

Hillsborough Township

CFO
Report

September

2009

Submitted by Nancy R. Haberle, CMFO/CTC





Chief Finance Officer's Report Hillsborough Township September, 2009

Executive Summary

Hillsborough's municipal budget reflects the lowest spending per capita as well as maintaining the best employee efficiency ratio of the area municipalities. The 2009 tax rate change held taxes below the rate of inflation even with the continuing cuts in state aid and decreased revenues resulting from the economic downturn.

This report examines these financial issues:

Hillsborough Has Lowest Per Capita Spending of Area Municipalities

Hillsborough Has Best Efficiency Ratio of Employees Per Resident of Area Municipalities

Hillsborough Continues to Reduce the Number of Full-Time Municipal Positions Whenever Possible

The Township Tax Rate Remains Below the Inflation Rate

State Aid Cuts and Economic Downturn Result in Loss of Budget Revenues

Hillsborough Township Decided Against the 2009 Pension Borrowing Plan

2009 Budget Reductions

Debt Reduction and Pay As You Go Capital Program Continues to Save Tax Dollars

Summary

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Hillsborough Has Lowest Per Capita Spending of Area Municipalities

When examining spending in Hillsborough, Bridgewater, Montgomery and Franklin, in Somerset County, Hillsborough's 2009 budget is the lowest per capita.

The following chart shows population based upon a report of the U.S. Bureau of the Census, Population Division, July 10, 2008 and the municipalities' most recent local budgets.

Municipality Spending	Population	Budget	Per Capita
Hillsborough	38,597	\$28,127,749	\$728.75
Bridgewater	44,408	\$37,936,964	\$854.28
Franklin	59,185	\$59,227,417	\$1,000.72
Montgomery	23,023	\$26,763,781	\$1,162.48

Per capita spending compares the cost of municipal services divided by each township's population resulting in an equalized basis for each.



Hillsborough Has Best Efficiency Ratio of Employees Per Resident of Area Municipalities

The municipal budget is viewed as a tool for measuring efficiency. As shown here, Hillsborough Township has the best Efficiency Ratio of employees per resident of the area municipalities.

Hillsborough Township has less employees serving more residents.

Municipality	Employees	Population	Employee Efficiency Ratio
Hillsborough	184	38,597	1 employee per 210 residents
Bridgewater	312	44,408	1 employee per 190 residents
Franklin	235	59,185	1 employee per 189 residents
Montgomery	152	23,023	1 employee per 151 residents

The Employee Efficiency Ratio compares each township's population divided by the number of employees in their 2009 municipal budgets resulting in an employee per number of residents ratio.

(Source: 2009 Budget Synopsis)



Hillsborough Has Reduced The Number of Full-Time Municipal Employees

Hillsborough had 173 full time employees in 2001 and now has 157 full time positions funded in the 2009 budget.

The budget includes cost savings from not budgeting 5 full-time positions. These positions are comprised of clerical, public works and professional titles.

When a position is vacated, an evaluation is done to determine if the position can be eliminated, replaced at a potentially lower salary, or consolidated with another job.

When possible, vacant full-time positions are combined with existing full-time positions, to reduce salary and benefit expense. These combined positions currently include Fire/Building Subcode Official, Administrator/Township Clerk, and Chief Finance Officer/Tax Collector.

While the reduction in the number of employees is one of the few areas where the Township can control spending, ensuring continuity in the quality of service to Hillsborough's taxpayers remains a significant part of this decision making process.



The Township Tax Rate Remains Below the Inflation Rate

The 2009 inflation rate, as determined by the U.S. Department of Labor, is 3.8% (Source: www.dol.gov).

The 2009 municipal budget has a tax rate change of 1.1 points, which, for the average home, means an additional \$36 for 2009. This is a 2.63% increase.

The owner of an average assessed home valued at \$325,000 will pay \$1,362 in 2009 for municipal services.

