Final report issued June 1, 2015

Report of the Strategic Planning Borough Budget Committee

The Borough Budget Committee (Committee) is part of a Strategic Planning Exercise put in place by the Borough Council in 2013. It began work in early-2014 and met periodically during the year and into 2015. Committee members included: Thomas Bintinger (chair), Paul Lozier,[1] Arthur Powell, Michael Soriano and Benjamin Wolkowitz. Staff support came from: Ray Codey, James Burnet and Robert Kalafut.

The Committee was charged with reviewing the current budget process and preparing a report for the current and future Borough Councils that would include observations and recommendations. In essence, the Committee would produce "Guidance for the Budget Process" in the form of a consistent framework for annual budget preparation.

The framework being proposed is a collection of budget guidelines linked to the key "drivers" of Madison's long-term financial health: surplus, appropriations, property taxes and debt service. The guidelines include financial targets and/or ranges based on considerable Committee research and discussion.

The Committee's research is summarized in two sections, which precede the section on guidelines. The first provides a context for the guidelines – context being the various economic, regulatory and political factors influencing the Borough's budget preparation and negotiations. The second lays out the Committee's observations about Madison's current and historical budgeting approach. Reading these two sections should enhance one's understanding of the proposed budget guidelines.

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Data used in this report come from the 2006-2013 Borough audits, the 2005-2014 Borough budgets filed with New Jersey, the 2015 Borough budget introduced in March 2015, and the 2005-2015 budgets in brief, unless otherwise noted.

[1] Mr. Lozier resigned from the Committee when he moved out of Madison in late-2014.

Introduction

Before beginning its research and analysis, the Committee felt it was important to have some foundational elements in place.

The first foundational element was a **charter for the Committee's work**.

Develop a multi-year budget framework which:

1. *Integrates the operating and capital activities of all budget entities (i.e., municipal budget, general capital fund, and electric and water utilities);*
2. *Is simple, intuitive and transparent;*
3. *Establishes guidelines and assumptions for revenues, expenses, capital spending, debt capacity and issuance and surplus levels, all of which would be reviewed annually;*
4. *Meets the management needs of Borough employees, and the governance needs of the Mayor and Council; and*
5. *Produces easy-to-understand reports for all audiences, including residents.*

The second foundational element was a **mission statement for the budget** itself.

> *The Borough's annual municipal budget shall be established to provide and support the services desired by the residents. The principles employed in its formulation shall include financial prudence, consistency, stability and predictability. The realities of inflation and compliance with New Jersey legal requirements must be considered.*

An annual budget is just one step in the longer-term evaluation of the type, level and funding of services the Borough should provide. The Committee concluded that recommending any service changes fell outside its charge and that responsibility for service changes resides with the current and future Borough Councils in collaboration with Madison residents and taxpayers. Our report, however, does include observations on the potential effects of possible changes.

The third foundational element was **a financial baseline,** which would be used to project impacts of our recommendations in future years. While we examined past years to see what patterns or trends existed, we decided to use the 2014 Budget as indicative of the services currently desired and needing future funding. We recognize that the 2014 Budget includes a couple of one-time or non-recurring revenue items (i.e., surplus transferred from the General Capital Fund and proceeds from property sales).

NOTE: This final report, unlike the initial one, incorporates information and observations from the Capital Assets Planning Committee (hereinafter "Capital Committee") and the Utilities Planning Committee ("Utilities Committee").

Context

Budgeting is the allocation of scarce resources. It has an outcome – a document showing expected revenues and appropriations for the coming year (or multi-year period). Budgeting is also a process – the procedures and practices employed to produce the budget document.

Producing a budget inevitably requires trade-offs and compromises because different, and sometimes disagreeing, constituencies voice their wants to decision-makers – in Madison's case, the Borough Council. The *annual* budget should also be consistent with the Borough's *longer-term* plans and strategies.

Making tough budget decisions requires an understanding of Madison's current operations, historical trends and likely future needs. Context is also important – context being the various economic, regulatory and political factors influencing the Borough's mix of services and funding sources and budget negotiations. This section provides some insights into that context.

<u>Madison Taxes</u>

The Borough of Madison is the billing and collection agent for several entities that have taxing authority. In addition to property taxes for municipal operations, the "Madison tax bill" includes taxes for the Open Space Trust Fund, the Madison School District and Morris County. Shown to the right is the mix of actual property taxes for 2014. Of the $61 million of property taxes collected, just $13.6 million (or 22%) support municipal operations; the remainder is collected and turned over to other entities.

2014 Taxes	$000s
Borough	12,449
Library	1,188
Muni. Opns	13,637
Open Space	617
School Board	37,483
Morris County	9,298
Madison Taxes	61,035

<u>Municipal Services and Funding</u>

The Borough Council – in collaboration with Madison residents, taxpayers and service users – decides on the type, level and funding of municipal services. For example, Madison:

- Has a paid fire department while most other Morris County municipalities rely on volunteer firefighters and neighboring towns when a fire occurs;
- Moved towards the County norm by using civilian dispatchers rather than uniformed police officers; and
- Operates its own health department and makes the department's services available to other towns under shared service agreements.

In general, current and prior Councils have decided to provide a complete "bundle" of municipal services without charging user or service fees to residents. These services include: police and fire, public works, waste management (garbage, bulk items, recycling, yard waste and sewer), Borough administration and support for the library. Other towns impose separate charges for some of these services. For example, residents, commercial organizations and non-profit entities pay a sewer charge in 33 of the 39 Morris County municipalities; only non-profit entities in Madison pay a sewer charge. Residents in some of the 33 towns also pay separately for trash collection.[2]

Municipal Utilities and Transfers

Borough Councils over time have reaffirmed the decision, made decades ago, to own and operate a water utility and an electricity utility.[3] Those Councils have also decided to set rates for water and electricity at levels that generally produce an operating profit, akin to behavior at investor-owned utilities. Historically, much of the utilities' operating profit (or surplus) has been transferred to the municipal budget to help fund municipal services and/or to minimize property tax increases (aka "utility transfers").[4]

The rate-setting process for water and electricity also recognizes that tax-exempt organizations do not contribute to the funding of municipal services they benefit from. Thus, embedded in the utility rates and their transfers is an indirect "contribution" from tax-exempt organizations to Madison's costs.

For the 2005-14 municipal budgets:

- Utility transfers as a percentage of total budgeted revenues have averaged 17%, ranging from 12% to 22%.[5]
- Property taxes have averaged 49%, fluctuating between 44% and 54%.
  (For year-by-year details, see the chart in Observation #3 later in this report.)

In comparison, property taxes represent about 66% of total budgeted revenues for Morris County municipalities, on average.[6] Note that Madison gets to this same 66% by adding the 10-year averages of utility transfers (17%) and property taxes (49%).

Capital Expenditures

Municipal budgets include appropriations for the *annual* cost of services (i.e., compensation and operating costs) AND the funding of *long-term* capital projects needed to support such services. The Borough's budgets for capital funding, however, have not historically had the same level of consistent funding as budgets for annual costs have had. For example, the capital improvement fund had $1.5 million budgeted in 2007, nothing in 2011 and $3.5 million in 2014. (For year-by-year details, see the chart in Observation #5 later in this report.) Such swings and shortfalls in capital budgets become even more apparent when residents and service users demand attention to aging and/or neglected roads and utility infrastructure.

