



Surplus Presentation

September
23, 2019



What is "Surplus"

Originally presented to Council on 2/11/19

There are two types of surpluses, municipal surplus and utility surplus. We generate surplus because NJ Accounting Laws require the Borough to conservatively budget revenues and expenses. Strong surplus balances are one of the most important factors that rating agencies consider. Madison's AAA bond rating keeps our borrowing costs down.

Municipal surplus is generated when actual revenues exceed budgeted revenues. An example may help. If we budgeted \$200,000 in anticipated construction fees but we actually collected \$250,000, then the extra \$50,000 becomes surplus.

Municipal surplus is also generated from unspent funds in a budget expense line at the end of the year. As previously mentioned, the budget is more like a spending plan. We can not spend more than the budgeted amount. Because of this, we are conservative when budgeting items like rock salt, snow removal and fuel. We set those budget numbers on the high side, in case we have a bad winter or in case prices go up. If we budgeted \$300,000 for rock salt but only spent \$190,000 then the extra \$110,000 becomes surplus. We are fortunate that our Department Heads only purchase what they need and do not spend their entire budget.

Utility Surplus is the same. We have separate budgets for the water utility and electric utility. When revenues exceed projections or when expenses come in below budget, surplus is generated in each of the utility funds.

For over 70 years Madison has intentionally set electric rates in order to generate surplus. This surplus is transferred into the municipal budget as a revenue, which reduces the amount we have to raise in property taxes. In 2018, over \$7 million was used to reduce property taxes. In fact, the electric utility surplus paid for all our road reconstruction, capital needs, garbage, recycling yard waste and sewage processing. Other towns charge for garbage, charge for sewer and bond for road reconstruction and capital. We don't have those charges in Madison because of our electric utility.

Interested in learning more about the budget or how surplus works. Visit the [2014 Strategic Planning Report](#) or contact the Chief Financial Officer at cfo@rosenet.org.



Municipal Surplus

Borough of Madison							
Schedule of Municipal Surplus Balances							
Surplus Balances 2013 Thru 2018							
		2013	2014	2015	2016	2017	2018
Line	Surplus Generated From:	Actual	Actual	Actual	Actual	Actual	Actual
1	Non-Taxable Revenues	550	559	750	913	1,055	1,120
2	Delinquent Tax Collections	118	10	78	263	-	
3	Current Year Taxes	1,731	1,444	1,370	1,857	1,807	1,776
4	Cancellation of Prior Years Appropriations	1,565	1,625	1,768	1,370	2,050	2,582
5	Misc Revenue and Other Revenues	289	487	287	340	481	439
6	FEMA	380	-	-	-	-	
7	Reserved for Tax Appeals in AFS				(200)		
	TOTAL	4,633	4,125	4,253	4,543	5,393	5,917
Line		2013	2014	2015	2016	2017	2018
		Actual	Actual	Actual	Actual	Actual	Actual
8	Balance at Beginning of Year	5,592	7,250	7,778	8,131	8,470	9,276
9	Less: Utilized in Municipal Budget	(2,975)	(3,597)	(3,900)	(4,200)	(4,587)	(4,827)
10	Sub Total (Free Balance)	2,617	3,653	3,878	3,931	3,883	4,449
11	Add: Generated in Current Year	4,633	4,125	4,253	4,539	5,393	5,917
12	Balance at Year End	7,250	7,778	8,131	8,470	9,276	10,366
13	Increase (Decrease)	1,658	528	353	339	806	1,090



Municipal Surplus

We expected surplus balances to remain flat in 2018. Instead, we had an excellent year with surplus balances increasing by \$1,095,000. What generated the extra surplus?

1. Interest rates increased significantly, so interest earned was over \$200,000 more than anticipated in the budget.
2. 2018 was the first year the Borough received significant revenue / 'taxes' for the KRE development on Kings Road. This alone generated over \$450,000 in surplus.
3. The Department Heads were fiscally responsible and only purchased what they needed. The \$\$ not spent in the 2017 budget becomes surplus.



How is Surplus Generated?

