

Borough of Madison Budget Committee

BOROUGH COUNCIL PRESENTATION

DECEMBER 8, 2014



Committee Members

Community Volunteers

- Tom Bintinger (chair)
- Paul Lozier
- Art Powell
- Mike Soriano
- Ben Wolkowitz

Staff Support

- Ray Codey
- Jim Burnet
- Robert Kalafut

Tonight's Presentation

Our Approach

Context for Budget Work

Important Concepts

Observations

Budget Guidelines

Key Issues/Questions

Our Approach – Charter for Committee

Develop a multi-year budget framework which . . .

- Integrates all Borough activities:
 - ✓ Operations and Capital
 - ✓ Municipality and Utilities
 - ✓ Annual Budgets with Long-term Plans
- Establishes guidelines for:
 - ✓ Revenues and appropriations
 - ✓ Capital spending and debt
 - ✓ Surplus
- Balances spending changes with revenue adjustments . . . and vice versa
- Is simple to understand; easy to implement

Our Approach – Budget Mission Statement

The Borough's annual municipal budget should . . .

- Provide and support the services desired by residents
- Be prepared in accordance with:
 - New Jersey law, and
 - Financial principles:
 - ✓ Prudence
 - ✓ Consistency
 - ✓ Stability
 - ✓ Predictability
- Make provision for inflation

Context for Budget Work

Borough as property tax collector:

- 2013 tax mix: schools (61%), county (15%) and municipal (24%)
- Municipal budget bears the risk of ALL uncollected taxes and appeals

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Borough's differentiators:

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- Utilities' support of municipal budget

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- Utilities' support of municipal budget

Statutory "caps:"

- 3.5% for expenditures
- 2% for the tax levy

Important Concepts

Municipal surplus life cycle

Capital Improvement Fund

Alternative budget format

Municipal Surplus Life Cycle

2013 Surplus Flows	\$000s
12/31/2012 Surplus	5,592
Surplus as 2013 Revenue	<u>(2,975)</u>
Subtotal	2,617
2013 Surplus Generation	<u>4,633</u>
12/31/2013 Surplus	7,250

Municipal Surplus Life Cycle

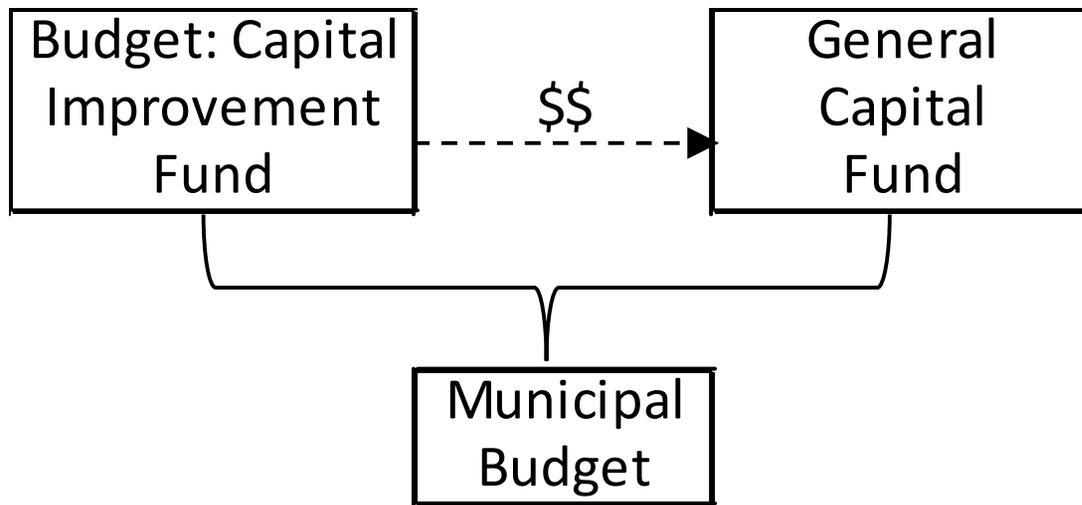
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3,060 Revenue greater than budget
 1,573 Spending lower than budget

