

Letter of Transmittal

November 3, 2017

TO: The Northampton Township Board of Supervisors

Introduction

The Administration is pleased to submit the proposed 2018 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 as well as 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 2018 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 all 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 is developed by analyzing trends in revenues and expenditures from prior years, reviewing individual line item projections, and evaluating programs, services, and current economic conditions. This budget design provides information at various levels of detail 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 promotes improved accuracy in accounting and budgeting.

The proposed budget continues the practice of separating operating and capital appropriations. The budget includes separate operating funds for general government functions, 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. By detailing these services in separate funds, the cost for these government functions is easily identifiable, providing the Board of Supervisors and Township residents with a clear picture of how resources are allocated for the Township's 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.

Appropriating capital project costs into special purpose funds eliminates wide fluctuations 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 2018 Budget:

The budget maintains municipal services at current levels

Operating appropriations in the proposed 2018 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 Free 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.

The budget funds necessary capital infrastructure needs and equipment acquisitions

The proposed budget includes necessary appropriations for improvements to the Township's road system, public buildings, storm sewer system, bridges, traffic signals, and park facilities.

Capital infrastructure projects include the extension of Township Road and construction of a roundabout at Second Street Pike and Bustleton Pike, streetscape improvements to Buck Road in Holland, including a new bridge over Mill Creek, and re-alignment of the Old Bristol Road and Buck Road intersection to allow for new left turn lanes. The Township received a \$350,000 grant from PennDOT to fund preliminary engineering for the road extension and roundabout design, and PennDOT will complete the Buck Road improvements as part of the State Transportation Improvement Program at a cost of \$8 million. The Township was responsible for preliminary engineering at a cost of \$490,000.

Other projects include widening the intersection of Jacksonville Road and Almshouse Road to install left turn lanes, constructing a new police facility, repairing the bridge on Lower Holland Road, and improving sidewalks in Richboro to make it more walkable for pedestrians. Many of these projects are consistent with the Township's on-going economic development initiatives proposed in the Holland and Richboro Master Plans. Appropriations for recreation system improvements include ballfield lighting and trail extensions at the Civic Center.

Capital appropriations for equipment include computer systems and software, police vehicles, public works equipment, ballistic vests, and body cameras. They also fund lease purchase payments on vehicles and equipment acquired between 2012 and 2017. 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%.

One remaining project from the 2015 bond issue is construction of a new police facility. Construction and site plans are virtually complete and public bidding on this project is scheduled for January 2018. Additional funding is required to complete this project and the budget includes payment on a proposed \$3 million loan. The Township will be acquiring the Municipal Authority building and property for the new police facility with proceeds from the sale of its cell tower leases at the Elm Avenue site.

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

The Township's ten (10) year capital improvement plan serves as a guide when budgeting for capital appropriations. The Township Manager and Department Directors update the plan annually through a series of meetings to discuss on-going capital needs. The plan is included under Schedule J of the budget document and forms the basis for proposed capital appropriations in the 2018 budget and beyond.

There are no new staff positions in the proposed budget

Present staffing levels are adequate to maintain Township services and there are no new positions proposed in the 2018 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 includes an increase in the real estate tax levy

The 2018 budget includes an increase in the real estate tax levy to fund on-going and proposed infrastructure improvements, debt obligations, and general operating expenses. If approved, the Administration recommends allocating the increase as follows:

| | |
|-------------------------|---|
| General Fund | .6019 mills |
| Capital Fund | .6630 mills (Part of the General Fund) |
| Recreation Capital Fund | .1284 mills (Part of the Recreation Fund) |
| Road Equipment Fund | .2053 mills |
| Library Fund | .1284 mills |
| Debt Service Fund | <u>.2567 mills</u> |
| | 1.9836 mills |

The proposed tax increase will target a variety of government services, and numerous capital infrastructure projects planned for the next three to five years.

It is the first proposed tax increase in four years and, according to our long range projections, will minimize or eliminate the need for additional tax revenue through 2021.

For a property assessed at the median value of \$36,000, the increase amounts to approximately \$71 per year or less than \$6 per month. The total tax levy will increase from 12.9275 mills to 14.9111 mills and a property assessed at the median value will pay \$536 per year in real estate taxes, or \$45 per month to support Township services.

