

# Letter of Transmittal

**November 4, 2016**

**TO:** The Northampton Township Board of Supervisors

## **Introduction**

The Administration is pleased to submit the proposed 2017 Budget for your consideration. 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 2017 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 budget continues the practice of separating operating and capital Funds. The 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.

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 2017 Budget:

### ***The budget maintains municipal services at current levels***

Operating appropriations in the proposed 2017 Budget will allow the Township 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. 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 infrastructure and equipment***

Proposed capital appropriations include on-going computer system replacements and software upgrades; installation of energy saving light fixtures in the Public Works Garage, Parks Maintenance Garage and Senior Center; replacement vehicles for the police and public works departments; ballistic vests, body cameras, cameras for the police vehicle; and traffic signal improvements. The budget also includes funding to resurface or treat approximately 4.8 miles of Township roads, rebuild storm sewer inlets, repair two bridges, and fund lease purchase payments on vehicles and equipment acquired between 2011 and 2016. These lease purchase contracts have three, five, and seven year terms depending on the life expectancy of the equipment. Loan payments to the County for the emergency communications radios for the police and volunteer fire departments are also included. This is a 7-year loan financed by Bucks County at 1.5%.

Other projects include installation of LED fixtures in our street lighting system over the next 3 years, design of an extension to Township Road including a roundabout at Bustleton Pike and Second Street Pike, and completion of a water system extension to address TCE contamination in the Hidden Meadows development and adjacent Warwick Township. The water system project is funded by a PA DEP grant, and the Township obtained a \$350,000 grant from PennDOT to fund preliminary engineering for the road extension and roundabout. The Township is also undertaking the design of improvements to Buck Road including a new bridge over Mill Creek and intersection improvements at Old Bristol Road.

Capital appropriations for the Parks and Recreation Department include the replacement of an HVAC unit, dance floor and front doors at the Recreation Center; construction of an outdoor restroom facility and baseball backstop overhang at the Civic Center; and replacement of the playground surface at Municipal Park. This project may be partially funded through a partnership with the Miracle League of Northampton to enhance the playground for challenged individuals. 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. The resurfacing of 12 miles of Township roads and the Civic Center improvements are complete, and Newtown-Richboro Road improvements are underway. A bid award for additions to the Public Works buildings is scheduled for the November Board meeting, and the Police Station project is scheduled for bidding in January 2017. The Township must acquire the Municipal Authority property for this project with proceeds from the sale of the existing Police Station offsetting the cost.

The Northampton Township Volunteer Fire Company intends to replace boilers at Stations #3 and #83, purchase a new Quint Fire Engine, install new signs, and replace the phone system at Station #3.

The Finance Department developed a ten (10) year capital improvement plan 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 2017 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 2017 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 occur.

***The proposed budget maintains current tax rates***

There is no proposed real estate tax increase for the 2017 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 protection, 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.