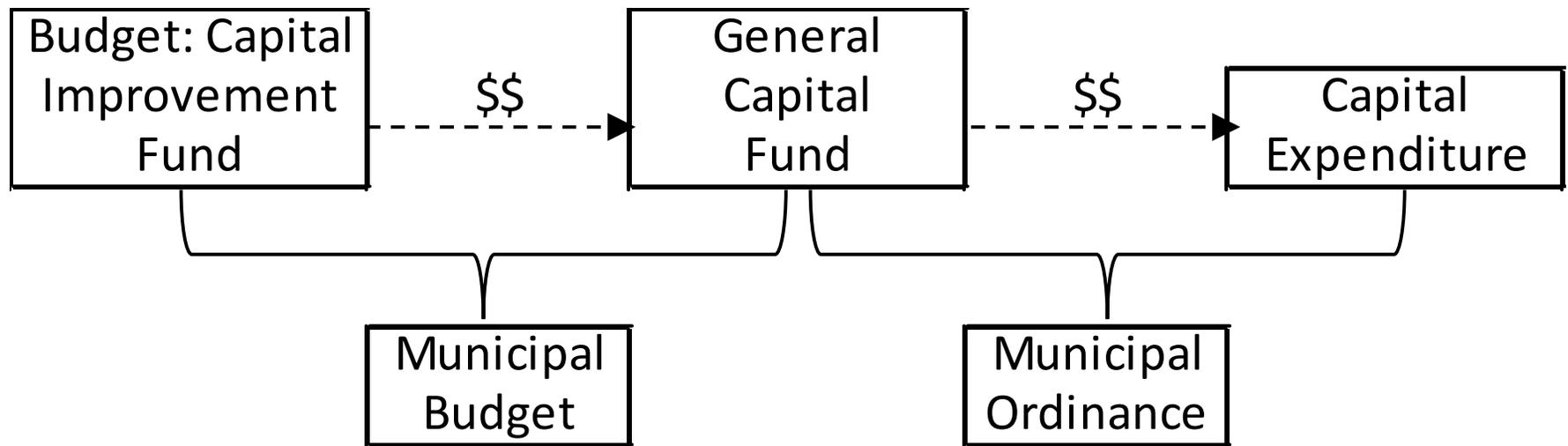
Trends in Surplus as Revenue

		-	=	+	=
\$000s	BOY Surplus	Surplus as Revenue	Remaining Surplus	Surplus Generated	EOY Surplus
2014	7,250	3,597	3,653		
2013	5,592	2,975	2,617	4,633	7,250
2012	4,365	2,800	1,565	4,027	5,592
2011	4,409	3,635	774	3,591	4,365
2010	6,006	5,235	771	3,638	4,409
2009	7,790	5,200	2,590	3,416	6,006
2008		<u>23,442</u>		3,854	7,790
Total				<u>23,159</u>	

Capital Improvement Fund



Capital Improvement Fund



2014 Budget -- Alternative Format (\$000s)			
Appropriations	Opns	Capital	Total
Boro Op. Expenses	19,426		
Public Library	1,298		
Mad-Chat Joint Mtg	985		
Tax Reserves	2,000		
Capital Improv. Fund		3,500	
Debt Service		2,349	
Total Appropriations	23,709	5,849	29,558

Revenues			
<i>Recurring</i>			
Prior Year Surplus	3,597		
Property Taxes	13,638		
Municipal Sources	3,158		
State Aid and Grants	997		
<i>Non-recurring</i>			
Gen. Cap. Fund Balance		1,460	
Sale of Property		462	
Revenues before Transfers	21,390	1,922	23,312
Shortfall (Rev. less Approp.)	(2,319)	(3,927)	(6,246)
<i>Utility Transfers</i>			
Electric			5,796
Water			450

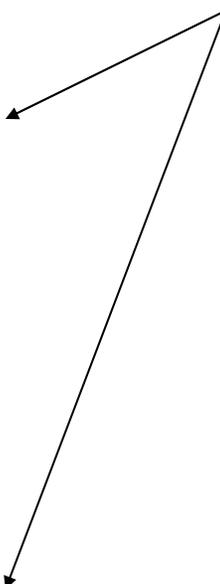
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Splits operations from capital

Introduces “shortfall” concept

Utility transfers cover shortfalls



Observations

Surplus developments

History of operating shortfalls

History for Capital Improvement Fund

Trends in utility transfers and property taxes

Surplus Developments

Surplus rebuilt by \$3 million after 10-year low of \$4.3 million in 2011.