Budget Overview

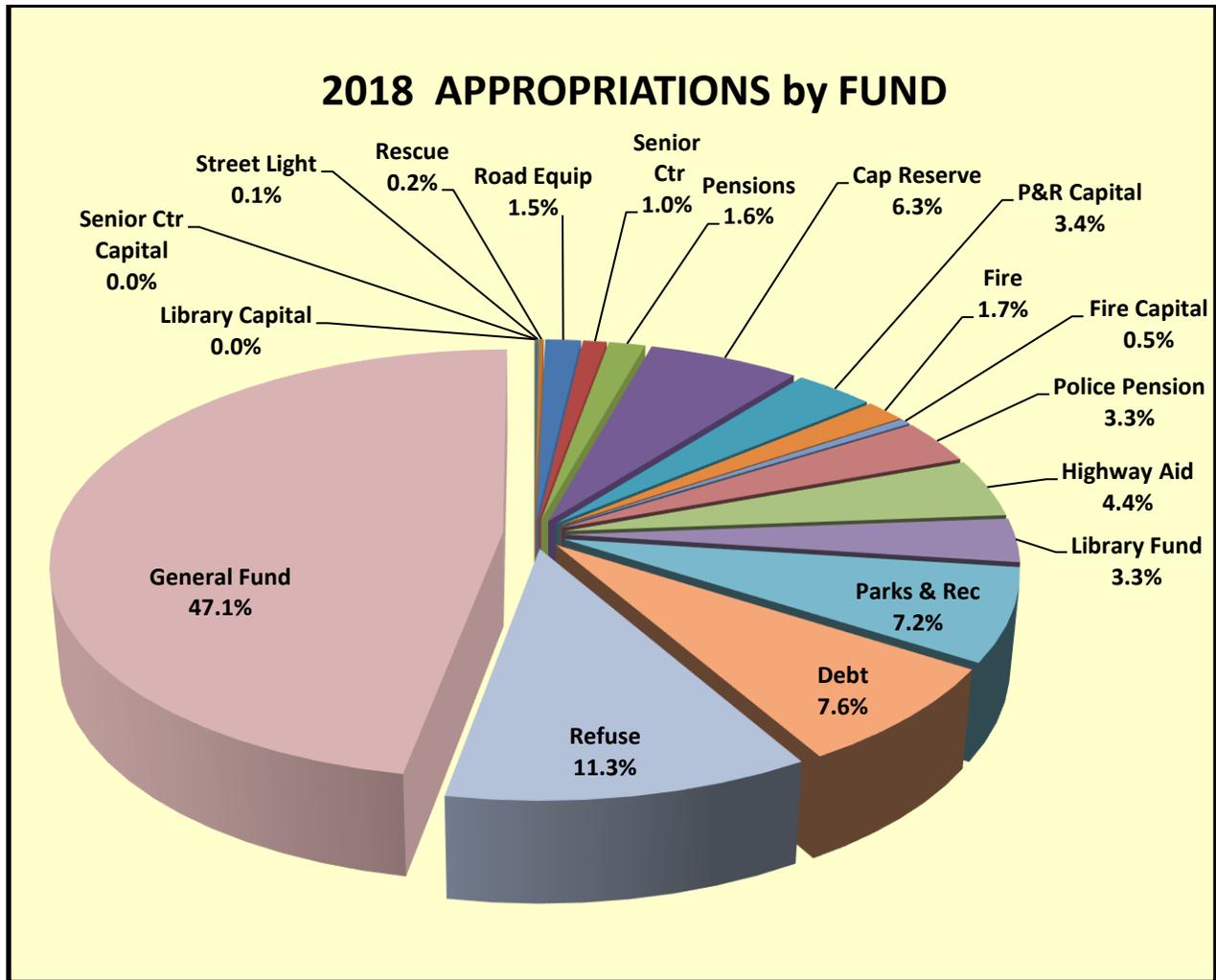
The General Fund is the largest Operating Fund in the Township budget and accounts for many common local government services. These include police protection, planning, zoning, and code enforcement services, general administration, financial accounting services, legal, engineering and information technology 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 permitted 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, utilities, 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.

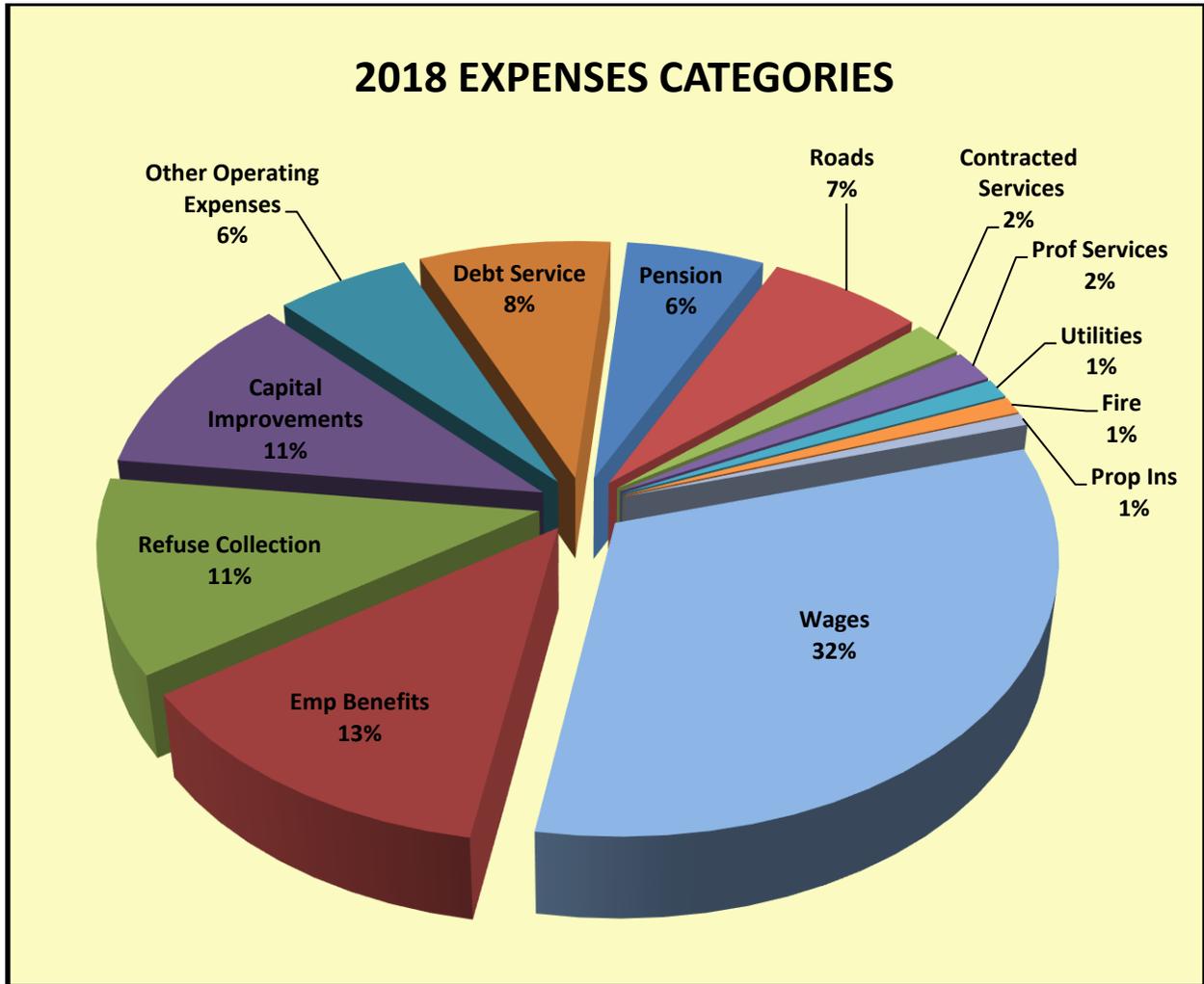
Each Operating and Capital Fund in the proposed budget shows beginning fund balances, projected revenues, proposed expenditures and ending fund balances for the new fiscal year.

