is similar to the Volunteer Fire Company saving a portion of its tax revenue to replace fire apparatus. The operating fund transferred \$100,000 to the capital fund in 2015. There is no transfer to the Recreation Capital Fund budgeted in 2016; however, impact fees on new development will provide additional revenue with an improving real estate market.

The proposed 2016 budget includes improvements at the Recreation Center such as installation of energy efficient lights, replacement of an HVAC unit, concrete and sidewalk repairs, ceiling replacement, and a new dance floor for the community room. It also includes the construction of a new outdoor restroom facility with proceeds from the Maier house sale, new bleachers at the Civic Center, Hampton Estates and Big Meadow Park, resurfacing of basketball courts at Municipal Park and Pheasant Run, and lease purchase payments for vehicles and equipment.

Total projected revenue in 2016 is \$226,000 and appropriations are \$529,000. Projected Impact fee revenue of \$200,000 from new development includes \$116,000 from the Addisville Commons development.

Appropriations from the 2015 bond issue will fund additional recreation facility improvements. Phase 1 Civic Center improvements will be completed this year and the Parks and Recreation Board is currently developing its capital program of improvements with any remaining bond funds allocated by the Board of Supervisors.

Fire Company Capital Reserve

Each year the Northampton Township Volunteer Fire Company directs a portion of the revenue from the 1.05 mill tax to its Capital Reserve Fund for equipment replacement and facilities construction or maintenance. The Township holds these tax proceeds in a separate fund and appropriations are budgeted based on the needs and requests of the organization.

The Fire Company bases the amount transferred from the Fire Tax Fund to the Fire Company Capital Reserve Fund on its capital need projections as identified in a 20-year capital plan. The fire company requested an appropriation of \$91,000 for 2016 to replace the boiler, resurface the bay floor, and repair a concrete pad at Station #83 (Hatboro Road), and to replace the roof at Station #3 (Richboro).

The current fund balance is \$1.9 Million. The fund balance will increase to \$2.1 Million after a transfer of \$300,000 from the Fire Tax Fund in 2016.

Total projected revenue in 2015 is \$302,000 and total appropriations are \$91,000.

Rescue Squad Capital Reserve

Like the fire company, the Tri-Hampton Rescue Squad directs a portion of the revenue from a .125 mill tax to its Capital Reserve Fund for future capital needs.

The current fund balance is \$3,200. The reserve funds acquisition of new or replacement emergency medical vehicles and equipment. The Rescue Squad spent \$20,000 in 2015 toward acquisition of a new emergency medical response vehicle.

There are no budgeted appropriations in 2016.

Road Equipment Capital Fund

The Road Equipment Capital Fund accounts for expenditures to replace Public Works Department vehicles and heavy equipment. A dedicated tax levy of .365 mills generates \$207,000 in revenue. The maximum allowable levy is two mills.

Appropriations in 2016 include the acquisition of two dump trucks (with snowplows and salt spreaders), a pothole repair unit, and lease purchase payments on vehicles and equipment purchased since 2012, with annual appropriations based on the Township's ten (10) year Capital Improvement Plan.

Total appropriations in 2016 are \$233,000. The Fund has maintained a reserve balance of \$50,000 to \$75,000 since inception in 2013.

Highway Aid Fund

The Highway Aid Fund accounts for the Township share of liquid fuels tax dollars provided by the Commonwealth of Pennsylvania for maintenance of local roadways. The Commonwealth generates funds through a tax on motor fuels. Municipalities receive approximately 12 percent of the total collected by the Commonwealth and PennDOT uses the remaining funds to maintain state owned roadways.

A formula using population and qualifying road mileage determines the Township share. The Administration forwards information on any newly dedicated roads to PennDOT and the additional mileage increases the grant amount. New roads must meet specific design criteria to qualify for funding.