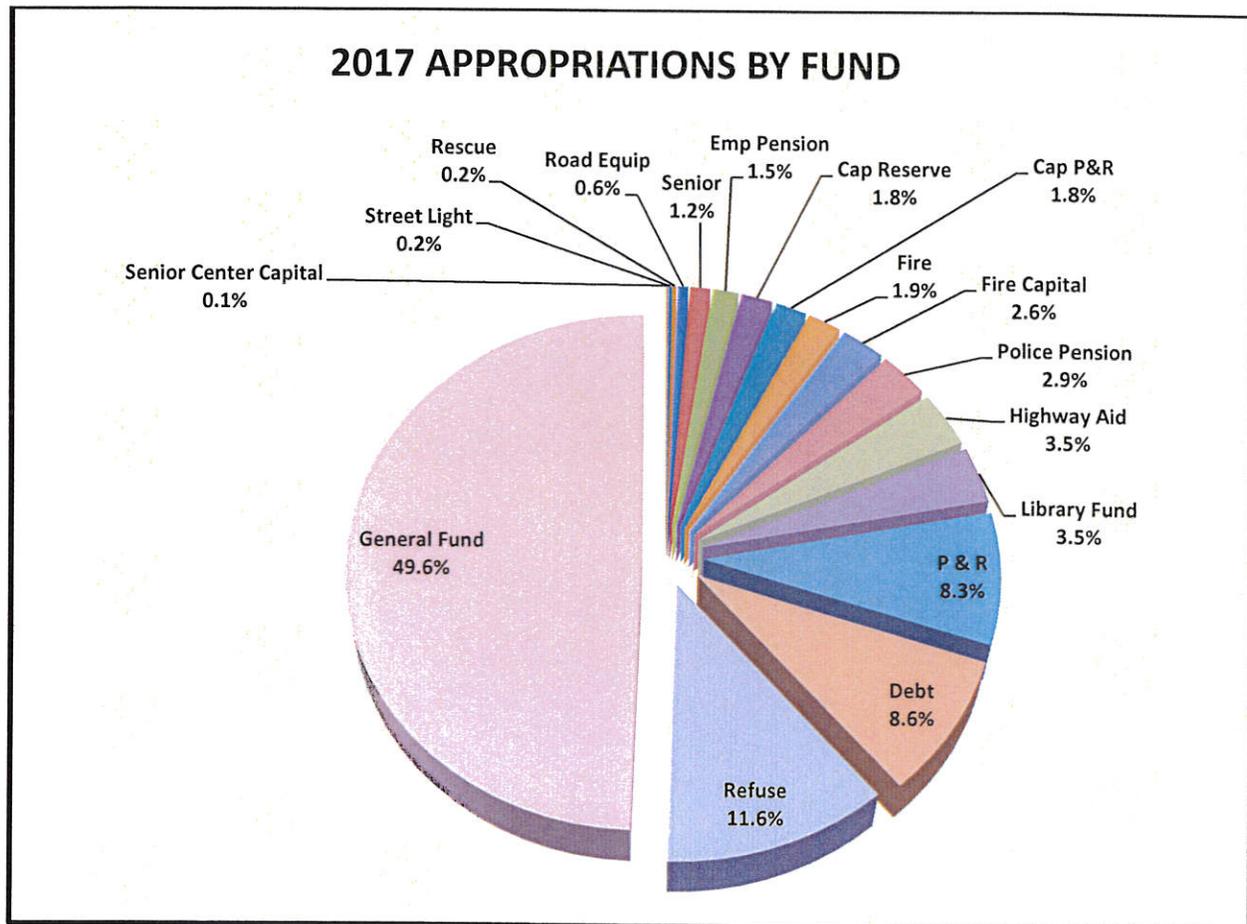
Appropriations from the General Fund are available for any legal expenditure; however, tax levies for special purposes such as the fire and rescues services, parks and recreation services, library services and debt payments are available only for that purpose. For example, the Township cannot use proceeds 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.