[2] Per Ray Codey.
[3] Madison originally sought independence from Chatham Township and incorporated in 1889 so the Borough could have a municipal water supply and an electric utility. "Madison 125th Anniversary," Madison Eagle, Nov. 6, 2014.
[4] Under current policy, each utility can only transfer the amount of surplus available at the end of a given calendar year. They cannot transfer, in advance, surplus expected to be generated during the coming year.
[5] See the table on page 11 for the 2005-14 details. We also note that the upper end of the 2005-14 range is consistent with the longer term average of 21.7% for the 1994-2014 period.
[6] Based on survey conducted by Robert Kalafut.

Municipal Accounting

Accounting policies and practices for NJ municipalities have been prescribed or permitted by state statutes. They are designed primarily for determining compliance with legal restrictions and for reporting on the stewardship of public funds. Familiarity with the more important aspects of municipal accounting is necessary for readers to understand Borough budgets and financial reports. Appendix A contains a primer on municipal accounting.

The budget documents currently used in Madison are also governed by statutory reporting requirements and by historical practice. The Committee found these documents useful, and their standardization facilitated historical comparisons. However, as our analysis commenced, we increasingly saw a need to present the budget in a way that conformed to the Borough's financial realities. We therefore developed, and include in Appendices A and B, a couple of financial flow charts and an alternative budget format, which provide a more straightforward view of the Borough's finances.

Regulatory Constraints

New Jersey municipalities must meet two statutory regulations, which constrain expenditures and property taxes.

The "*Expenditure Cap*" governs appropriations defined as "inside the cap." These are primarily compensation and operating costs for services such as police, fire, public works, garbage and trash collection and the like. They are limited to a 3.5% annual increase, but can be further increased by the amount of municipal taxes on the assessed value of new construction.

Appropriations "outside the cap" include wastewater sanitation, library, spending associated with shared service agreements and state grants, capital improvements, debt service, emergency appropriations and reserves for tax appeals. There are currently no restrictions on these appropriations.

Municipalities, which do not budget to their expenditure cap, can carry forward, or "bank," the appropriations capacity for two years. Madison's "cap bank" for 2015 is approximately $3.37 million.[7] The Borough has tapped its cap bank four times during the last 25 years, most recently in 2009.

The "*Tax Levy Cap*" currently limits the increase in municipal property tax dollars to 2% annually. However, there are several exclusions to this cap for:

- Increases in debt service and capital expenditures,
- Weather and other declared emergency-related expenditures,
- Pension contributions exceeding 2%,
- Health benefit increases greater than the average in State Health Benefit increases and
- Municipal property tax levy on new construction.

[7] $2,018,742 from 2013 and $1,353,373 from 2014.

Municipalities, which do not budget to their tax levy cap, can carry forward the taxing capacity for three years. Madison's "tax levy bank" for 2015 is approximately $4.65 million.[8] The Borough has never used this bank.

[8] $815,482 from 2012, $722,341 from 2013 and $3,107,294 from 2014.

Observations

In round numbers, Madison has a $30 million municipal budget – a level first reached in 2014 and likely to persist for the foreseeable future. This high-level observation is based on the belief that the Borough Council will: (a) maintain the current "bundle of services" and its attendant level of operating expenses, (b) provide for contractual debt service and (c) appropriate a prudent amount for the Capital Improvement Fund based on the analysis and findings of the Capital Committee.

As explained in Observations #3 and #6 below, a $30 million budget will require $7-8 million of annual utility transfers if the Council wants to avoid: (a) material increases in property taxes and/or existing service fees and (b) charging new fees for service currently bundled.

#1 – Current Practices

The municipal budget includes "Municipal Sources"[9] as a single revenue line item and various appropriation line items relating to the Borough departments and services provided. Historically, these items have been budgeted such that actual revenues from Municipal Sources typically exceed budgeted amounts and that actual operating expenditures end up less than budgeted appropriations, often by substantial amounts. A similar budgeting practice and outcome exist for the Reserve for Uncollected Taxes.

Consequently, overall financial results have been routinely better than the breakeven levels in the municipal budget. Actual results for 2013 were $4,633,000 better than budget, and for the five prior years (2008-12) were $3,705,000 better than budget, on average. (See the "Unexpended Balances Cancelled" section of Appendix A for a more detailed explanation of expense variances, and the 2013 surplus flow chart in the same appendix for all the components of the 2013 budget variance.)

As explained in Appendix A, when operating results exceed budgeted amounts, such excess is returned to the Current Fund Balance so that it is available for future use by the Borough. As shown below, a substantial portion of the "surplus generated" in 2013 was used as "surplus as revenue" in the 2014 budget. Over the past six years, the total amount of surplus generated is very close to the amount of surplus as revenue.

		-	=	+	=
$000s	BOY Fund Balance	Surplus as Revenue	Rem. Fund Balance	Surplus Generated	EOY Fund Balance
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		23,442		3,854	7,790
Total				23,159	

These budgeting practices and the regular existence of significant budget variances can make it difficult to evaluate actual results against the current year's budget and against prior years' results.

[9] Municipal Sources primarily consist of license, permit and service fees; and revenue from other municipalities under shared service agreements.

#2 – Fund Balance/Surplus

The revenue portion of the annual municipal budget has always included a line item labeled "Prior Year Surplus-Operating." The more proper and expansive label is "Current Fund Balance – Utilized as Budget Revenue." This use of "surplus as revenue" is explained in Appendix A.

The budgets for the electric and water utilities are structured similarly, typically including some portion of their respective surpluses as revenues. As a result, the "consolidated" surplus of the Borough is spread among three accounting entities, and totaled $15,090,000 at December 31, 2013.[10] Of the total, $9,843,000 (or 65%) was used for the 2014 municipal budget, leaving $5,247,000 of what might be considered "true" or retained surplus.

$000s	Current Fund	Electric Util. Fund	Water Util. Fund	Total Fund Bal.
Balance at 12/31/13	$7,250	$6,322	$1,518	$15,090
Used in 2014 Budget	3,597	5,796	450	9,843

The purpose of **retaining** surplus is to provide for contingencies and unexpected events as well as to provide stability in budgeting for unusual items or economic developments that cannot be planned for in the ordinary course of business, such as economic downturns, significant reduction in taxable property, new services requirements or unusual capital investments.

The amount of retained surplus needs to strike a "Goldilocks" balance between being too small (and therefore imprudent) and being too large (thus creating the impression of hoarding money). Surplus also needs to be properly managed, so that the Borough maintains stability in the tax rates. This is not to suggest that taxes will remain flat. Rather, if properly managed, taxes should not have to go up significantly and immediately in response to an adverse development.

In addition, rating agencies look to surplus for assurance that a municipality will be able to cover the cost of any unforeseen events. While many factors affect a credit rating, municipalities wanting a triple-A rating should have a year-end current fund balance equal to 20-30% of its total annual appropriations. Shown on the next page are Madison's historical surplus-to-appropriations ratios.

[10] Excludes the General Capital Fund because this Fund does not routinely have a Fund Balance.

$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	38.1%
Avg			28.7%

The "Surplus % Budget" ratio of 24.5% for 2013 equals the "31-Dec Surplus" (i.e., at 12/31/2013) of $7,250,000 divided by the "Next Yr Budget" (i.e., for 2014) of $29,558,000.