\$000s	31-Dec Surplus	Next Yr Budget	Surplus % Budget
2013	7,250	29,558	24.5%
2012	5,594	25,682	21.8%
2011	4,328	25,151	17.2%
2010	4,393	24,452	18.0%
2009	6,007	24,771	24.3%
2008	7,774	25,181	30.9%
2007	8,878	25,138	35.3%
2006	9,468	23,972	39.5%
2005	8,375	22,385	37.4%
2004	7,865	20,662	<u>38.1%</u>
Avg			28.7%

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Surplus Developments

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Now at prudent levels in terms of absolute amount and budget cushion.

Strive to avoid wide fluctuations, except in emergency situations.

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History of Operating Shortfalls

\$000s	+	+	+	=	Shortfall=		
	True Muni Sources	State Aid & Grants	Property Taxes	Surplus in Revenue	Oper. Revenue	Oper. Appropri.	Op. Rev - Op. App.
2014	3,158	997	13,637	3,597	21,389	23,709	(2,320)
2013	3,094	915	13,637	2,975	20,621	22,331	(1,710)
2012	3,116	910	13,437	2,800	20,263	22,051	(1,788)
2011	2,800	971	13,174	3,635	20,580	22,190	(1,610)
2010	2,715	929	12,748	5,227	21,619	22,033	(414)
2009	2,625	1,131	12,093	5,200	21,049	22,439	(1,390)
2008	2,332	1,205	11,821	5,000	20,358	22,036	(1,678)
2007	2,013	1,367	11,262	4,700	19,342	20,895	(1,553)
2006	1,944	1,331	9,844	4,150	17,269	19,545	(2,276)
2005	1,925	1,402	9,146	3,650	16,123	18,427	(2,304)
2004	1,874	1,238	8,998	3,450	15,560	17,415	<u>(1,855)</u>
Avg							(1,718)

History for Capital Improvement Fund

Small and variable CIF allocations resulted from:

- Financial challenges at electric utility.
- Desire to keep property taxes from rising.
- Absence of immediate impact on Borough services.

	Total		Percent
\$000s	Apppr.	CI Fund	of Total
2013	25,682	1,000	3.9%
2012	25,151	750	3.0%
2011	24,452	0	0.0%
2010	24,771	500	2.0%
2009	25,181	500	2.0%
2008	25,138	500	2.0%
2007	23,972	1,500	6.3%
2006	22,385	1,505	6.7%
2005	20,662	<u>1,000</u>	4.8%
Total		7,255	
Avg		806	3.4%

History for Capital Improvement Fund

Small and variable CIF allocations resulted from:

- Financial challenges at electric utility.
- Desire to keep property taxes from rising.
- Absence of immediate impact on Borough services.

Borough now catching up on deferred capital funding.

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2007	23,972	1,500	
2006	22,385	1,505	
2005	20,662	1,000	

Trends in Utility Transfers

Totaled \$6.25 million in 2014

\$000s	Total Budget	Utility Transfers	
		Amount	% Budget
2014	29,558	6,246	21.1%
2013	25,682	4,172	16.2%
2012	25,151	3,866	15.4%
2011	24,452	3,706	15.2%
2010	24,771	3,013	12.2%
2009	25,181	3,750	14.9%
2008	25,138	3,750	14.9%
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- 56% higher than the 2005-13 average transfer of \$4 million

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Is 2014 an unusual year, or the “new normal?”

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Trends in Property Taxes

Rose from 44% of total revenue in 2005 to 54% in 2011.

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2010	24,771	12,748	51.5%
2009	25,181	12,093	48.0%
2008	25,138	11,821	47.0%
2007	23,972	11,262	47.0%
2006	22,385	9,844	44.0%
2005	20,662	9,146	44.3%
Avg			48.8%

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Then trend reversed, falling to 46% in 2014.

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Then trend reversed, falling to 46% in 2014.

Substantially flat, in dollar terms, for last three years.

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Guidelines

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- Guide preparation of the annual budget
- Protect the long-term financial health of the Borough
- Balance spending changes with revenue adjustments . . . and vice versa
- Flag deviations for Council/Administrators, and encourage further review

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Developed based on:

- Borough’s consolidated financial history
- Rating agency thresholds
- Prudent financial practices

Guidelines – Surplus

*Surplus at the end of any calendar year should be **20-25% of total appropriations** for the coming year.*

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- Prudent amount for “surplus as revenue” AND an emergency reserve.
- Rating agency criteria.

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Surplus as revenue in any annual municipal budget **should not exceed surplus generated** in the prior calendar year.

- Stabilizes amounts over time; avoids large swings.
- Rating agency preference.