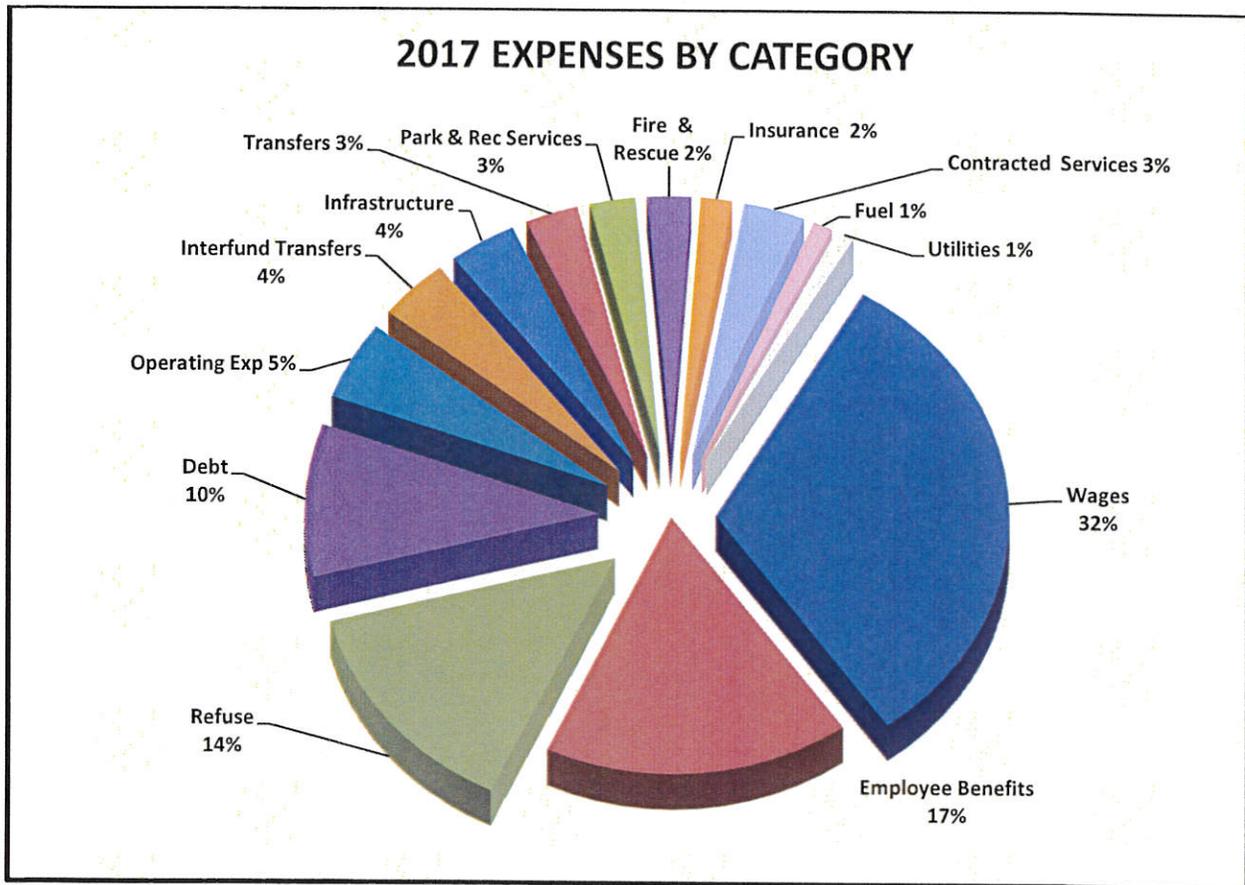
The following chart show proposed appropriations by fund:



**Total appropriations for all funds are \$32 million in the 2017 proposed budget.**

General Fund appropriations total \$15.8 Million. Appropriations in other operating budgets include the Fire Protection Fund (\$618,000), Rescue Squad Fund (\$72,000), Refuse Collection Fund (\$4.07 Million), Library Fund (\$1.03 Million), Senior Center Fund (\$341,000), Street Light Fund (\$19,000) Parks and Recreation Fund (\$2.52 Million), Debt Service Fund (\$2.46 Million) and Highway Aid Fund (\$1.3 Million). Combined capital appropriations total \$2.17 Million and pension funds total \$1.61 Million.

The following chart shows how total appropriations are expensed:



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 \$7.58 Million in 2017, representing 50% of total revenues in the General Fund. Real estate taxes represent another 15% of total revenue at \$2.26 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 2016 will reach \$1,066,000. The 2017 projection is \$1,127,000 given increased development activity with the Leehurst Farms and Addisville Commons developments.

An estimated 560 properties will transfer ownership in 2017. This represents an increase of 245 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 construction will increase assessed value and real estate 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 improved. The Township has averaged about 15 permits for new homes since 2011. Permit fee revenue in 2016 will exceed \$880,000; however, this includes permit fees of \$225,000 for renovations at Holland Middle School. New home construction and commercial development is projected to generate permit revenue of \$585,000 in 2017. 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. Over 1,050 permits were issued for additions and alterations in 2016.