The following chart shows proposed appropriations by fund:



Examining the budget in broad expense categories across all funds can also be helpful in understanding how the Township budgets its funds. For example, personnel costs such as of wages, pensions, and employee benefits remain the largest single expense representing 51% of total appropriations in the operating budget. Refuse collection accounts for 11% of total appropriations and debt service represents another 8%. Insurance, utilities, professional services, and contracted services account for an additional 6% and the Township will spend 18% of total appropriations on capital improvements and infrastructure maintenance, including road resurfacing.

The following chart shows total appropriations by expense category:



Following is a narrative summary and highlights of the financial position of each fund, including an analysis of projected revenues and proposed expenditures for 2018:

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, Local Enabling Act (Act 511) taxes (earned income, per capita, local services, and transfer taxes), business licenses, permit fees, grants, state-shared entitlements, and charges for service. Reimbursements and inter-fund transfers also contribute to General Fund revenue.

The Township levies a 1% earned income tax and equally shares this tax revenue 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 \$8.1 Million in 2018, representing 50% of total revenues in the General Fund. Real estate taxes represent another 18.7% of total revenue at \$3 Million. The proposed General Fund real estate tax rate is 5.2494 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 have steadily increased since 2014, when the Township collected \$914,000. Current projections show transfer tax receipts in 2017 will reach \$1.18 Million, and the estimate for 2018 is \$1.26 Million due to increased development activity. The Township currently has over 100 new housing units approved by planning or under construction. There has also been an increase in non-residential development.

An estimated 590 properties will transfer ownership in 2018. This represents an increase of 110 ownership transfers from 2013. Four to five percent of the existing housing stock (between 500 and 600 properties) typically transfers ownership each year. Construction activity also enhances transfer tax revenue and new construction increases assessed valuation and real estate tax revenue. This activity minimizes the need for additional tax revenue in future years.

Other significant sources of revenue in the General Fund include permit fees (\$737,000), cable television franchise fees (\$1 million), insurance dividends (\$146,000) and pension system aid (\$638,000). Inter-fund transfers provide an additional \$379,000 in reimbursements for Public Works and Library expenses paid from the General Fund, while 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 2013. Permit fee revenue in 2017 will exceed \$730,000 while new home construction and commercial development should generate permit revenue of \$737,000 in 2018. There is also a steady demand for addition and alteration permits with an average of 945 permits issued each year for these types of improvements since 2011. The Township issued over 825 permits for additions and alterations in 2017 and the budget assumes 880 addition and/or alteration permits in 2018.

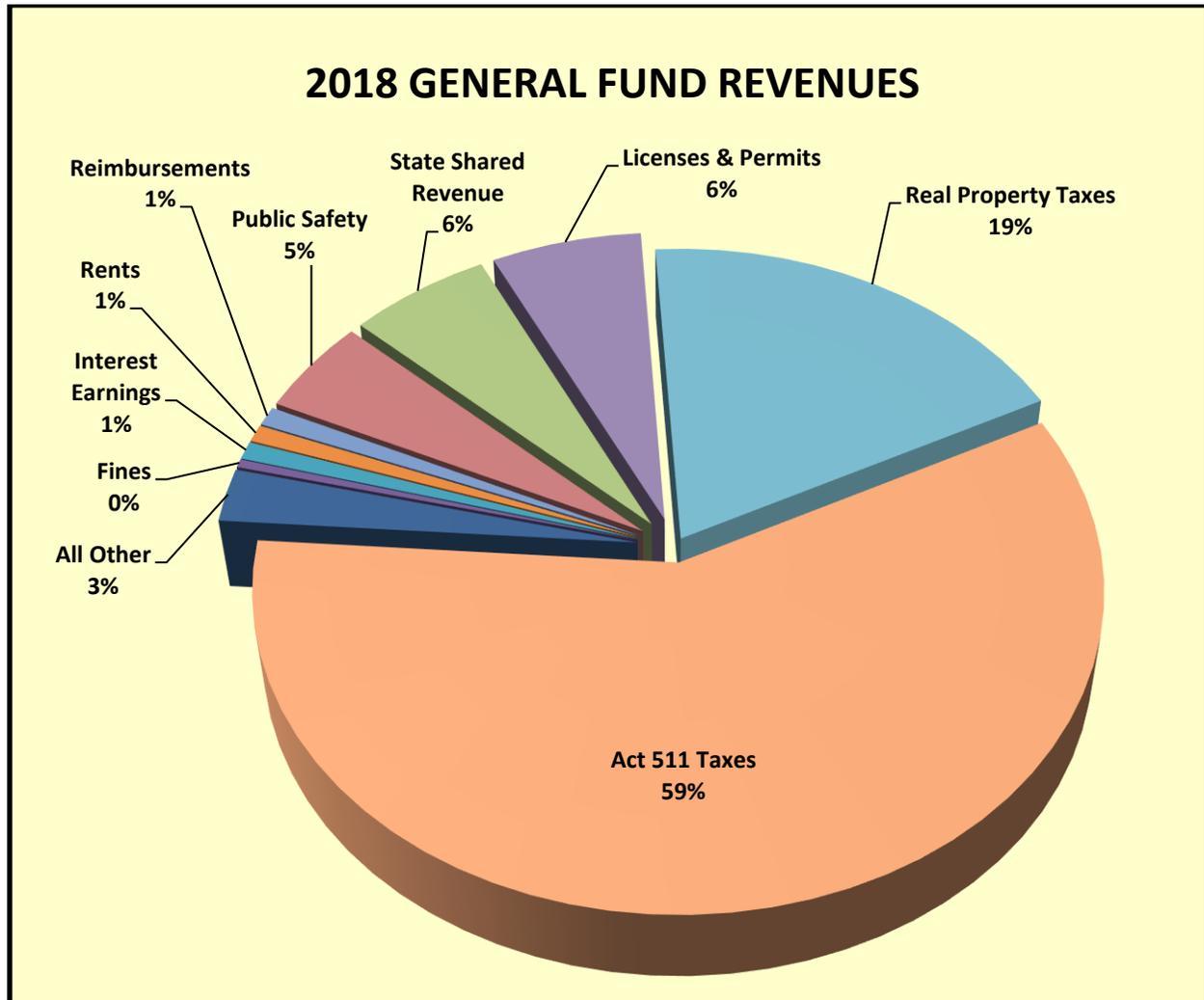
The Township will receive \$638,000 in state aid for its employee pension plans, representing 40% of the minimum required plan contributions. Pension Plan contributions have decreased in recent years and the funding level has remained stable since 2013.