- Surplus is typically generated as follows:
 - Actual revenues exceed budgeted revenues (line S1 & S5)
 - Current year taxes collected exceeding what is budgeted (line S3).
 - Cancellation of unspent line items from the 2017 budget (line S4)

Line	Surplus Generated From:	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Rev Est
s 1	Non-Taxable Revenues	569	1,357	785	550	559	750	913	1,055	478
s 2	Delinquent Tax Collections	131	306	615	118	10	78	263	-	36
s 3	Current Year Taxes	933	595	1,001	1,731	1,444	1,370	1,857	1,807	1,733
s 4	Cancellation of Prior Years Appropriations	1,388	1,245	1,265	1,565	1,625	1,768	1,370	2,050	2,571
s 5	Misc Revenue and Other Revenues	617	88	(49)	289	487	287	340	481	1,104
s 6	FEMA	-	-	410	380	-	-	-	-	
s 7	Reserved for Tax Appeals in AFS							(200)		
	TOTAL	3,638	3,591	4,027	4,633	4,125	4,253	4,543	5,393	5,922



- Surplus Guideline 1B states that prior year end municipal surplus should be no more than 25% of total appropriations for the coming year.

		2016	2017	2018	2019 est
Guideline 1B	Prior Year End Municipal Surplus/	\$8,131	\$8,474	\$9,276	\$10,371
	Total Appropriations for coming year	\$30,618	\$31,187	\$31,534	\$32,214
	(20% to 25%)	26.6%	27.2%	29.4%	32.2%
	(Surplus Doc Line S12 divided by Budget Doc Line B33)				

- The guideline is trending in the ‘wrong’ direction. This is indicating that we have to monitor surplus.
- **Madison is one of only a few towns that actually has a Surplus Guideline.**



To resolve this surplus imbalance, Council took significant steps during the 2019 budget cycle by authorizing the following actions:

1. Increasing Anticipated Revenues in the budget by \$372,654 (b2)
2. Utilizing additional Surplus of \$262,991 in the budget (b1)
3. Approving a 0% tax increase for existing properties (b3)



Final Budget Adopted April 22, 2019

Line	REVENUE	2018	2019	INCREASE (DECREASE)	PERCENT CHANGE
B 1	PRIOR YEAR MUNICIPAL SURPLUS	4,827,010	5,090,000	262,990	5.45%
B 2	MUNICIPAL REVENUE SOURCES	3,710,000	4,082,654	372,654	10.04%
B 3	PROPERTY TAXES: Existing Ratables	14,719,513	14,719,513	0	0.00%
B 4	PROPERTY TAXES: New Ratables	n/a	91,730	91,730	n/a
B 5	TAX REVENUE FROM GVR APARTMENTS / CONDOS	n/a	370,000	370,000	n/a
B 6	STATE AID	808,529	808,529	0	0.00%
B 7	TOTAL RECURRING REVENUE	24,065,052	25,162,426	1,097,374	4.56%
B 8	GRANT REVENUE	223,397	178,249	(45,148)	-20.21%
B 9	ELECTRIC SURPLUS - FOR OPERATING BUDGET	927,153	617,659	(309,494)	-33.38%
B 10	WATER SURPLUS - FOR OPERATING BUDGET	200,000	200,000	0	0.00%
B 11	UTIL SURPLUS & NON-RECURRING REVENUE FOR OPERATING	1,350,550	995,908	(354,642)	-26.26%
B 12	ELECTRIC SURPLUS - FOR CAPITAL	3,800,000	3,800,000	0	0.00%
B 13	ELECTRIC SURPLUS - FOR DEBT SERVICE	2,318,000	2,255,525	(62,475)	-2.70%
B 14	TOTAL UTILITY SURPLUS FOR CAPITAL/DEBT	6,118,000	6,055,525	(62,475)	-1.02%
B 15	TOTAL MUNICIPAL REVENUES	31,533,602	32,213,859	680,257	2.16%
Line	APPROPRIATIONS	2018	2019	INCREASE (DECREASE)	PERCENT CHANGE
B 16	SALARIES & WAGES	10,706,489	10,960,942	254,453	2.38%
B 17	HEALTH INSURANCE	1,814,000	1,814,000	0	0.00%
B 18	PENSION & SOCIAL SECURITY	1,908,000	2,080,200	172,200	9.03%
B 19	UNEMPLOYMENT INSURANCE	50,000	50,000	0	0.00%
B 20	LEGAL	235,000	260,000	25,000	10.64%
B 21	DEPARTMENT OPERATING EXPENSES	3,356,382	3,494,145	137,763	4.10%
B 22	UTILITIES	748,600	748,600	0	0.00%
B 23	WASTE REMOVAL	1,657,300	1,657,300	0	0.00%
B 24	LIABILITY & WC INSURANCE	645,850	667,163	21,313	3.30%
B 25	TOTAL MUNICIPAL OPERATING EXPENSES	21,121,621	21,732,350	610,729	2.89%
B 26	MCJM SEWAGE PROCESSING	1,130,000	1,130,000	0	0.00%
B 27	PUBLIC LIBRARY	1,430,981	1,527,984	97,003	6.78%
B 28	RESERVE FOR UNCOLLECTED TAXES	1,733,000	1,768,000	35,000	2.02%
B 29	NON-MUNICIPAL & OUTSIDE THE CAP OPERATING EXPENSES	4,293,981	4,425,984	132,003	3.07%
B 30	CAPITAL IMPROVEMENT FUND	3,800,000	3,800,000	0	0.00%
B 31	DEBT SERVICE	2,318,000	2,255,525	(62,475)	-2.70%
B 32	TOTAL CAPITAL & DEBT EXPENSES	6,118,000	6,055,525	(62,475)	-1.02%
B 33	TOTAL APPROPRIATIONS	31,533,602	32,213,859	680,257	2.16%