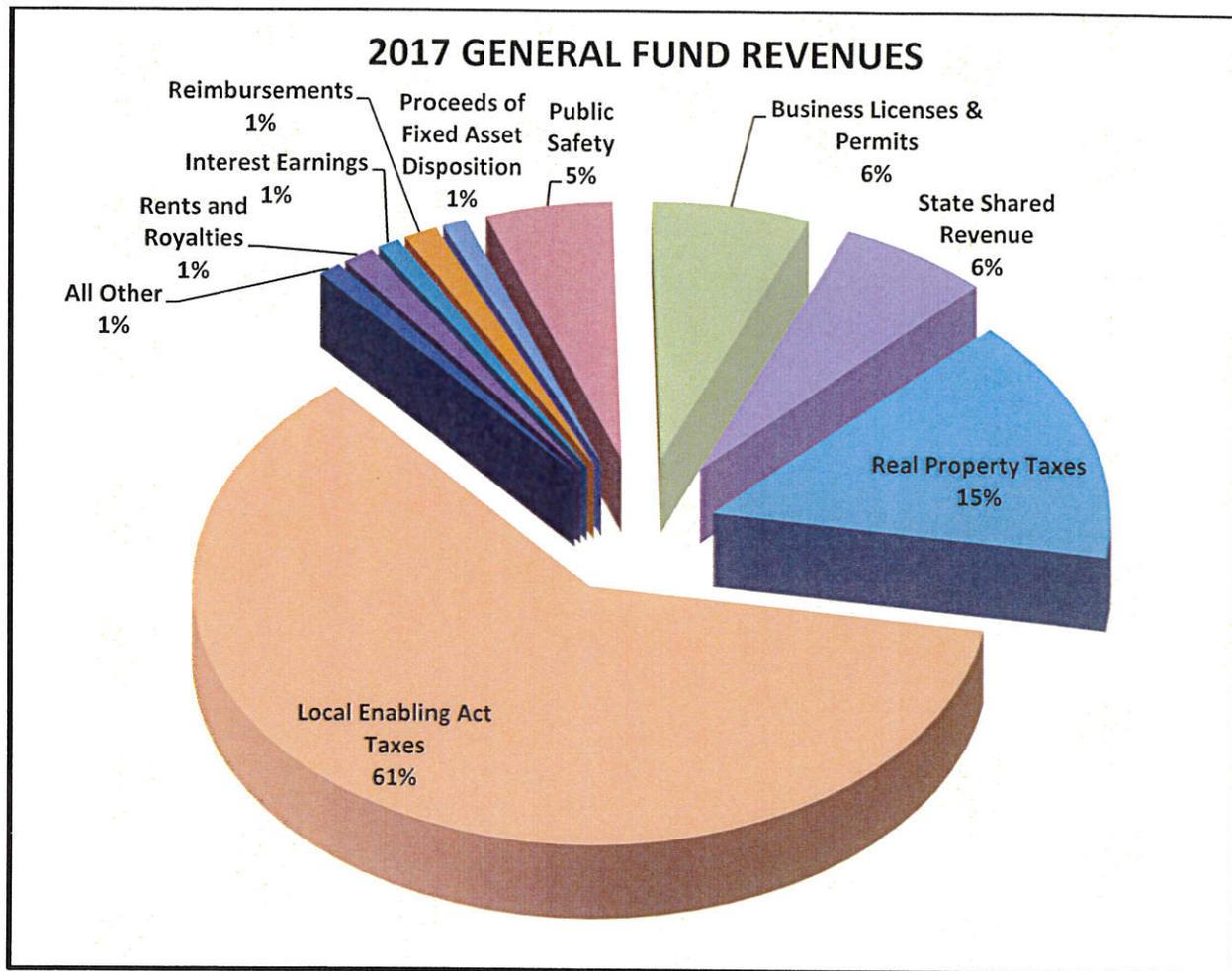
The Township will receive \$638,000 in state aid for its employee pension plans, representing 40% of the minimum required plan contributions. Pension Plan contributions have decreased in recent years and the funding level has remained stable since 2013. Cable television franchise fees continue to increase steadily each year with the 2017 projection at \$1 Million.

Total estimated General Fund revenue in 2016 is \$15.58 Million or \$642,000 over budget. The additional revenue came from from pension state aid, permit fees, cell tower rents and reimbursements.

Projected revenue in the proposed 2017 Budget totals \$15.2 Million and represents an increase of \$254,000 over the 2016 Budget. Projected revenue increases include earned income taxes at 1% over 2016 projections (\$80,000), transfer taxes (\$72,000), and pension state aid (\$86,000). The budget also includes \$60,000 in employee contributions toward health insurance premiums. It should be noted that the per capita tax was eliminated in 2016, which generated approximately \$150,000 in revenue.