The Township received just over \$1 Million in 2015, an increase of \$31,000 from the prior year. The grant amount will increase steadily over the next five years to about \$1.5 Million under the provisions of Act 89, which increased the tax on motor fuels to fund road and bridge repairs across the Commonwealth. The 2016 grant amount will increase to \$1,146,000.

The Township also receives \$37,000 each year through a road take-back program, contracting with PennDOT to plow snow and ices on state-owned roads. The annual payment for snow plowing was \$30,000 in 2015; however, the Township recently negotiated a new contract that could increase this amount to \$67,000 depending on the severity of winter storms.

The Commonwealth restricts expenditures from the Fund to road maintenance costs such as snow plowing, road striping, guiderail installation, street light electricity, and the purchase of de-icing salt and paving materials. The Commonwealth audits the fund annually to ensure compliance with state regulations.

The Township purchases paving materials from the fund for its annual road-paving program. The Public Works Department paved 2.7 miles of roads and contracted to micro surface an additional 1.5 miles in 2015. The 2016 Road Maintenance Program includes 1.7 miles of in-place recycling on Old Jacksonville Road and Temperance Lane, 3.5 miles of micro surfacing, and 12.3 miles of milling and resurfacing. All of this work will involve public bidding at an estimated cost of \$579,000.

The Township owns and maintains a 180-mile road system.

Other appropriations in 2016 include de-icing salt (\$285,000), contracted services such as line painting (\$20,000), snow plowing (\$65,000), traffic signal maintenance (\$27,000), signs (\$30,000), and a transfer to the General Fund for wages associated with road maintenance.

Total projected revenue in 2016 is \$1.2 Million and appropriations are \$1.15 Million.

Library Capital Fund

The Library Capital Fund became part of the Township budget when the Library Board of Directors transferred the proceeds of its Building Fund to the Township in 2014. This action completed the transfer of all funds previously managed by the Library Board as part of a program to have the Township perform accounting and financial management services.

The Library Capital Fund accounts for the cost of equipment and improvements for the facility. The Library Board of Directors determines appropriations each year and directs expenditures of the funds.

The current fund balance is \$103,000 and the Library Board is not appropriating funds in 2016.

There is no direct revenue source for capital needs. The Township owns the Library building and the Department of Public Works provides routine maintenance at no additional cost.

Senior Center Capital Fund

The Senior Center Capital Fund became part of the Township budget when the Senior Center Board of Directors transferred the proceeds of its Building Fund to the Township in 2014. This action completed the transfer of all funds previously managed by the Senior Center Board as part of a program to have the Township perform accounting and financial management services.

The Senior Center Capital Fund accounts for the cost of equipment and improvements for the facility. The Senior Center Board of Directors determines appropriations each year and directs expenditures of the funds.

The current fund balance is \$129,000. Appropriations totaling \$20,000 for 2016 include replacing carpets in the building.

There is no direct revenue source for future Senior Center capital needs. The Township owns the Senior Center building and the Department of Public Works provides routine maintenance at no additional cost.

Pension Funds

The Police and Municipal Employees Pension Funds are trust funds that provide monthly defined-benefit pensions to retired employees. An ordinance adopted by the Board of Supervisors governs the administration of each pension plan, and two Pension Plan Advisory Committees review investment performance and recommend investment strategies. The Committees meet quarterly with the Township Investment Advisor to review investment performance.

The Pension funds consist of a mixed bond and equities portfolio with asset allocations according to an Investment Policy Statement adopted by the Board of Supervisors. The Township Actuary calculates annual required contributions for each plan (Minimum Municipal Obligation) to fund future retirement benefits.

The plans will have combined assets of approximately \$30.5 Million at year-end.

The required Township contribution to maintain the actuarial soundness of the plans in 2016 is \$1.64 Million. The contribution requirement decreased by \$68,000 for 2016. The Township will receive \$553,000 in state aid to offset this amount. The Commonwealth levies a 2% tax on foreign casualty insurance premiums (insurance policies written by out-of-state insurance companies) to assist municipalities with pension plan funding.