#3 – Utility Budgeting and Support for the Municipal Budget

Madison owns and operates electric and water utilities, which provide services to its residents, local businesses and tax-exempt organizations. Both are substantial businesses in their own right and should engage in long-term planning for their operations, customer service, utility rates, and capital investment.

The two utilities have generated meaningful surpluses from their operations, some of which has been transferred to, and included in the municipal budget. Shown below are the utility transfers[11], property taxes and surplus used as revenue for the 2005-2014 period, in absolute amounts and as a percentage of total municipal appropriations.

Note: When utility transfers, as a percentage of the municipal budget, fell to their lowest levels in 2008-2010 due to the cost of purchased power, the portion of the municipal budget coming from surplus rose to its highest levels and amounts for the Capital Improvement Fund (CIF) were virtually eliminated.

	Total	Utility Transfers		Property Taxes		Prior Year Surplus		CIF in
$000s	Budget	Amount	% Budget	Amount	% Budget	Amount	% Budget	Budget
2014	29,558	6,246	21.1%	13,637	46.1%	3,597	12.2%	3,500
2013	25,682	4,172	16.2%	13,637	53.1%	2,975	11.6%	1,000
2012	25,151	3,866	15.4%	13,437	53.4%	2,800	11.1%	750
2011	24,452	3,706	15.2%	13,174	53.9%	3,635	14.9%	0
2010	24,771	3,013	12.2%	12,748	51.5%	5,227	21.1%	500
2009	25,181	3,750	14.9%	12,093	48.0%	5,200	20.7%	500
2008	25,138	3,750	14.9%	11,821	47.0%	5,000	19.9%	500
2007	23,972	4,630	19.3%	11,262	47.0%	4,700	19.6%	1,500
2006	22,385	4,610	20.6%	9,844	44.0%	4,150	18.5%	1,505
2005	20,662	4,499	21.8%	9,146	44.3%	3,650	17.7%	1,000
Avg			17.2%		48.8%		16.7%	

Note also that in recent years, the Borough has become increasingly dependent on utility transfers and less reliant on property taxes:

- In dollar terms, the $6.2 million of utility transfers in 2014 is more than double the amount in 2010, and now accounts for more than 20% of total revenues. While the 2014 dollar amount is high vs. historical averages and may be an unusual year, it may alternatively represent a "new normal" level of transfers in the absence of material changes to Borough non-utility revenues and total appropriations.

[11] The amounts shown for Utility Transfers combine transfers from the electric and water utilities. For the 2014 budget, $5,796,000 (93%) came from the electric utility and $450,000 (7%) from the water utility. This split is consistent with historical averages for the 2005-13 period.

- Similarly, property taxes, after rising from 44% of revenue to 54% between 2005 and 2011, have reversed that trend, falling to 46% in 2014.

Councils over time have decided that this changing mix of property taxes, utility transfers and surplus as revenue is appropriate.

As a result, and as shown below, substantially all of the electric utility's surplus has been transferred to municipal budgets in recent years:

		+	=	+	=	Electric Appropriations	
	BOY Surplus	TXF to Borough	True Surplus	Operating Surplus	EOY Surplus	Amount	True Surplus % Amount
2015	6,519	(6,233)	286			15,784	1.8%
2014	6,322	(5,796)	526	5,993	6,519	18,128	2.9%
2013	5,373	(3,722)	1,651	4,671	6,322	19,206	8.6%
2012	4,683	(3,516)	1,167	4,206	5,373	19,333	6.0%
2011	4,822	(3,356)	1,466	3,217	4,683	21,049	7.0%
2010	2,718	(2,656)	62	4,760	4,822	19,823	0.3%
2009	4,477	(3,450)	1,027	1,691	2,718	19,373	5.3%
2008	8,959	(3,450)	5,509	(1,032)	4,477	18,928	29.1%
2007	7,387	(4,360)	3,027	5,932	8,959	10,877	27.8%
2006	7,079	(4,360)	2,719	4,668	7,387	10,959	24.8%

The "true" surplus of the electric utility in 2015 (i.e., after transfer to the municipal budget) is just $286,000, representing a slim 2% cushion on the electric utility's appropriations for the year. In contrast, "true" surplus for 2015 is 46% at the water utility and 13% for the Borough after their respective surplus transfers.

There is a separate committee reviewing utility operations and finances. Consequently, our Committee is not going to comment on this other committee's activities other than to highlight the Borough's historical (and likely future) reliance on financial support from the two utilities and to note that the characterization of this support is the subject of considerable debate:

- Are the utility transfers basically dividend payments to the Borough based on its ownership of the utilities and a return on the Borough's capital investment?
- Or, are the transfers essentially quasi-taxes imposed by the Borough on the utilities' customers to help pay for Borough services, but embedded in the prices customers pay for water and electricity?
- Or, perhaps, they are some combination of both views?

The foregoing leads to *the* critical question: Would residents be better off with lower electricity rates, but higher property taxes and/or explicit fees for services currently bundled with other services at no direct charge?

If reliance on utility transfers is going to continue at current levels, it must be incorporated in Borough AND utility planning and budgeting. On the other hand, the Borough has the option of reducing utility transfers and allowing the utility to use their surplus to lower rates instead. This move would create a revenue gap within the municipal budget that would have to be closed through some combination of higher taxes, additional fees for services and/or a reduction in services.

#4 – Operating Revenues and Appropriations

The Committee's alternative budget format (see Appendix B) draws a distinction between operations and capital within the municipal budget. With respect to operations, we examined the difference between operating revenue and appropriations as those terms are defined below:

"Operating appropriations" equal total appropriations less the capital improvement fund and debt service.

"Operating revenue" equals the sum of (a) revenue from "true" municipal sources (fees and the like but excluding transfers of water utility surplus or capital fund balances), (b) state aid and grants, (c) property taxes and (d) prior year surplus in revenue.

As can be seen in the table below, operating appropriations have consistently exceeded operating revenues, leading to what we define as an "operating shortfall."

		+	+	+	=		Shortfall=
$000s	True Muni Sources	State Aid & Grants	Property Taxes	Surplus in Revenue	Oper. Revenue	Oper. Appropr.	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	(1,855)
Avg							(1,718)

The shortfalls stem from: the services provided by the Borough; how those services are paid for by Borough taxpayers and service users; a conservative approach to budgeting revenue; and expected inflation. Utility transfers have historically covered the operating shortfalls, which is a direct benefit of owning the water and electric utilities.

If Madison is to maintain services and staff at current levels while avoiding fees for bundled municipal services, utility transfers for operating shortfalls will have to continue at the 2015 level of 5% (plus or minus). [12] Controlling operating shortfalls will also avoid causing problems with the amount of utility transfers needed for the Capital Improvement Fund.

[12] In recent years, operating shortfalls have been in the 6-8% range before falling to the 5% level in 2015. See Appendix C2 for these numbers.

#5 – Capital Appropriations and Budgeting

The municipal budget includes line items for the Capital Improvement Fund (CIF) and Debt Service. The Committee believes they should be considered together for budgeting purposes. Debt Service is smoothing the cost of money borrowed for the acquisition of long-term capital assets, and is therefore akin to the annual expenditure of funds for such assets.