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:

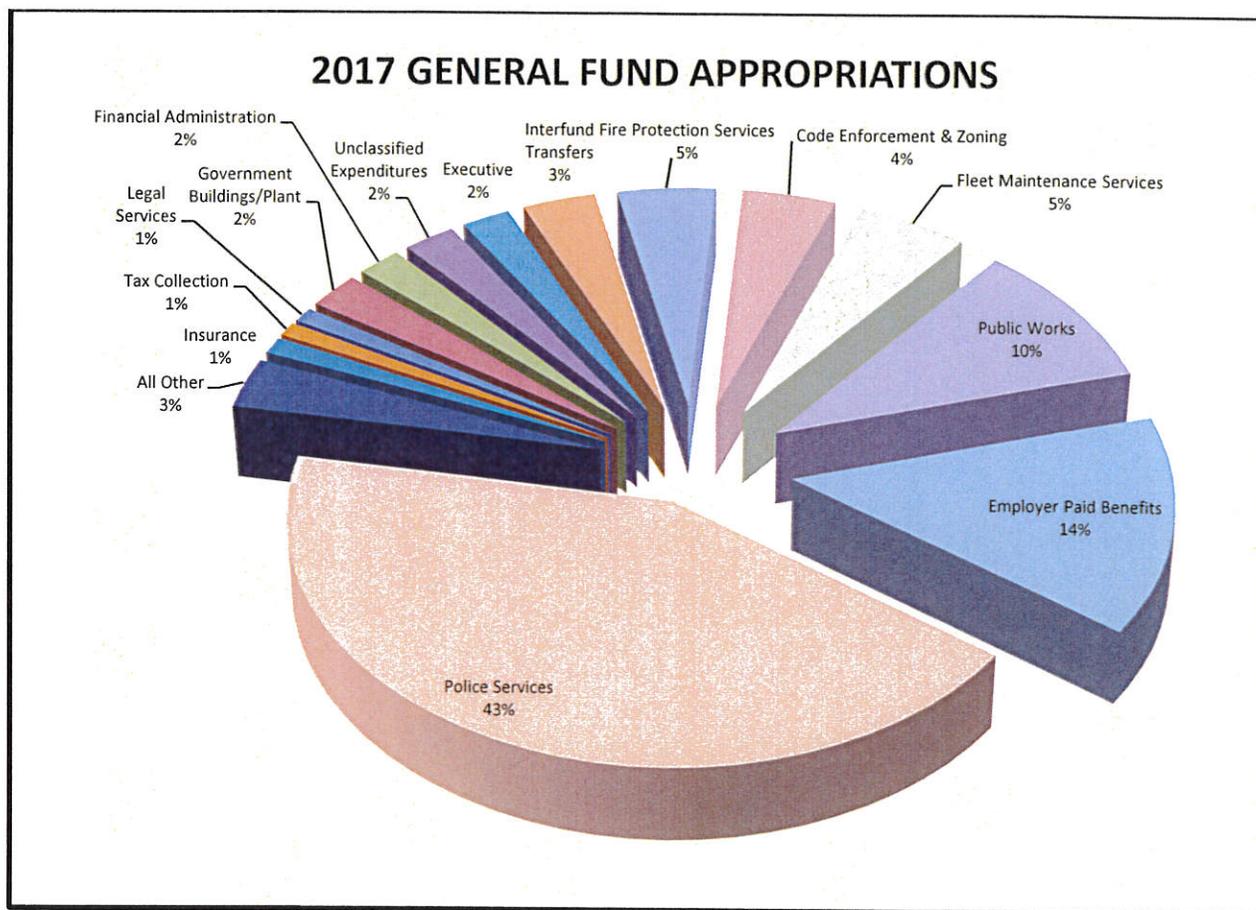


Projected General Fund expenditures in 2016 total \$15.24 Million, or \$204,000 under budget. A review of the 2016 budget projections will show that many departments will be at or below budgeted allocations for the current fiscal year. Total expenditures include the transfer of \$227,000 to support the Senior Center and \$297,000 to the Capital Reserve Fund. The fund balance from December 31, 2015 will increase by \$45,000 to 1.38 Million at year-end.