Total estimated General Fund revenue in 2017 is \$15.75 Million or \$586,000 over budget. The additional revenue came from earned income taxes, permit fees, and a reimbursement for snow emergency from FEMA.

Projected revenue in the proposed 2018 Budget totals \$16.62 Million and represents an increase of \$1.45 Million over the 2017 Budget. This amount includes \$728,000 in additional real estate tax receipts from the proposed millage increase. \$390,000 of this amount will be dedicated to capital projects. Earned income taxes, transfer taxes, and permit fees account for the remaining additional projected revenue. The Township eliminated the per capita tax in 2016 following a similar action by the Council Rock School District. That tax generated approximately \$150,000 in revenue.

Earned income taxes, transfer taxes, and permit fees have the most significant financial impact on General Fund revenue from year to year. Tax collection experience, prior year collection history, contract guarantees, projected grants, state shared revenue, and economic trends are the basis for future revenue projections.

The following chart shows the sources of General Fund revenue used for the operation of Township government:



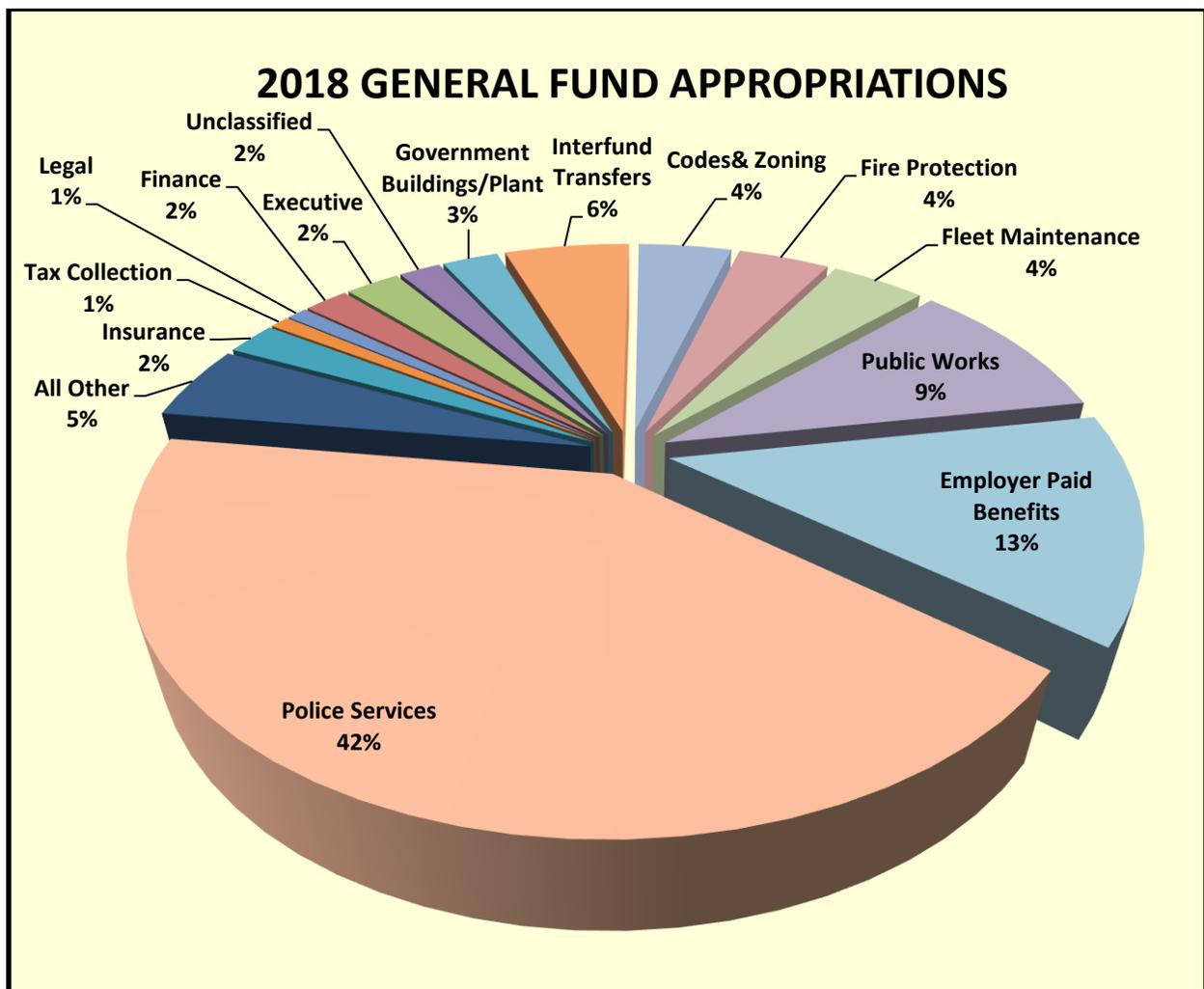
Projected General Fund expenditures in 2017 total \$15.74 Million, or \$14,000 under budget. Total expenditures include the transfer of \$227,000 to support the Senior Center and \$297,000 to the Capital Reserve Fund. The fund balance on December 31, 2017 will remain at approximately \$1.86 Million, similar to the prior year.