The Police Pension Plan has an 82% funding ratio, and the non-Uniformed Employee's Pension Plan has a funding ratio of 75%. The ratio represents the difference between plan assets and plan liabilities. These funding ratios are at acceptable levels.

Looking Ahead

Township finances are currently stable although there is pressure on the General Fund from projected increases in police service costs as newly hired police officers move through the collective bargaining agreement wage scale. An additional concern is the looming "Cadillac Tax" obligation imposed by the Affordable Care Act beginning in 2018. The healthcare plan for non-union employees will change in 2016 with increased co-payments to reduce premiums, and additional changes are necessary in future years to avoid the tax obligation.

The focus of current police negotiations is on the healthcare plan issue and the Police Benevolent Association is considering alternative plans to avoid the tax estimated at \$250,000 per year without plan benefit changes. Pension plan costs for the defined benefit pension plans has stabilized with good investment returns, and a defined contribution pension plan is in place for new non-union hires that should reduce future pension obligations.

General Fund reserves will fall below \$1 Million next year but the Township has operated with low General Fund reserves in the past. An analysis of reserve balances for the 10-year period from 2004 to 2014 shows that between 2006 and 2010 the Township operated with reserves below \$400,000, and in 2007 and 2009, the General Fund operated with deficits of \$51,000 and \$138,000. The average reserve balance over the 10-year period was \$855,000.

A noticeable improvement in the real estate market should increase transfer taxes and permit revenue to enhance those reserves. New residential development should also increase earned income taxes, and our economic development initiatives, such as the LERTA program, should increase the tax base long term.

While there are many positive indications that Township finances will improve, projections show that a tax increase is necessary in 2017 to enhance fund balance and maintain current service levels if additional revenue does not materialize.

The potential need for a tax increase in 2017 should not be a surprise. Projections made in 2013 indicated that the Township could hold the current tax rate for 3 years, and an increase would be necessary beyond that term unless economic conditions improved to enhance revenue. There are clear indications that the economy is improving but it not possible to predict whether the effects will be significant enough to provide the necessary additional revenue to maintain current services in future years.

The Township avoided layoffs during the economic downturn between 2008 and 2012 by temporarily reducing staff through attrition that helped balance budgets and avoid tax increases, and it demonstrated that the organization is responsive to external influences affecting its financial condition. The Administration will continue to be diligent in its efforts to minimize tax increases.

Dedicated funding provides the resources to fund current capital appropriations, and a 10-year capital improvement plan identifies future capital needs, allowing those costs to be programmed and strategically planned in future budgets. Funding from the 2015 bond issue will also address several major capital needs. These include construction of a new police station, renovations and additions to the public works buildings, safety improvements to Newtown-Richboro Road along the Civic Center frontage, road system maintenance, and recreation facility improvements. The projects are in various stages of construction or design and will be substantially complete in 2017.

Balancing the needs of a municipal organization and maintaining low tax rates is always a goal but also a significant challenge. Township employees are always looking for ways to reduce cost and spend resources efficiently. They are professional, courteous, and responsive public servants. Departments coordinate and cooperate in programs and services. Morale is high and there is a clear recognition that our single mission is to serve the public.

The Administration believes Township residents are pleased with our service delivery and understand the Township wisely allocates its financial resources for their health, safety, and welfare. Maintaining accustomed service levels enhances the quality of life our residents currently enjoy.

The proposed 2016 Budget maintains municipal services at present levels and provides the necessary resources to help the Township achieve its goals and priorities established by the Board of Supervisors. In my opinion, it represents an accurate estimate in dollar terms of the Township's commitment to deliver quality municipal services to the community.

The Administration is pleased to present the proposed 2016 Budget for your consideration.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Robert M. Pellegrino', written in a cursive style.

Robert M. Pellegrino
Township Manager