Proposed General Fund appropriations in 2017 total \$15.8 Million. This represents a 2.28% increase over the 2016 budget or \$350,000. Wages and employee benefits account for most of this increase at \$248,000. Total wage costs will increase 2.51%. The police department wage scale is budgeted to increase by 3.25%, public works employees by 2.6% increase, and non-union employees by 3%. The appropriations include a \$397,000 transfer for capital appropriations.

Healthcare premiums will increase by 4%, workers compensation premiums by 6.7% and utilities by 2%. Liability insurance premiums will decrease by 3.4% and pension plan costs will decrease by 3.2%. A change in the medical benefit plan for non-union employees will save \$111,000 next year. The Senior Center contribution will remain at \$227,000. Appropriations for legal services include the anticipated cost of finalizing several police arbitration matters. 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 \$603,000. The maximum allowable tax levy is three mills. The Township disburses tax receipts semi-annually to the Fire Company.

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 will use \$300,000 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. In 2017 the Fire Company intends to replace the boilers at Stations #3 and #83, purchase a new fire truck, replace the phone system at Station #3 and replace its building signs.

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.

### ***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 2017 is \$73,000 and total appropriations are \$71,500. 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 which generates approximately \$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 \$2.7 Million; Waste Management of Pennsylvania provides yard waste and trash disposal services for \$886,000 and recycled 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 provides trash and yard waste collection once each week, and each household receives a wheeled recycling container as part of the contract. In addition, the Township offers a single stream recycling program so residents can place all types of recycling materials into a single receptacle. This latter change increased recycling collections, 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 \$50.62 per ton in 2017 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 \$2.6 Million to 2.68 Million in 2017 (\$84,000) with the per household rate increasing from \$208.32 to 215.04. SWBSWAC will be soliciting bids for a collection contract for 2018.

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 (\$118,000), fines (27,000), and charges for services (\$26,000). The Library Board conducted a fundraising effort in 2016, but it did not produce the additional revenue anticipated by the effort. Total projected revenue in 2017 is \$1.12 Million

The current tax rate is insufficient to support library services for 2017 without significant cost reductions and the proposed 2017 budget includes reduced staff hours and new charges for services. Total proposed expenditures are 13% less than the 2016 budget.

With the exception of personnel costs, library expenses are somewhat static. Total proposed expenditures in 2017 are \$1.03 Million with personnel costs at \$804,000, library materials and program costs at \$118,000, and utilities at \$76,000. Utility costs are \$20,000 less than 2013 due to the conversion of lighting fixtures to LED units. We expect to see the full benefit of this change in 2018.

The Commonwealth requires libraries receiving State funding to budget at least 12% of all operating expenses for program supplies as a requirement for receive the state aid. The appropriation for materials complies with this requirement.

The Finance Department currently manages the financial affairs of the Library and the Public Works Department provides maintenance services at no additional cost. The Township will incur a capital expense of approximately \$15,000 in 2017 to install HVAC system controls at the library. The intent is to reduce energy consumption and related costs.

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 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 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 and Newtown Township each contribute \$1,000 to the Center. Other income includes state grants (\$19,500), facility rental (\$29,000), dues (\$15,000), social events (\$18,000) and bus trips (\$15,000).

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 personnel (\$226,000), utilities (\$25,000), facility maintenance (\$16,000), bus trips (\$12,000) and contracted services (\$26,500). 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 2016 is \$340,000 and total appropriations are \$341,000. The Center will begin 2017 with a fund balance of \$121,000.

### ***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 10% 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. The enterprise may not exist long-term as communities change their streetlights to LED fixtures, which have an estimated 25-year life.

Total projected revenue in 2017 is \$30,000 and appropriations are \$19,000. The fund has a projected deficit of \$9,000 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 \$321,000 in 2017, down from \$347,000 in the current year.

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. Participant recreation services are budgeted at \$1.57 Million in 2017. The cost for these services is consistent from year to year and varies based on program participation. More than 5,600 individuals participated in recreation programs this year. There were an additional 790 summer camp participants, and 1,800 attended the "Sights and Sounds of Summer" series. The Department offers over 120 programs throughout the year and sells more than 3,300 discount tickets.