Proposed General Fund appropriations in 2018 total \$16.8 Million or \$1,065,000 over the 2017 budget. Wages and employee benefits (\$436,000) and the additional appropriation to the Capital Reserve Fund (\$387,000) account for 77% of the increase. Liability insurance premiums (\$106,000), and Legal and engineering costs (\$84,000) account for an additional 18%. The Township used \$134,000 in rate stabilization funds to reduce insurance premiums in 2017. Only \$34,000 is available in 2018 for this purpose. Liability insurance premiums increased by 5.5%

Total wage costs will increase by 4%, mainly due to new police officers moving through the contracted wage scale. 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 inter-fund transfer to the Capital Reserve Fund will increase to \$684,000.

Healthcare premiums will increase by 4.8%, workers compensation premiums by 3%. A new medical benefit plan for non-union employees implemented in 2017 has saved over \$100,000 from 2016. Utility costs and the cost for employee pension plans will not change. The Senior Center contribution will remain at \$227,000. Appropriations for legal services include the anticipated cost of negotiating a new Public Works contract and potential police arbitration matters. There are also additional appropriations in the engineering budget for MS4 storm water requirements, and information technology costs will increase as the Township acquires more bandwidth for police vehicle and body-worn cameras. 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:



Police Services are 42% of total appropriations, with employee benefits and Public Works services accounting for an additional 26%.

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 \$605,000. The maximum allowable tax levy is three mills.

The Fire Company has three parts to its operating budget: 1) an administrative budget for utilities, dues, insurance, and supplies; 2) an operations budget for fire truck maintenance, fuel, fire hose, uniforms, tools and training; and 3) 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 tax receipts fund a capital equipment replacement and facility maintenance program based on 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 125 members with 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 \$73,000. 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.

Like the Fire Company, the Rescue Squad uses a portion of the tax proceeds for its capital equipment replacement program. Total revenue for 2018 is \$73,000 and total appropriations are \$72,000. The organization has an annual operating budget of \$1.5 Million.

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 approximately \$3.3 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 \$915,000 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 \$52.64 per ton to dispose of regular household trash compared to \$50.62 per ton in 2017, an increase of 3 percent. The rate in 2013 was \$68.91 per ton.

The collection contract with J.P. Mascaro & Sons will decrease from \$2.68 Million to 2.64 Million in 2018 with the per household rate decreasing from \$215.04 to 208.68 because of a new contract effective January 1.

The current household fee for trash, yard waste, and recycling collection and disposal will remain at \$264 in 2018 for the fifth straight year, down from \$306 in 2012 and 2013, and \$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 generated \$910,000 in 2017 to support library services. Other revenues include state aid to libraries (\$118,000), fines (31,000), and charges for services (\$12,000). The Library Board fundraising effort in 2017 provided an additional \$25,000, and fundraising efforts are expected to provide additional revenue for Library operations in future years. Total projected revenue in 2017 is \$1.18 Million.

The proposed budget includes a .12835 mill tax increase to support library services for 2018. It will generate approximately \$75,000 in additional revenue. Total proposed expenditures are \$1.17 million. The appropriations include the cost for additional Library hours on Fridays. The tax increase will help support library operations for at least the next 3 years without reducing staff or hours.

With the exception of personnel costs, library expenses are somewhat static. Total proposed expenditures for personnel in 2018 are \$1.01 Million, with library materials and program costs at \$145,000, and utilities at \$69,000. Utility costs are \$21,000 less than 2014 due to the conversion of lighting fixtures to LED units. Additional energy saving is expected 2018 with the installation of HVAC controls and the replacement of insulation on exterior HVAC ducts.

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, along with the Parks and Recreation Maintenance staff, provides maintenance services at no additional cost.

There are more than 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 more than 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 2017 and will remain the same next year.

In addition to the Township contribution, Upper Makefield Township contributed \$2,000 and the Center received an additional \$1,500 in donations. Other income includes state grants (\$18,500), facility rental (\$30,000), dues (\$16,000), social events (\$18,000) and bus trips (\$22,000), and fundraising (\$25,000).

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 operating costs in 2018 include personnel (\$238,000), utilities (\$26,000), facility maintenance (\$9,000), bus trips (\$17,000) and contracted services (\$26,000). The Public Works Department, along with Parks and Recreation Maintenance staff, provides in-kind maintenance services on the building, which is owned by the Township.

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 Board of Directors, its staff, and the Township.