- The ad hoc surplus committee met with bond counsel and the auditor to discuss surplus.
- Actual surplus figures from other AAA towns were compiled and reviewed to see if Madison was significantly out of line.



Analysis of 2016 and 2017 Surplus in thirty other AAA towns

- Surplus as a % of the budget ranged from 10.7% to 39.2%.
- Madison's was 27.1% in 2017 but that has risen to 32.2%.

- Free Balance as a % of the budget ranged from 3.4% to 33.1%.
- Madison's was 12.4% in 2017 but that has risen to 16.4% in 2019.

- In general, Madison was within range but towards the high end. As such, it was appropriate for Council to take the budget actions mentioned on slide #7.

Upper Freehold Township was removed from the data set because they were such an outlier. Their Surplus as a % of the budget was 78.6% and their Free Balance as a % of the overall budget was 55.9%.



AAA Rated Town	Fund Balance as of Dec 31st		2017 Budget [c]	Surplus used in Budget [d]	Jan 1, 2017 "Free Balance" [b - d]	Surplus Bal as % of overall budget [b / c]	Free Balance as a % of Budget [b-d] / c
	2017 [a]	2016 [b]					
Madison Borough	\$ 9,276,292	\$ 8,470,396	\$ 31,219,276	\$ 4,587,200	\$ 3,883,196	27.1%	12.4%
Allendale Borough	\$ 3,098,869	\$ 2,650,090	\$ 13,712,100	\$ 1,000,000	\$ 1,650,090	19.3%	12.0%
Avalon Borough	\$ 7,327,133	\$ 7,677,051	\$ 28,039,309	\$ 4,127,153	\$ 3,549,898	27.4%	12.7%
Bernardsville	\$ 2,380,125	\$ 2,082,353	\$ 14,722,093	\$ 1,577,751	\$ 504,602	14.1%	3.4%
Boonton Township	\$ 3,267,909	\$ 2,815,950	\$ 13,243,284	\$ 2,270,000	\$ 545,950	21.3%	4.1%
Branchburg Township	\$ 9,109,310	\$ 7,528,123	\$ 19,198,887	\$ 3,700,000	\$ 3,828,123	39.2%	19.9%
Chatham Township	\$ 3,976,554	\$ 4,719,105	\$ 14,938,189	\$ 3,216,500	\$ 1,502,605	31.6%	10.1%
Cranbury Township	\$ 5,762,049	\$ 4,375,165	\$ 11,499,452	\$ 572,450	\$ 3,802,715	38.0%	33.1%
Harding Township	\$ 3,804,887	\$ 3,544,100	\$ 8,741,889	\$ 1,908,585	\$ 1,635,515	40.5%	18.7%
Hopewell Township	\$ 946,431	\$ 768,062	\$ 2,991,438	\$ 271,000	\$ 497,062	25.7%	16.6%