Parks Maintenance costs are budgeted at \$446,000 in 2017, an increase of \$10,000 over 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 2017 is \$2.46 Million and appropriations are \$2.52 Million that includes a \$100,000 appropriation to the Recreation Capital Reserve Fund. Projected revenue is \$15,000 less than the 2016 Budget and appropriations are 2.5% higher or about \$61,000 more than the current year. These minor variations result from department adjustments to its budget each year based on anticipated services 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, installation of left turn lanes on Newtown-Richboro Road and the Recreation and Civic Centers, park system improvements and road resurfacing.

The Township currently has \$23.2 Million in outstanding bonds and notes as of December 31, 2016 and pays approximately \$2 Million in principal payments each year through 2021. These payments are \$1.5 Million in 2022 and 2023 and \$750,000 through 2026. Principal payments then increase to about \$1 Million through the remaining term of the bond issue. Without additional borrowing, the Township will be debt free in 2035. The bonds have an average interest rate of 3 percent and the outstanding principal balance will be \$21.2 Million as of December 31, 2017.

The current tax levy of 4.303 mills generates approximately \$2.47 Million and will 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 of \$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 for the program is available through 2017.

Appropriations in the 2017 capital budget include two replacement police vehicles, computer replacements, ballistic vests, bridge repairs, traffic signal improvements, LED street light conversion and loan payments on vehicles and equipment acquired through lease purchase contracts. There is also an appropriation for new police, fire and EMS radios through a loan with the County Government and an appropriation for HVAC work at the Library.

The Township will receive two state grants next year for road improvements. These include a \$165,000 grant from a PennDOT grant to fund the installation of decorative crosswalks and curb ramps at seven locations in Richboro. The Township Traffic Engineer estimated the project cost at \$230,000.

The Township was also successful in receiving a \$350,000 Multi-Modal Grant from PennDOT to fund preliminary engineering for an extension of Township Road to the intersection of Bustleton Pike and Second Street Pike and for design of a Roundabout at that location. The grant will fund 70% of the \$480,000 design cost. The Engineer estimates a two-year period to complete the design and obtain PennDOT approvals. The 2017 budget includes a portion of the Township cost for this work.

There is \$683,000 in projected revenue and \$986,000 in capital appropriations in 2017.

### ***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. There was no transfer to the Recreation Capital Fund in 2016; however, the Operating Fund will transfer \$100,000 to the capital fund in 2017. Impact fees on new development will provide an additional \$152,000 toward capital projects.

The proposed 2017 budget includes funding for improvements at the Recreation Center including replacement of an HVAC unit, a new dance floor for the community room and new front doors. Civic Center projects include installation of a baseball backstop overhang, and construction of a new outdoor restroom facility with proceeds from the Maier house sale. There is an appropriation to replace the parking barrier guiderail at the Hampton Estates site, and repairs to the parking lot and basketball court at the Pheasant Run site. Appropriations also include funding to replace the playground surface at Municipal Park and on-going lease purchase payments for vehicles and equipment.

Total projected revenue in 2016 is \$253,000 and appropriations are \$483,000.

Appropriations from the 2015 bond issue funded recreation facility improvements this year at the Civic Center, and the Recreation Capital Fund provided the resources to improve tennis and basketball courts at the Civic Center and Municipal Park.

### ***Fire Company Capital Reserve***

Each year the 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 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 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 requested appropriation of \$929,000 for 2017. The appropriations are to replace the boilers at Station #3 and #83, purchase new fire apparatus, replace the phone system at Station #3 and install new signs.

The budget includes a \$300,000 allocation of tax proceeds to the Capital Reserve Fund in 2017, leaving a year-end fund balance of approximately \$1.9 Million.

### ***Rescue Squad Capital Reserve***

Like the Volunteer 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 \$5,200. 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 2017.

### ***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 2017 include the replacement of a 1989 service truck and a 1991 10-wheel dump truck and the acquisition of a small paving machine to enhance patch-paving operations. Appropriations also include lease purchase payments on vehicles and equipment purchased since 2013. The Township's ten (10) year Capital Improvement Plan guides appropriations from year to year.

Total revenue in 2017 is \$210,000 and total appropriations are \$243,000.

### ***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 \$1.19 Million in 2016, an increase of \$172,000 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 2017 grant amount will increase to \$1,323,000.

The Township also receives \$37,000 each year through a road take-back program and contracts with PennDOT to clear snow and ice on 20 miles of state-owned roads. The annual payment for snow plowing was \$38,000 in 2016.