Total projected revenue in 2018 is \$348,000 and total appropriations are \$352,000. The Center will begin 2018 with a fund balance of \$115,000.

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 municipal 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 for the contracted work. 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. In 2018, the fee will increase by 2% for all categories. The General Fund may absorb this enterprise in the future, as communities change their streetlights to LED fixtures, which have an estimated 25-year life.

Total projected revenue in 2017 is \$29,000 and appropriations are \$27,000. The projected fund balance in 2018 is \$1,500.

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 is the general costs associated with the overall management of the department and includes administrative staff salaries and fringe benefits. Recreation Administration costs is budgeted at \$312,000 in 2018, down from \$321,000 in the current year.

Participant Recreation includes the cost for all programs including summer camp operations and special events, 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 \$1.52 Million in 2018. The cost for these services is somewhat consistent from year to year and is adjusted based on program participation. More than 5,300 individuals participated in recreation programs this year. There were an additional 700 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 \$424,000 in 2018, a decrease of \$22,000 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; however, the budget includes a .1284 mill increase to generate an additional \$75,000 for capital improvements to the park system. The additional revenue will fund the debt service payments on a proposed \$550,000 loan to complete work at the Civic Center, including new ball field lights, trail extensions, and associated storm water improvements. The Township received a grant award of \$220,000 toward the total project cost.

Current year revenue in the Parks and Recreation Fund will be \$50,000 under budget, due to a reduction in program participation fees; however, current year expenditures will be \$113,000 under budget.

Total projected revenue in 2018 is \$2.53 Million and appropriations are \$2.49 Million that includes a \$125,000 transfer from the operating budget to the Recreation Capital Reserve Fund. Projected revenue is \$74,000 more than the 2017 Budget and appropriations are \$22,000 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 included construction of a new police station, additions and modifications to public works buildings, installation of left turn lanes on Newtown-Richboro Road, Civic Center park improvements, and road resurfacing.

The Township has \$21.2 Million in outstanding bonds and notes as of December 31, 2017 and pays approximately \$2 Million in principal payments each year through 2021. Bond payments are reduced to \$1.5 Million in 2022 and 2023 and then to \$775,000 through 2026.

The bonds have an average interest rate of 3 percent and the outstanding principal balance will be \$19.2 Million as of December 31, 2018. The last bond payment is in 2035.

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 current issue. The proposed budget includes an increase of .2567 mills to fund construction of the new police facility. The police station construction will require an additional \$3 million, and the \$150,000 generated from the increase will pay debt service on a \$3 million bank loan over a 20-year period.

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 dedicated to capital appropriations. The General Fund has transferred \$297,000 each year to the Capital Reserve Fund since 2014. Beginning in 2018, this amount will increase to \$684,000, corresponding with the proposed real estate tax increase targeted to complete several major improvement projects.

The projects include engineering design for an extension of Township Road to the intersection of Second Street Pike and Bustleton Pike and construction of a roundabout to replace the existing traffic signal. The Pennsylvania Department of Transportation supports the project, and the Township received a PennDOT Multi-Modal Grant of \$350,000 to fund preliminary engineering estimated at \$480,000. The Dreher Group, developers of the Addisville Commons Center will contribute another \$75,000 toward preliminary engineering costs as part of its traffic system impact requirement. The Richboro Master Plan identifies this project as a key component of the Township's economic development initiative to relieve congestion at the intersection of Second Street Pike and Almshouse Road, and improve pedestrian safety.

Another project that requires funding involves streetscape and roadway improvements to Buck Road in Holland. The Township was successful in having this project included on the State Transportation Improvement Plan (TIP), and it was the only project in Bucks County selected for inclusion on the TIP. The project involves constructing a new bridge over Mill Creek with additional lanes, re-alignment of the Buck Road and Old Bristol Road intersection, and adding left turn lanes in all directions. It also includes streetscape improvements such as sidewalks, street trees, and ornamental street lighting along a portion of Buck Road. This is the first phase of a Buck Road improvement project contemplated in the Holland Master Plan. The Township is responsible for preliminary engineering costs of \$450,000, with final engineering and construction paid with Federal Transportation Funds administered by PennDOT. The estimated cost for final engineering and construction is \$8 Million.

A third traffic improvement project involves widening and installation of left turn lanes at Jacksonville Road and Almshouse Road. Engineering design is approximately \$118,000, and the construction estimate is \$1.3 Million. Completing the engineering design will allow the Township to be competitive in seeking grant funds for construction through several state programs.

The Township has also undertaken two sidewalk improvement projects in Richboro. The first involves construction of sidewalks in areas where none exist and replacing existing sidewalks that do not meet current ADA standards.

Phase 1 of the project requires \$161,000 for engineering design and \$1 Million for construction. The township applied for a \$790,000 grant to fund final design and construction costs.

In addition, the Township undertook preliminary engineering to address the need for sidewalks on Second Street Pike from Tanyard Road to Crossroads Plaza Drive. This phase "1A" will address the more difficult and costly problem of crossing Iron Works Creek and installing sidewalks along Iron Works Creek Park on Second Street Pike. Engineering design is \$210,000 and the construction cost is \$800,000. The Township currently has a pending grant application with the PennDOT TAP Program to fund 80% of the project cost.

Other budgeted appropriations include acquisition of the Municipal Authority property for \$650,000 funded with proceeds from the sale of the Elm Avenue cell tower leases, repairs to the bridge on Lower Holland Road (\$50,000), repairs to the front walkway of the Township Administration Building (\$35,000), and funding to address Emerald Ash disease (\$50,000).