When the Borough issues debt, proceeds are included in the General Capital Fund when received. In contrast, annual funding for capital assets appears on the CIF line in the municipal budget. Such annual funds are available for capital improvements only if and when specific spending ordinances are approved. [13]

$000s	Total Appropr.	CI Fund
2014	29,558	3,500
2013	25,682	1,000
2012	25,151	750
2011	24,452	0
2010	24,771	500
2009	25,181	500
2008	25,138	500
2007	23,972	1,500
2006	22,385	1,505
2005	20,662	1,000
Total		10,755

A long-term capital budget has been available in one form or another for some time, but it does not create a CIF appropriation requirement within the annual municipal budget. Rather, such funding is subject to Council review and approval. As shown to the left, until 2014, the CIF budget was generally declining.

Rating agencies have guidelines for credit ratings that consider a municipality's debt capacity and its annual debt service appropriations, among other factors. To the extent that Madison wants to preserve its triple-A credit rating, its ability to borrow in the capital markets to fund capital expenditures may be limited, requiring greater annual appropriations for the CIF.

[13] The electric and water utilities have similar capital improvement funds included in their respective annual budgets; some of our capital improvement comments may be applicable to them as well.

#6 – Funding Operating and Capital Needs

Needs Assessment

For each of the next few years, the Borough will need revenue of $7-8 million to fund the items discussed below.

Most of revenue is needed for **capital** (i.e., debt service and CIF), which will likely average $5-6 million per year for the next several years based on the following assumptions:

- Debt service will average about $2.3 million per year assuming no additional borrowing and no prepayment of the $28.5 million of outstanding funded debt.[14]
- CIF appropriations will be $3.1 million in 2015, based on the budget introduced in March 2015, and $3-4 million annually thereafter.[15]
- There will be no non-recurring revenue.

In addition, roughly $1.5 million will be needed for annual **operating shortfalls** as summarized below and explained in detail in Appendix C.

$000s	2014	2015	2016	2017	AvgAGR
Operating Revenue	21,390	22,200	22,612	23,218	2.77%
Operating Appropriations	23,709	23,684	24,158	24,641	1.30%
Operating Shortfall	(2,319)	(1,484)	(1,546)	(1,422)	

Avg AGR = average annual growth rate

Funding the Needs

While transfers from the two utilities can be expected to cover a portion of the needed revenue, the utilities' own needs and those of its customers will establish an upper bound on transfers. Therefore, the Borough should explore and develop additional revenue sources for those times when utility transfers alone are insufficient to fund the Borough's needs.

[14] "Debt service" is the annual interest and principal payments, which for 2014 totals $2,349,000. Most of the outstanding debt was issued in 2008, as an alternative to raising property taxes, to fund: the new public safety building, renovations of the Hartley Dodge Memorial, two fire trucks and certain road and sewer improvements. Regarding the prepayment assumption, the Committee recognizes that the Borough may, from time to time, take advantage of pre-refunding opportunities.

[15] Our Committee's estimates of $4 million annually for the CIF in 2016-17 are consistent with those put forth by the Capital Committee. That Committee concluded that $20 million of capital spending will be required in the 2015-19 period. With just $3.1 million budgeted for 2015, years 2016-19 will need to average $4.25 million. See: Capital Committee's Report, January 2015, p.9.

Revenue options to consider include:

- *Indexing for inflation fees charged by the Borough for permits and services,*
- *Establishing separate fees for sewer and/or garbage collection,*
- *Raising water and/or sewer rates to market levels, and/or*
- *Utilizing exceptions to the 2% cap on property taxes*[16] *for:*
    - *Increases in debt service and capital expenditures,*
    - *Weather and other declared emergency related expenditures,*
    - *Pension contributions exceeding 2%,*
    - *Health benefit increases greater than the average in State Health Benefit rate increases, and*
    - *Municipal property tax levy for new construction.*

Historically, the utility transfers have allowed Madison to avoid the higher taxes and separate fees (e.g., sewer) other Morris County municipalities are forced to charge for the services they provide.

For Madison to avoid imposing and/or increasing fees will, over time, require diligent control of the cost of municipal services while the utilities strive to achieve a balance between (i) providing a reliable service at a competitive price and (ii) supporting the funding of the Borough's operating and capital appropriations.

[16] In round numbers, the potential tax revenue from these exceptions was $1.65 million in 2013 and $3.1 million in 2014. Historically, Madison has not availed itself of these exceptions.

#7 – Inflation

Inflation and rising benefit costs, among other expense pressures, are facts of life and should be considered in planning and budgeting. For the 2004-14 period, for example, operating appropriations (as defined above) increased at a compound annual rate of 3.22%. This has occurred in a very low inflationary environment, which is unlikely to continue in perpetuity.

At the same time, as explained in the "Context" section, New Jersey statutes include provisions which limit, or cap, the amount by which property taxes can increase in any year, which can make it hard for taxes to keep pace with general and specific price increases.

#8 – Budget Preparation Timing

New Jersey statutes require a budget be in place by April 15th of the budget year in question. The use of this deadline is not consistent with good management practices, as over a quarter of the budget year will have passed before finalizing the budget. Steps should be taken to accelerate budget preparation so that approval can occur as close as possible to January 1st, recognizing this may be a challenge in election years that give rise to changes in the mayoral and/or Council positions. At a minimum, utility and capital budgeting, including the CIF, should be completed in January, given the importance of utility transfers in the municipal budget.

Budget Guidelines

This section contains budget guidelines, which the Committee expects to be an integral part of the annual budget process. The guidelines are intended to provide on-going guidance to the Borough Council and administration as they work to achieve the mission of the budget:

> *The Borough's annual municipal budget shall be established to provide and support the services desired by the residents. The principles employed in its formulation shall include financial prudence, consistency, stability and predictability. The realities of inflation and compliance with New Jersey legal requirements must be considered.*

The guidelines should not be considered as hard and fast rules that cannot tolerate exceptions. Rather, they should be seen as a firm, but flexible rubric to be complied with over the long term, with any material deviations publicly disclosed and explained as part of the budget process.

The percentages and ranges used in the guidelines are generally based on the Borough services and the available revenue mix used to fund those services for the 10-year period of 2005-2014. In a couple of instances, we examined twenty years of historical data because a longer period better reflected patterns and trends.

If unanticipated changes occur to services or their funding, numbers embedded in the guidelines will need to be re-examined and possibly changed. In extreme cases, such as a natural disaster or suspension of a major funding source, the guidelines may have to be temporarily suspended.

Municipal Surplus

GUIDELINE 1A: Surplus included as revenue in any annual budget should not exceed the amount of surplus generated in the prior calendar year.

> *Surplus included as revenue is essentially a contingency reserve or cushion within the budget, intended to protect the Borough against revenue shortfalls and to provide funds should additional spending be needed for operations. The intent of this guideline is to smooth or stabilize the amount of surplus used in the annual budget (and avoid the swings of history) while allowing modest increases over time. The prior year constraint helps prevent surplus from falling below desired levels. The use of such a constraint is a practice rating agencies prefer to see.*

Shown on the next page is a 6-year historical view of budgeted surplus in revenue vs. the guideline ("maximum allowed" in the table). Because surplus in revenue is essentially a "budget cushion," it may be helpful when applying this guideline to see this cushion as the sum of (a) the reserve for uncollected taxes plus (b) 8-12% of operating appropriations other than the tax reserve ("upper bound").