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 Old Jacksonville Road and Ridgeway Road this year, contracted to mill and pave approximately 12.28 miles of roads and contracted to micro surface an additional 3.5 miles. The 2017 Road Maintenance Program includes about 5 miles of milling and resurfacing. The estimated cost of this work is \$700,000.

Other appropriations in 2016 include de-icing salt (\$285,000), line painting (\$16,000), traffic signal maintenance (\$25,000), equipment rental (\$25,000) and a transfer to the General Fund for wages associated with road maintenance of \$171,000.

Total projected revenue in 2016 is \$1.4 Million and appropriations are \$1.3 Million.

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

### ***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 2017.

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's 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 \$130,000. Appropriations totaling \$20,000 for 2017 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 \$31 Million at year-end.

The required Township contribution to maintain the actuarial soundness of the plans in 2017 is approximately \$1.6 Million. The contribution requirement decreased from the prior year by \$47,000. The Township expects to receive \$639,000 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 81% funding ratio; the non-Uniformed Employee's Pension Plan has a funding ratio of 72%. The ratio represents the difference between plan assets and plan liabilities. These funding ratios are at acceptable levels.

## ***Future Trends and Outlook***

In 2013, the Administration projected the need for a tax increase in 2017; however, the impact of additional revenue in 2016, combined with expenses projected under budget by more than \$200,000, will allow the Township to postpone the increase. Unanticipated revenue from FEMA for the winter storm of January 2016 (\$148,000), additional permit revenue (\$184,000), additional pension state aid (\$101,000) and wage reimbursements from the Highway Aid Fund (\$85,000) and worker's compensation insurance (\$100,000) bolstered the projected year-end fund balance to more than \$1.7 Million.

As a result, Township finances are currently stable and the reserve balance in the General Fund is adequate in the near term. There will be pressure on the General Fund in 2018 and beyond from increasing police service costs as newly hired police officers move through the collective bargaining agreement wage scale. An additional concern is the "Cadillac Tax" obligation imposed by the Affordable Care Act. These tax payments begin in 2020 and the tax obligation is significant at over \$350,000. The healthcare plan for police officers changed in July 2016 to a high deductible plan and the healthcare plan for non-union employees will change in January 2017 to a similar plan. These changes result in significant savings that will reduce, but not eliminate, the tax.

Pension plan costs for the defined benefit pension plans has stabilized with reasonable investment returns and a defined contribution pension plan is in place for new non-union employees that should reduce future pension obligations.

An improved real estate market has had a positive effect on transfer tax and permit revenue, and new residential development will increase earned income taxes. In addition, our economic development initiatives, such as the LERTA program, improved walkability in downtown areas, and streetscape improvements in our villages should improve the business climate and increase the tax base long term.

Despite these positive indicators, projections show that a tax increase is probably necessary in 2018 to maintain current service levels and maintain a reasonable reserve balance. The additional revenue in 2016 came from one-time sources that cannot be budgeted in 2017.

The potential need for a tax increase in 2018 should not be a surprise. Projections 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. The latter is exactly what happened in 2016 and the Township will avoid a tax increase in 2017.

During the economic downturn from 2008 and 2012 the Township temporarily reduced staff through attrition. This helped balance budgets and avoid tax increases. It also 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.

With dedicated funding for capital appropriations and a 10-year capital improvement plan to identify future capital needs, the Township is positioned to strategically plan future budgets and adjust appropriations to match available resources. The Township addressed several major capital needs with the 2015 bond issue, including 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, roadway paving and recreation facility improvements. The Civic Center improvements are complete and other projects are in various stages of construction or design. All projects will be complete in 2018.

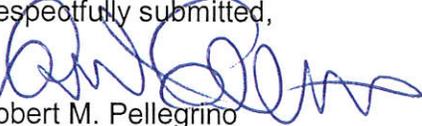
Balancing the needs of a municipal organization and maintaining low tax rates is always a goal but also a significant challenge. Township employees are always looking for ways to reduce cost and spend resources efficiently. They are professional, courteous, and responsive public servants. Departments 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 2017 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 2017 Budget for your consideration.

Respectfully submitted,

  
Robert M. Pellegrino  
Township Manager