Appropriations in the 2018 capital budget for equipment include replacement police vehicles and computer systems, ballistic vests, traffic signal improvements, and payments on vehicles and equipment loans acquired through lease purchase contracts and the County loan to replace police, fire and EMS radios. HVAC system repairs at the Library will cost approximately \$70,000, and a new vehicle lift in the Public Works Maintenance Facility is budgeted at \$150,000.

Since there is insufficient funding to complete some of these projects, the budget anticipates payments on a 10-year bank loan of \$600,000 at an approximate interest rate of 2.5%.

The ten (10) year Capital Improvement Plan identifies capital needs on a long-term basis. If the Board approves the proposed tax increase, capital funding for the program is available through 2022.

There is \$2.78 Million in projected revenue and \$2.24 Million in capital appropriations in 2018.

Recreation Capital Reserve Fund

The Recreation Capital Fund provides financial resources to maintain and improve recreation facilities and parks infrastructure. An inter-fund transfer from the Parks and Recreation Operating Fund to the Recreation Capital Fund supports capital improvements. There was a \$50,000 transfer to the Recreation Capital Fund in 2017, and a \$125,000 transfer is budgeted in 2018. Impact fees on new development will provide an additional \$120,000 toward capital projects. The budget includes a .1284 mill tax increase to generate an additional \$75,000 for capital projects.

The proposed 2018 budget includes funding for improvements at the Recreation Center including replacement of an HVAC unit. Civic Center projects include construction of a new outdoor restroom facility, field lighting, interior park trail extensions, and related site improvement costs. There is an appropriation to replace the parking barrier guiderail and installation of security netting at the Hampton Estates site, repairs to the baseball field and common area at the Pheasant Run site, and funding for bleachers at the Big Meadow property.

Appropriations also include funding to replace the playground surface at Municipal Park, and payment of on-going lease purchase payments for vehicles and equipment. Replacing the playground surface is part of a larger project to construct an all-inclusive playground in conjunction with the Miracle League. The Township applied for a grant for its portion of the cost to replace the playground surface.

Total projected revenue in 2018 is \$873,000 and appropriations are \$1,183,000, using approximately \$300,000 of fund balance to complete the projects.

The Township received \$110,000 from the Department of Conservation and Natural Resources (DCNR) representing 50% of approved grant funds, that paid the engineering and planning costs related to the Civic Center improvements.

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 Company purchased a Quint Fire Truck in 2017 at a cost of \$920,000. In 2018, the Fire Company proposes using \$168,000 of its capital fund to replace the furnace and add door overhangs at Station #83, replace the phone system at Station #3, replace building signs at all of the stations, raise two engine bay doors at Station #3, and convert to LED lighting systems in Station #73 and #83.

Total revenue to the Reserve Fund includes a \$300,000 allocation of tax proceeds in 2018, leaving a year-end fund balance of approximately \$2 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 \$6,700. 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 were no budgeted appropriations in 2016 or 2017, and the Squad has not requested funding for 2018.

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.

Expenditures in 2017 included the purchase of a 10-wheel dump truck and two smaller trucks with plows for \$367,000.

The 2018 budget includes an increase of .2053 mills to maintain the equipment replacement schedule. The increase will add approximately \$120,000 in annual revenue. Appropriations in 2018 include the replacement of the street sweeper at \$250,000; however, sale of the existing unit for \$50,000 to \$90,000 will offset this cost. There is also \$20,000 appropriated for salt spreaders and snowplows, and \$274,000 for lease purchase payments on vehicles and equipment purchased since 2013.

Total revenue in the 2018 budget is \$348,000 and total appropriations are \$295,000.

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 additional mileage from newly dedicated roads increases the grant amount. New roads must meet specific design criteria to qualify for funding. The Township currently owns and maintains a 180-mile road system.

The Township received just over \$1.24 million in 2017, an increase of \$76,000 from the prior year. The grant amount will increase again in 2018 to \$1.26 Million under the provisions of Act 89 that raised the motor fuels tax to fund road and bridge repairs across the Commonwealth.

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. An additional annual payment for snow plowing is \$38,000, subject to increases for severe 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.

The Township purchases paving materials from the fund for its annual road-paving program. The Public Works Department paved 5.46 miles of the road system this year. The 2018 Road Maintenance Program includes 2.5 miles of milling and paving, and 6 miles of micro surfacing. The estimated cost of this work is \$915,000.

Other appropriations in 2018 include de-icing salt (\$250,000), line painting (\$19,000), traffic signal maintenance (\$10,000), equipment rental (\$20,000) and a transfer to the General Fund for wages associated with road maintenance of \$200,000.

Total projected revenue in 2016 is \$1.34 Million and appropriations are \$1.56 Million.

Library Capital Fund

The Library Capital Fund accounts for the cost of equipment and certain improvements to the facility. The 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 and the Township performs accounting and financial management services. The Library Board of Directors determines appropriations each year.

The Board authorized the expenditure of approximately \$2,000 in 2017 for minor equipment used by the library staff including a projector and shelving. In 2018, the Library Director is budgeting \$19,000 from the fund for new carpeting in the large meeting room and computer system replacements.

There is no direct revenue source for capital needs. The current fund balance is \$93,000.

The Township owns the Library building and the Department of Public Works, along with Parks and Recreation Maintenance staff, provides routine maintenance at no 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 certain equipment and improvements to the facility. The Senior Center Board of Directors determines appropriations each year and directs expenditures of the funds.

In 2017, the Board of Directors approved the expenditure of \$27,000 to replacing carpets in the building. There is \$17,000 appropriated in 2018 to replace the card room chairs and other furniture.

There is no direct revenue source for future Senior Center capital needs. The current fund balance is \$110,000.

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 \$36.5 Million at year-end.