$000s	Budgeted Amounts		Surplus in Revenue			Tot. Surplus
	Tax Reserve	Operating Appropr.	Tax + 12% Opn. App.	Budget	PY Surplus Generated	less Surplus in Revenue
2014	1,600	22,109	4,253	3,597	4,246	3,628
2013	1,560	20,771	4,053	2,975	4,027	2,619
2012	1,500	20,551	3,966	2,800	3,591	1,528
2011	1,500	20,690	3,983	3,635	3,638	758
2010	1,497	20,536	3,961	5,227	3,416	780
2009	1,497	20,942	4,010	5,200	3,854	2,574
			Upper Bound(b)		*Maximum Allowed(a)*	

(a) The $4,246K shown as surplus generated in 2013 excludes FEMA recoveries.
(b) "Tax + 8% Opn. App." would be $3,369K in 2014; $3,222K in 2013; $3,144K in 2012; $3,155K in 2011; $3,140K in 2010; and $3,172K in 2009.

GUIDELINE 1B: Surplus at the end of any calendar year should be 20-25% of total appropriations for the coming year.

The guideline range (a) provides a prudent amount of "surplus as revenue" for inclusion in the annual budget while (b) maintaining an ample balance sheet reserve for emergency situations; unique, one-time developments; and contingent liabilities. The range is also consistent with best municipal practices, third-party analyses[17] and rating agency criteria for the most highly rated municipalities.

GUIDELINE 1C: Surplus in excess of the upper end of Guideline 1B range (i.e., >25%) may only be used for the Capital Improvement Fund (CIF) or to pay down debt (including pre-funding of obligations).

The intent is for "excess surplus" to be used for improving the long-term financial condition of the Borough, not for near term or operating appropriations.

NOTE: Guidelines 1A and 1C operate independently. It is therefore possible that (i) surplus transferred to the municipal budget could be constrained by 1A (i.e., no more than the surplus generated in the prior year) AND (ii) there might be excess surplus available for further transfer under 1C (depending on the absolute amounts of year-end surplus and the coming year's appropriations).

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[17] See, for example, "Benchmarking and Municipal Reserve Funds: Theory versus Practice," by Michael Shelton and Charlie Tyer with the Assistance of Holly Hembree, available online at http://www.ipspr.sc.edu/publication/Municipal_Reserves.htm.

Operating Revenues and Appropriations

GUIDELINE 2: For the current level of municipal services, the budgeted operating shortfall (as defined and explained in the "Observations" section above) should not exceed 7% of total appropriations.

> *Operating shortfalls result from historical decisions regarding: (a) the type and level of services provided by the Borough, b) how those services are paid for by Borough taxpayers and service users, and (c) conservative budgeting practices. To the extent that future service levels or costs cause the operating shortfall to increase, any incremental shortfall beyond the 7% threshold should be funded by additional operating revenue rather than higher utility transfers.*

Utility Transfers

GUIDELINE 3A: Utility budgets should recognize that future municipal budgets will likely require utility transfers up to 22% of total municipal appropriations.

> *The 22% figure is the average for the 1994-2014 budgets. It can be viewed as the sum of 7% for operations (per guideline 2 above) and 15% for capital (debt service and CIF).*

GUIDELINE 3B: Surplus should be transferred from an utility only to the extent that the utility's surplus remaining after transfer is considered sufficient for that utility's (a) working capital, (b) capital expenditures and (c) need for a reasonable cushion for contingencies.

> *The two utility guidelines reflect the historical role of the two utilities in providing funds for the Borough's budget. As a result, they create a priority of uses for the utilities' surplus. For the foreseeable future, the Borough will require $1.5 million of utility transfers for operations, and that need has top priority. After that, the two utilities should have ready and immediate access to back-up and emergency funds (i.e., "retained surplus") consistent with the scope of their operations and expected service levels before transferring any surplus to municipal capital projects (i.e., enough for working capital, capital expenditures and contingencies).*
>
> *The level of "retained surplus" requires further analysis, which is pending until reports are received from consultants engaged by the Borough to examine utility operations. It is possible that surplus retained by the utilities could reduce the amount available for transfer to the municipal budget in any given year. As a result, the Borough Council may have to consider raising utility rates, municipal fees and/or property taxes to balance the municipal budget. Such actions would require the Council and administration to weigh the impact of various options and to communicate to the public the rationale for the option(s) ultimately selected.*

Debt Service and Incurrence

GUIDELINE 4A: Debt service (interest and principal) within the municipal budget should not exceed 10% of total appropriations.

GUIDELINE 4B: New borrowing should generally be limited to capital assets having a useful life of at least 15 years. Exceptions can be made for a capital asset that generates revenue and produces a reasonably attractive return on the investment required for the asset.

The two debt guidelines are prudent limits on "mortgaging the Borough's future" and are consistent with rating agency thresholds for the most highly rated municipalities.

Capital Funding

GUIDELINE 5: The Capital Improvement Fund (CIF) line item in each municipal budget should be 10-13% of total budgeted appropriations.[18]

Ideally, the annual CIF amount should be based on a multi-year capital improvement schedule, which would show year-by-year capital expenditures for the Borough and its utilities and would be updated annually. We encourage the Borough to prepare such a schedule, building upon the work already done by the Capital and Utility Committees. We propose a minimum percentage for the CIF because there has been a historical practice of reducing or even eliminating this important line item from the budget. Our upper end percentage is consistent with the Capital Committee's estimates for the 2015-19 period, but does take into consideration issues still being worked on by the Utility Committee.

While capital SPENDING can swing from "large and lumpy" in a given year to "reasonably small" in other years, it is prudent to smooth the BUDGETING for such spending over time even if this means appropriating the money before it is needed. Because Madison is an old town, it is reasonable to provide for regular and consistent appropriations to maintain and update the Borough's aging infrastructure.

It is equally reasonable to develop a multi-year revenue plan for the CIF appropriations. The CIF historically has been funded almost exclusively by transfers from the electric utility and non-recurring revenue sources (e.g., property sale). But the amounts from these sources have varied considerably year over year, both in annual amounts and in mix. Much more reliable and predictable funding is needed.

Property Taxes

[18] This guideline does not apply to the CIF at the two utilities. The guideline range does not reflect capital spending embedded in operating appropriations.

GUIDELINE 6A: Property taxes in the municipal budget should be maintained at prudent levels after considering (a) inflation, (b) increases in municipal appropriations and (c) the availability of utility transfers and other municipal revenue.

> *Between 2010 and 2014, total appropriations have grown at a compound annual rate of 4.5% while property taxes rose only 1.7%. More significantly, total appropriations increased substantially in 2014 compared to 2013 while property taxes remained flat (and the budgeted municipal tax rate went down). Given the Borough's needs, particularly with respect to capital expenditures, a "no increase" approach to property taxes is unsustainable. It seems more reasonable to increase property taxes modestly every year, as allowed by statutory caps.*

GUIDELINE 6B: Maintain the reserve for uncollected taxes at its current 2.63% of the total tax levy (about $60 million). Increasing the magnitude of the reserve can be considered when there is a significant decrease in actual collection rates or when settlements of valuation appeals materially lower the amount of taxable property.

> *As the collection agent for the Madison School District and Morris County, the borough bears the sole risk of any uncollected taxes and establishes an annual reserve for this risk. While actual collections have been significantly better than the reserve would imply*[19]*, the Borough's historically conservative approach allows the "excess reserve" to be an embedded form of surplus generation in the annual budget.*

[19] The reserve included in the 2014 budget implies an expected collection rate of 97.3% compared to an average actual collection rate of 99% over the 2008-13 period.