	BOY Surplus	-	+	=
		Surplus as Revenue	Surplus Generated	EOY Surplus
\$000s				
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2013	5,592	2,975	4,633	7,250
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2008		23,442	<u>3,854</u>	7,790
Total			23,159	

Guidelines – Utility Transfers

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- Historical range

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Avg			17.2%

Guidelines – Utilities

Surplus at the water and electric utilities, after transfers to the municipal budget, should be sufficient to:

- Assure service reliability,
- Meet the utilities' working capital and long-term capital needs,
- Provide a reasonable cushion for contingencies.

Guidelines – Property Taxes

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- Given needs, a no tax increase approach is unsustainable.
- Regular and modest increases to keep pace with spending are prudent and reasonable.

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- For a \$30 million budget, the permitted range is \$2.1 to \$2.7 million.
- Consistent with history; some future flexibility.

	Oper. Revenue	Oper. Appropri.	Shortfall= Op. Rev - Op. App.
\$000s			
2014	21,389	23,709	(2,320)
2013	20,621	22,331	(1,710)
2012	20,263	22,051	(1,788)
2011	20,580	22,190	(1,610)
2010	21,619	22,033	(414)
2009	21,049	22,439	(1,390)
2008	20,358	22,036	(1,678)
2007	19,342	20,895	(1,553)
2006	17,269	19,545	(2,276)
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Guidelines – Debt Service

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- Prudent limit on “mortgaging the future.”
- Rating agency threshold.
- 2011: 9.3% 2014: 7.9%

History for Capital Improvement Fund

The Capital Improvement Fund should be **8-12% of total appropriations.**

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- Sets aside regular and consistent amounts for aging infrastructure.

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2007	23,972	1,500	6.3%
2006	22,385	1,505	6.7%
2005	20,662	1,000	4.8%

Guidelines – Reports

As part of each budget cycle, the Chief Financial Officer should prepare and present to the Borough Council:

- *A five-year history of how budgets have performed relative to the guidelines, highlighting any adverse trends; and*
- *At least a “budget in brief” document for each of the next 3 to 5 years.*

Key Issues – Committee's Assumptions for 2015-17 Estimates

No change in type, level or quality of municipal services

2% annual increases in:

- Operating appropriations
- Property taxes and revenue from municipal sources

\$3 million annual appropriation for CIF

Key Issues – Operating and Capital Needs

\$2 million-plus/year needed for operations

- Cost control more important than ever
- May need/want to develop new revenue streams

\$000s	2014	2015	2016	2017
Operating Revenue	21,390	21,560	21,903	22,653
Operating Appropriations	<u>23,709</u>	<u>23,963</u>	<u>24,238</u>	<u>24,723</u>
Operating Shortfall/Need	(2,319)	(2,403)	(2,335)	(2,070)

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\$5-6 million/year in capital needs

- \$3 million-plus for CIF **[placeholder]**
- \$2.3 million for debt service

Capital Improvement Fund	3,500	3,500	3,000	3,000
Debt Service	<u>2,349</u>	<u>2,346</u>	<u>2,330</u>	<u>2,327</u>
Capital Needs	5,849	5,846	5,330	5,327

Key Issues/Questions

Municipal Services

- Size and scope of Borough operations/bundled services
 - ✓ Which services do residents most want?
 - ✓ What's affordable?

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Municipal Services

- Size and scope of Borough operations/bundled services
 - ✓ Which services do residents most want?
 - ✓ What's affordable?
- Allocation to Capital Improvement Fund – How much is needed to:
 - ✓ Support municipal services?
 - ✓ Maintain the Borough's infrastructure?

Key Issues/Questions

Municipal Revenues

- How much surplus should be used in the annual budget?

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Municipal Revenues

- How much surplus should be used in the annual budget?
- Revenue options:
 - ✓ Add/adjust/raise fees
 - ✓ Utilize exceptions to 2% tax levy cap
- Size of utility transfers:
 - ✓ Should utilities cover ALL operating and capital shortfalls?
 - ✓ Is it feasible for them to transfer \$7 million-plus annually?
 - ✓ Is it more desirable to use utility surplus to lower electricity rates?

Summary

Annual budget is one step in achieving long-term plans.

Strive for a firm, but flexible budget process:

- *Financial principles establish a culture.*
- *Guidelines build a solid foundation.*
- *Sound practices lead to good outcomes and services residents desire*
- *Adjust revenues ↔ Adjust spending*