The required Township contribution to maintain the actuarial soundness of the plans in 2018 is approximately \$1.6 Million. The contribution requirement increased from the prior year by \$14,000. The Township expects to receive \$638,000 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 and the non-Uniformed Employee's Pension Plan has a 72% funding ratio. The ratio represents the difference between plan assets and plan liabilities. These funding ratios are at acceptable levels.

Future Trends and Outlook

The Township has embarked on an aggressive economic development initiative intended to revitalize the villages of Richboro and Holland as walkable town centers with increased density for commercial uses, making goods and services available locally for township residents. Planning tools such as the Richboro and Holland Master Plans form the blueprints for future growth and development in these areas.

A significant part of the growth initiative involves infrastructure improvements to enhance the appearance, safety, and walkability of the villages. These improvements involve road projects such as the proposed extension of Township Road and roundabout construction, and the Buck Road streetscape project. These projects will improve traffic flow, reduce congestion, improve pedestrian safety and walkability, and create attractive downtown areas that promote and encourage shopping, dining, and entertainment.

Although the Township has been successful in obtaining grant funds, and continues to seek alternate funding options, some local investment is necessary. One clear example is the initial investment in traffic planning and design for the Buck Road Streetscape Project. The Township spent about \$25,000 to prepare detailed sketch plans for the proposed improvements, and was successful in having the project included on the State Transportation Plan, which opened up options for federal transportation funds. That initial investment and the preliminary design costs of \$500,000 will net an \$8 Million improvement to our road system.

Other projects including the Township Road extension and roundabout, sidewalk improvements and decorative crosswalks in Richboro, intersection improvements at Jacksonville and Almshouse Road, township-wide traffic signal enhancements, and park system improvements all require some local matching funds. Moreover, projects like construction of a new police facility may require the Township to fund the entire project cost, although there is a pending grant application through the State RACP Program for \$2.5 Million that will fund 40% of the project, if approved.

The Board of Supervisors recognized the need to construct a new police facility to replace the existing building that was designed for 26 officers, but now houses 43 officers and 10 civilian personnel. The Board also recognized the need to maintain its existing road and park systems, enhancing its road resurfacing program and authorizing park facilities improvement projects.

In 2013, the Administration projected the need for a tax increase in 2017; however, the impact of additional revenue in 2016, combined with expenses under budget allowed the Township to postpone the increase. Unanticipated revenue bolstered the projected year-end fund balance to more than \$1.7 Million. While this fund balance is adequate, it does not meet the 12% to 15% reserve balance recommended by the Government Accounting Standards Board (GASB). Ideally, General Fund reserves should be \$2 Million to \$2.5 Million.

However, the reserve balance in the General Fund is adequate in the near term, but there is mounting pressure on the General Fund from increasing police service costs as newly hired Officers move through the collective bargaining agreement wage scale, pushing wage costs for the department in 2018 above 4.5%, and costing more than \$250,000. It is the single most significant cost increase in the 2018 budget, with employee benefit costs of \$180,000 as the second most important driver of 2018 expenses.

In addition, the many capital improvement projects currently underway require local investment. All of the proposed capital improvements come at a cost, and 62% the proposed tax increase will

provide necessary funding to keep these projects moving forward toward completion. Thus, the need for tax increases in 2018.

The need for a tax increase in 2018 should not be a surprise. As previously stated, projections in 2013 indicated that the Township could hold the current tax rate for three 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 avoided a tax increase in 2017.

Current projections indicate that a tax increase in 2018 will stabilize township finances for three to four years. The Township can take advantage of reduced debt service payments in 2022, and shift tax millage from debt service to other areas of the budget without increasing the overall rate. In effect, the tax rate could be stable for a longer period depending on economic conditions that affect revenue.

The Township is fortunate that pension plan costs for the defined benefit pension plans have 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. Healthcare costs are also manageable at 4% to 5% annual rate increases, and changes to plan design in recent years has resulted in significant saving.

An improved real estate market has had a positive effect on transfer tax and permit revenue, and new residential development has increased earned income taxes. This trend should continue as long as the real estate market continues to grow. EIT revenue is projected to increase by 4% in 2017 over the prior year, and the 2018 budget includes a 3% increase. Again, all of these projections are dependent on the economy and the many factors that affect real estate development and earned income.

There is also a possibility that the Pennsylvania Legislature could amend the Sterling Act that would have a profound impact on the Township budget. The current law adopted in 1932 allowed the City of Philadelphia to levy a tax on earned income. It was the first wage tax levied in the Commonwealth, and since that time, most other municipalities in the Philadelphia suburban area have adopted a wage tax under the Local Tax Enabling Act. However, under the provisions of the Sterling Act, Philadelphia does not have to remit the 1% portion of earned income taxes collected from suburban residents working in the City to their home municipalities. Keystone Collections Group, the Township's earned income tax collector estimates the loss of tax revenue at about \$1.6 Million.

An amendment to the Sterling Act requiring Philadelphia to remit tax revenue to home municipalities would provide significant additional revenue to the Township and stabilize the tax rate for the near future. The Bucks County Association of Township Officials, representing local municipalities in the County, is currently lobbying the Pennsylvania Legislature for an amendment to the Act.

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.

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.

Balancing the needs of a municipal organization and maintaining low tax rates is always a goal but also a significant challenge. Township employees always seek 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 services and understand the Township wisely allocates its financial resources for their health, safety, and well-being. Maintaining accustomed service levels enhances the quality of life our residents currently enjoy.

The proposed 2018 Budget maintains municipal services at present levels and provides the necessary resources to achieve the goals and priorities established by the Board of Supervisors. In my opinion, it represents, in dollar terms, an accurate estimate of the Township's commitment to deliver quality municipal services to the community.

The Administration is pleased to present the proposed 2018 Budget for your consideration.

Respectfully submitted,

Robert M. Pellegrino
Township Manager