Guideline Reports

GUIDELINE 7: As part of each budget cycle, the Chief Financial Officer should prepare and present to the Council the following three reports:

A. A 5-year history of how budgets have performed relative to the guidelines, highlighting any adverse trends.

As an example, no municipal funds, other than one-time property sales and general capital fund transfers, were allocated to the CIF for the 2008-12 period. As a consequence, significant portions of the Borough's infrastructure fell into disrepair, which was most apparent in the condition of its roads. Such a trend should have been uncovered and probably rectified earlier. A publicly available trend analysis would have underscored this situation.

B. A comparison of the proposed current year's budget against the guidelines and their five-year trends, highlighting and explaining any material variances from the guidelines.

A current year report is intended to (i) bring the Council's and public's attention to budgeted items that differ from targets endorsed by the Council, (ii) explain the administration's reasoning behind any guideline variances and (iii) prompt early and fact-based discussion of important budget issues.

C. At least a "budget in brief" document for each of the next 3 years (i.e., 2016-18 for 2015).

A multi-year approach to budgeting will serve as an early warning of any looming financial issues, both positive and negative, that may require advanced planning to address and could have implications for the current year's budget.

Appendix A: Municipal Accounting

Accounting policies and practices for NJ municipalities have been prescribed or permitted by state statutes. They are designed primarily for determining compliance with legal restrictions and for reporting on the stewardship of public funds. Familiarity with the more important aspects of municipal accounting is necessary for readers to understand Borough budgets and financial reports. The following is a primer on municipal accounting.

Fund Accounting

Municipalities use various “funds” to account for their activities. In simple terms, a typical NJ municipality has:

- A “Current Fund” for the annual revenue and appropriations associated with governmental operations of a general nature – providing services (e.g., police and fire departments) and running the town (e.g., clerk’s office).

- A “General Capital Fund” for the income and expenditures associated with general capital facilities (e.g., new fire truck, road resurfacing) other than those occurring in the Current Fund.

Municipalities, which own utilities, also have Current and General Capital Funds for each utility. Finally, municipalities may have one or more other funds set up for specific purposes. For example, Madison has an Open Space Trust Fund.

Fund Balance

Fund Balance is the difference between (a) a fund’s assets and (b) its liabilities and reserves. It represents the accumulated results of a fund’s activities since the fund was established. Fund Balance can increase or decrease over time, depending on the extent to which a fund’s annual revenue exceeds or falls short of its appropriations.

Only the three Madison funds shown below had a Fund Balance at the end of 2013, combining to create a total Fund Balance slightly more than $15 million.

$000s	Current Fund	Electric Util. Fund	Water Util. Fund	Total Fund Bal.
Balance at 12/31/13	$7,250	$6,322	$1,518	$15,090

Fund Balance Life Cycle

NJ laws and accounting regulations allow a municipality to use some of its prior year-end Current Fund Balance (aka surplus) as revenue in the current year's budget. But this is not revenue as one customarily thinks of that term (i.e., funds generated from current activities such as taxation, fees for services, grants, etc.) Rather, this "surplus as revenue" is essentially a "financial cushion" in case actual revenues fall short of expectations and/or additional or emergency appropriations are required.

The flip side to the use of Current Fund Balance as revenue in the municipal budget at the start of the year is the generation of Current Fund Balance when actual municipal results end up being better than budgeted amounts at the end of the year. In this way, the Current Fund Balance (or surplus) is replenished as illustrated and explained below.

The Borough began 2013 with $5,592,000 in Current Fund Balance. It used $2,975,000 as revenue in the municipal budget. Actual 2013 results were $4,633,000 better than expected, which was "returned" to the Current Fund. This brought Current Fund Balance to $7,250,000 at year-end 2013, a year-over-year increase of $1,658,000. Similar Fund Balance cycles exist for years before 2013.

	2013 Fund Balance Flows	$000s		
	12/31/2012 Fund Balance	5,592		
	Surplus as 2013 Revenue	(2,975)		
2013Δ = 1,658	Subtotal	2,617	3,060	Revenue greater than budget
	2013 Surplus Generation	4,633	1,573	Unexpended balances cancelled
	12/31/2013 Fund Balance	7,250		

As shown to the right of the table, approximately two-thirds of the $4,633,000 in 2013 surplus generation came from higher-than expected revenue and about one-third from expense savings (called "unexpended balances cancelled" in municipal accounting, and explained below).

A similar surplus life cycle exists for the two utilities. A flow chart of the Borough's consolidated surplus and life cycle for 2013 is at the end of this Appendix A.

Unexpended Balances Cancelled

At the end of each year, budgeted appropriations, which have not been spent, are reserved for possible expenditure in the coming year. This "reserving" occurs for various reasons. For example, a vendor may have rendered services to the Borough in December but doesn't submit an invoice for payment until the following January.

The reserved funds are kept on the books for 12 months, after which any unexpended (aka unspent) balances in the reserves are cancelled and become part of surplus generation. An unexpended balance cancelled is in effect an appropriation savings, albeit with a one-year lag.

Thus, the $1,573,000 of unexpended balances cancelled within the 2013 surplus generation relates to amounts budgeted for 2012 that ultimately weren't needed, such amount being the result of the budgeting practices described in Observation #1.

Similarly, at the end of 2013, $1,447,000 of 2013 appropriations was reserved for possible expenditure in 2014. Come the end of 2014, some portion, possibly substantial, will not have been expended and will re-generate surplus.

The large unexpended balances result from unspent funds in scores of individual line items. However, as shown below, spending variances in just a small number of budget appropriations represent the majority of total year-end reserved balances.[20]

	Appropriations Reserved at December 31 ($000)(a)	
	2012	2013
Police	$45	$115
Public Works	318	222
Garbage	122	144
Insur./Claims	242	281
Utilities	82	67
Gasoline	14	71
Subtotal	823	900
Tot. Reserved	1,485	1,447

(a) Unencumbered amounts only

Accrued Benefits

New Jersey statutes do not permit a municipality to recognize accrued sick and vacation benefits as a liability. Rather, such obligations are recognized when paid. At December 31, 2013, the Borough had approximately $2.4 million of such obligations, which should be considered when evaluating Fund Balance levels.

[20] Based on the largest amounts for 2013.

Borough of Madison -- 2013 Surplus Flows

MUNICIPAL			
Income	74,606	12/31/2012	5,592
Expenditures	(69,973)	To Muni Budget	(2,975)
	4,633	2013 Results	4,246
		FEMA Recovery	387
↑ property taxes	*1,730*	12/31/2013	7,250
↑ misc. revenue	*668*		
Unbudgeted revenue	*662*		
Unexpended $	*1,573*		

"Surplus" in 2013 Muncipal Budget		
	Municipal	2,975
	Electric Utility	3,722
	Water Utility	450
		7,147

ELECTRIC UTILITY			
Income	23,877		
Expenditures	(19,706)		
	4,171	12/31/2012	5,373
2013 Def. Charges	500	To Muni Budget	(3,722)
	4,671	2013 Results	4,671
		12/31/2013	6,322
↑ metered service	*4,021*		
↑ misc. revenue	*144*		
Unexpended $	*506*		

WATER UTILITY			
1,441	12/31/2012	2,858	Income
(450)	To Muni Budget	(2,331)	Expenditures
527	2013 Results	527	
1,518	12/31/2013		
		210	*↑ water rents*
		30	*↑ other rev.*
		287	*Unexpended $*

Appendix B: Alternative Budget Format and Flow Chart

The budget documents currently used in Madison are largely governed by statutory reporting requirements and historical practice. The Committee found these documents useful, and their standardization facilitated historical comparisons. However, as our analysis proceeded, we increasingly saw a need to design an alternative budget format that better reflected financial realities.