Mahwah Township	\$ 7,759,624	\$ 6,318,100	\$ 39,293,717	\$ 4,400,000	\$ 1,918,100	16.1%	4.9%
Marlboro Township	\$ 10,030,038	\$ 8,650,387	\$ 36,867,355	\$ 4,200,000	\$ 4,450,387	23.5%	12.1%
Mendham Borough	\$ 2,564,272	\$ 2,429,304	\$ 8,216,855	\$ 1,508,817	\$ 920,487	29.6%	11.2%
Mendham Township	\$ 1,588,064	\$ 1,132,876	\$ 10,135,809	\$ 804,860	\$ 328,015	11.2%	3.2%
Montclair Township	\$ 12,059,343	\$ 10,937,643	\$ 85,808,016	\$ 3,935,000	\$ 7,002,643	12.7%	8.2%
Montvale Borough	\$ 5,768,520	\$ 5,763,258	\$ 19,699,555	\$ 4,075,000	\$ 1,688,258	29.3%	8.6%
Montville Township	\$ 3,978,456	\$ 3,129,318	\$ 29,366,496	\$ 2,145,000	\$ 984,318	10.7%	3.4%
New Providence	\$ 5,619,456	\$ 4,626,349	\$ 20,683,953	\$ 3,525,000	\$ 1,101,349	22.4%	5.3%
Oakland Borough	\$ 4,482,257	\$ 3,939,967	\$ 21,692,915	\$ 1,198,000	\$ 2,741,967	18.2%	12.6%
Old Tappan Borough	\$ 1,855,598	\$ 1,745,369	\$ 9,566,847	\$ 800,000	\$ 945,369	18.2%	9.9%
Plainsboro Township	\$ 4,470,509	\$ 3,143,694	\$ 27,594,929	\$ 2,355,000	\$ 788,694	11.4%	2.9%
Princeton	\$ 18,898,479	\$ 17,290,952	\$ 62,355,997	\$ 6,230,000	\$ 11,060,952	27.7%	17.7%
Ridgewood Village	\$ 5,073,414	\$ 4,808,594	\$ 48,901,810	\$ 3,630,000	\$ 1,178,594	9.8%	2.4%
Saddle River Borough	\$ 4,533,142	\$ 4,383,896	\$ 13,438,192	\$ 3,600,000	\$ 783,896	32.6%	5.8%
Summit	\$ 9,406,135	\$ 8,084,583	\$ 50,006,897	\$ 7,100,000	\$ 984,583	16.2%	2.0%
Upper Freehold Township	\$ 4,936,348	\$ 4,323,374	\$ 5,500,000	\$ 1,250,000	\$ 3,073,374	78.6%	55.9%
Warren Township	\$ 3,006,043	\$ 3,289,371	\$ 18,895,412	\$ 1,440,580	\$ 1,848,791	17.4%	9.8%
West Windsor Township	\$ 5,726,167	\$ 5,757,018	\$ 39,942,000	\$ 4,770,000	\$ 987,018	14.4%	2.5%
Westfield	\$ 14,510,517	\$ 12,409,665	\$ 45,378,388	\$ 2,174,344	\$ 10,235,321	27.3%	22.6%
Woodcliff Lake	\$ 1,708,699	\$ 1,640,875	\$ 12,883,100	\$ 1,050,000	\$ 590,875	12.7%	4.6%
Madison's current Strategic Planning Guideline 1B states that this number should no more than 25% 							



Questions?