Shown on the next page and explained below is the Committee's alternative format for the 2014 budget, which differs from the current "budget in brief" format in three ways:

- It separates operations from long-term capital activities.
- It flips revenue and appropriations, showing appropriations first, primarily because, in the Committee's view, "spending drives everything."
- It introduces the concept of a budget "shortfall," which is simply the difference between municipal revenues and municipal appropriations.

In short, the alternative format is an attempt to show the major spending decisions the Borough Council must make AND the revenue-raising options the Council has at its disposal. We see it as a useful companion document for annual and longer-term budgeting discussions and for public disclosure.

Regarding Columns:

- "Opns" (Operations) include the annual costs of providing services and running the Borough.
- "Capital" includes the Capital Improvement Fund (how long-term capital investment is handled within the municipal budget) and Debt Service (interest and principal due on debt incurred for capital investment).

Regarding rows:

- The allocation of appropriations is self-explanatory given the column descriptions.
- Certain revenues exclusively support just one type of appropriations:
  - Property taxes, an annual decision, support annual operating activities.
  - Similarly, municipal sources and state aid generally relate to services provided by Borough operations.[21]
- Non-recurring revenue supports capital appropriations. Because "capital" funds or assets generated these revenues, it is appropriate that they fund capital appropriations.

The alternative budget format grew out of analysis of the Borough's audited results for 2013 and its budget for 2014. That analysis is summarized in the Appendix A and B flow charts, which visually depict the flow of funds between the Borough and the two utilities.

[21] The Borough's 2014 budget includes a $450,000 transfer from the water utility in "Municipal Sources." Since this transfer is essentially identical to the one coming from the electric utility, the alternative format treats it as a utility transfer.

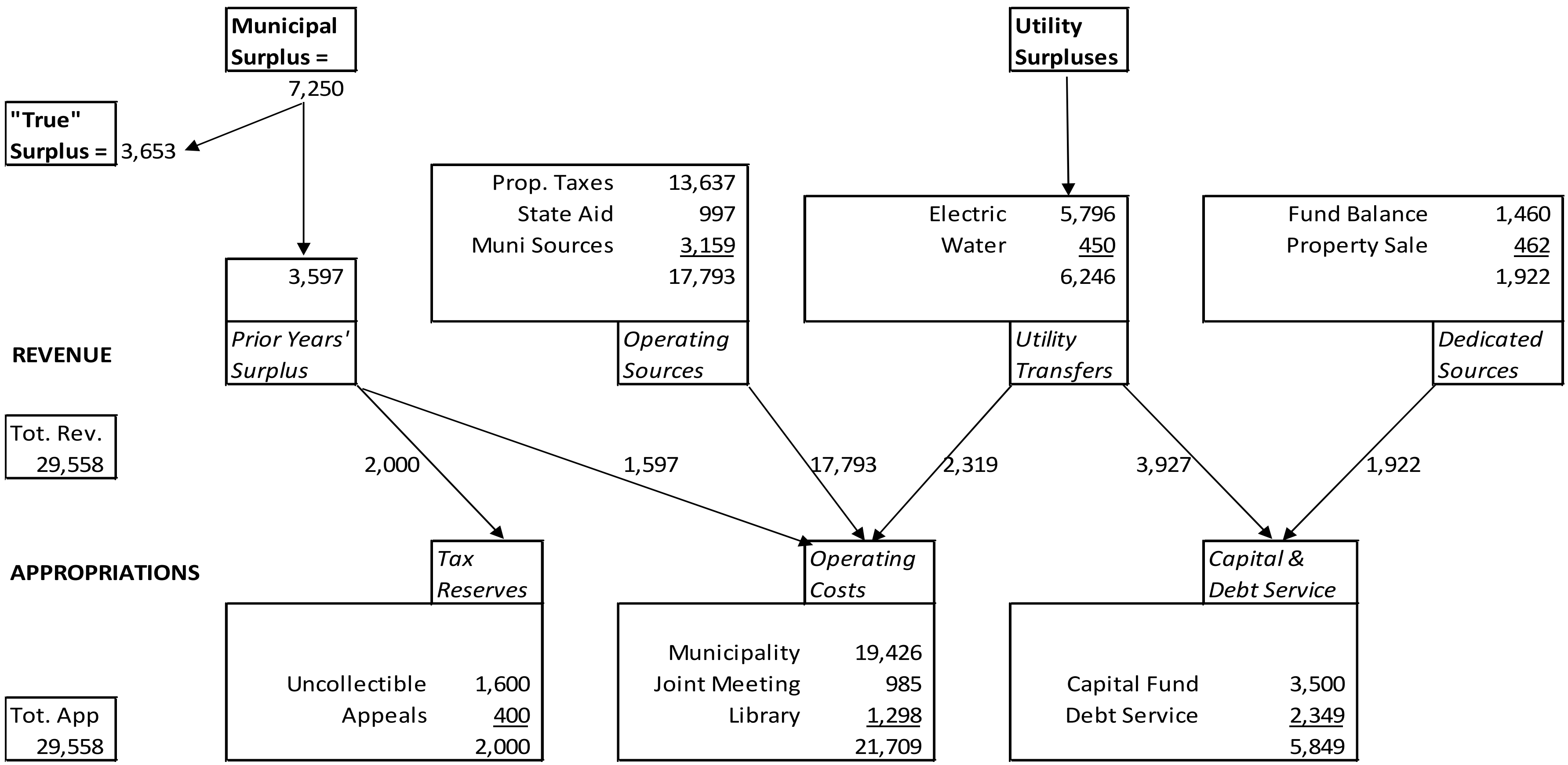
Borough of Madison – 2014 Budget – Alternative Format

$000s	Opns	Capital	Total
Appropriations			
Compensation	13,565		
Other Operating Exp.	5,861		
Public Library	1,298		
Mad-Chat Joint Mtg	984		
Res. For Tax Appeals	400		
Res. For Uncollected	1,600		
Capital Improv Fund		3,500	
Debt Service		2,349	
Total Appropriations	23,708	5,849	29,557
Revenues			
Recurring			
Prior Year Surplus	3,597		
Property Taxes	13,637		
Municipal Sources	3,158		
State Aid and Grants	997		
Non-recurring			
Gen. Cap. Fund. Bal.		1,460	
Sale of Property		462	
Subtotal	21,389	1,922	23,311
Shortfall (Rev. less Approp.)	(2,319)	(3,927)	(6,246)
Utility Transfers			
Electric			5,796
Water			450
Net Result			0

The foregoing alternative budget format is just a first step in providing greater, and more straightforward, insight into the services that the Borough finances through property taxes and fees. The Committee envisions that the budget documents used, and publicly distributed, by the Borough would be supplemented with additional reports containing analyses of compensation and other operating expenses. These two categories account for more than 80% of operating appropriations.

In particular, there should be greater and more detailed transparency for services such as police, fire, public works, trash collection, health department, etc. For example, costs for services should be shown on an all-in basis. Similarly, any revenues directly associated with a particular service should be included. Analysis of this and other additional information should focus on historical trends and plans for meeting future needs in a cost-effective manner.

Borough of Madison -- 2014 Budget Flows



Appendix C: Borough of Madison Financials – Assumptions used for 2016-17 Projections

- The starting point for the Committee's projections in this final report was the 2015 budget introduced in March 2015:

- Assumptions for surplus calculations (at the bottom of Appendix C1)
  - The Fund Balance (surplus) for the Current Fund was $7,789,000 at the end of 2014 with $4,136,000 generated during the year, as shown in the 2015 introduced budget
  - Surplus at the end of a year that exceeds 25% of the following year's total appropriations is considered "excess" and can be used for capital appropriations. Note: "excess surplus" is considered non-recurring revenue in the alternative budget format.
  - The amount of prior year surplus used as "basic" revenue in 2016 is the lesser of (a) the amount used in 2015 ($3,900,000) or (b) the amount generated in 2015 ($3,889,000), figured as the average amount generated during the 2008-14 period. The two amounts are virtually, but coincidentally, identical. And similarly for 2017.

- For 2016 and 2017:
  - No change in the type, level or funding of Borough services from 2015.
  - 2% growth in all operating appropriations.
  - Debt service per a schedule in the Borough's 2013 audit.
  - Funding for the Capital Improvement Fund at $4 million annually – in line with the Capital Committee's report.
  - Revenue:
    - 2% annual growth in property taxes and municipal sources,
    - State aid and grants remain flat at $1,038,000; GVR development revenue based on administration estimates.
    - Surplus as revenue, both basic and excess, as determined under the proposed guidelines.

Appendix C1: Borough of Madison Financials -- 2011-14 Budgets and 2015-17 Projections

$000s	2011	2012	2013	2014	2015	2016	2017	Assumptions for 2016 & 2017
REVENUES								
Prior Year Surplus	3,635	2,800	2,975	3,597	3,900	3,899	3,899	calculated below
Excess Surplus						166	0	calculated below
Municipal Sources	2,800	3,116	3,094	3,158	3,345	3,412	3,480	2% growth
State Aid & Grants	970	910	915	997	1,038	1,038	1,038	flat
GVR Payments					75	144	400	Boro. Adm. Estimate
Gen. Cap. Fund Bal.	167	772	500	1,460	130			
Elect. Util. Transfer	3,356	3,516	3,722	5,796	6,233	7,210	7,249	plug to foot
Water Util. Transf.	350	350	450	450	500	500	500	flat
Sale of Property		250	389	462				
Municipal Revenues	11,278	11,714	12,045	15,920	15,221	16,369	16,567	
Property Taxes	13,174	13,437	13,637	13,638	13,842	14,119	14,401	2%
TOTAL REVENUES	24,452	25,151	25,682	29,558	29,063	30,488	30,968	
APPROPRIATIONS								
Boro Op. Expenses	18,483	18,320	18,533	19,426	19,643	20,036	20,437	2%
Public Library	1,196	1,257	1,291	1,298	1,379	1,407	1,435	2%
M-C Joint Meeting	1,011	974	947	985	1,030	1,051	1,072	2%
Res. For Uncol. Tax.	1,500	1,500	1,560	1,600	1,632	1,665	1,698	2%
Res. For Tax Appeals				400				
Cap. Improv. Fund		750	1,000	3,500	3,053	4,000	4,000	per Capital Committee
Debt Service	2,262	2,350	2,351	2,349	2,326	2,330	2,327	Schedule from '13 audit
TOTAL APPROPRIATIONS	24,452	25,151	25,682	29,558	29,063	30,488	30,968	
Sources:	2012 Budget in Brief	2013 Budget in Brief	2014 Budget in Brief	2014 Budget in Brief	2015 Budget Introduced	Committee Estimates	Committee Estimates	
SURPLUS CALCULATIONS								
Beginning of Year				7,250	7,789	7,622	7,622	min (EOY, guideline)
Minimum Used in Muni Budget				(3,597)	(3,900)	(3,899)	(3,899)	min (prior year used, prior year generated)
Generated during Year				4,136	3,899	3,899	3,899	2015-17 is 2008-14 average
End of Year				7,789	7,788	7,622	7,622	
Guideline at	25%			7,266	7,622	7,742		of next year's spending
Excess Available				523	166	0		
Excess to Budget				0	166	0		

Appendix C2: Borough of Madison Financials -- 2011-14 Budgets and 2015-17 Projections -- Alternative Format

$000s	2011	2012	2013	2014	2015	2016	2017	Assumptions for 2016 & 2017
APPROPRIATIONS								
Operations								
Borough Expenses	18,483	18,320	18,533	19,426	19,643	20,036	20,437	2% growth
Public Library	1,196	1,257	1,291	1,298	1,379	1,407	1,435	2%
M-C Joint Meeting	1,011	974	947	985	1,030	1,051	1,072	2%
Res. For Tax Appeals				400	0			
Res. For Uncollected Tax	1,500	1,500	1,560	1,600	1,632	1,665	1,698	2%
Subtotal Operations	22,190	22,051	22,331	23,709	23,684	24,158	24,641	
Capital								
Capital Improv. Fund		750	1,000	3,500	3,053	4,000	4,000	per Capital Committee
Debt Service	2,262	2,350	2,351	2,349	2,326	2,330	2,327	Audit schedule
Subtotal Capital	2,262	3,100	3,351	5,849	5,379	6,330	6,327	
TOTAL APPROPRIATIONS	24,452	25,151	25,682	29,558	29,063	30,488	30,968	
REVENUES								
Recurring								
Prior Year Surplus	3,635	2,800	2,975	3,597	3,900	3,899	3,899	See Appendix C1
Property Taxes	13,174	13,437	13,637	13,638	13,842	14,119	14,401	2%
Municipal Sources	2,800	3,116	3,094	3,158	3,345	3,412	3,480	2%
GVR Payments					75	144	400	Boro. Adm. Estimate
State Aid & Grants	970	910	915	997	1,038	1,038	1,038	flat
Subtotal Recurring	20,579	20,263	20,621	21,390	22,200	22,612	23,218	
Non-Recurring								
Excess Surplus					0	166	0	See Appendix C1
Gen. Cap. Fund Bal.	167	772	500	1,460	130			
Sale of Property		250	389	462	0			
Revenues before Transfers	20,746	21,285	21,510	23,312	22,330	22,778	23,218	
Shortfall (Rev. less Approp.)	(3,706)	(3,866)	(4,172)	(6,246)	(6,733)	(7,710)	(7,749)	
Utility Transfers								
Water	350	350	450	450	500	500	500	flat
Electric	3,356	3,516	3,722	5,796	6,233	7,210	7,249	plug to foot
Net Result	0	0	0	0	0	0	0	
Memo: Capital Shortfall	(2,095)	(2,078)	(2,462)	(3,927)	(5,249)	(6,164)	(6,327)	
Memo: Operating Shortfall	(1,611)	(1,788)	(1,710)	(2,319)	(1,484)	(1,546)	(1,422)	
Op. S'fall % Total Appropr.	6.6%	7.1%	6.7%	7.8%	5.1%	5.1%	4.6%	