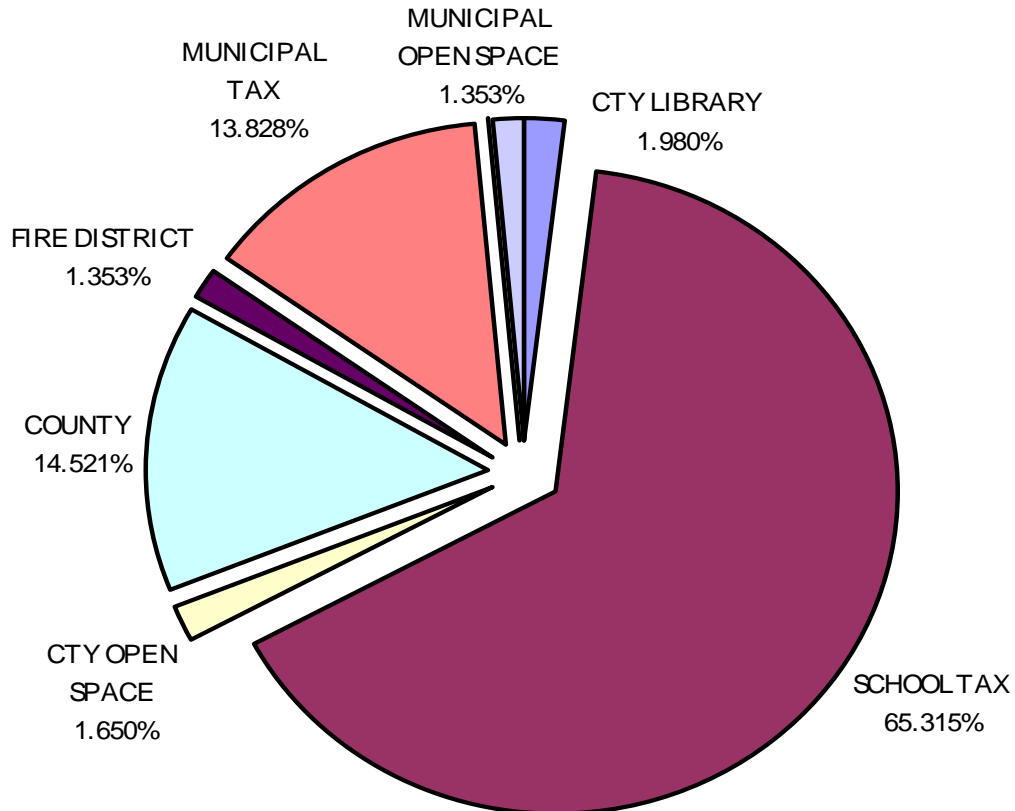
Tax Rates for 2009:

District School Tax	1.979
County Tax	.440
Local Municipal Tax	.419
County Library Tax	.061
County Open Space	.050
Municipal Open Space	.041
Fire District	.041
Total Tax Rate	3.030 per \$100 of Assessed Property Value

Over 65% of the total property tax bill is for school taxes and over 18% is for County taxes. The municipal portion is less than 14% for 2009.



TAX RATES AS % OF TOTAL BILL





State Aid Cuts and Economic Downturn Result in Loss of Budget Revenues

One of the budgetary challenges faced are the continued cuts in State Aid. The loss of State Aid from 2008 to 2009, with no add-backs from prior year State Aid cuts resulted in a reduction of \$273,000.

As shown below, from 2007 to 2009, the Township's State Aid has been reduced a total of \$842,802.

The economic downturn has decreased several lines of non-tax revenue. Interest on investments is lower and land use fees are down due to the decreased number of applications being filed.

There are some areas of non-tax revenue where the Township has seen an increase, including State Energy Receipts Tax payments as well as cell tower and construction fees.

The net result of these economic downturn decreases and revenue increases is a non-tax revenue reduction in the 2009 municipal budget of \$445,317.



2009 MUNICIPAL BUDGET NON-TAX REVENUE

Non-Tax Revenue Reductions due to Economic Downturn:

• State Aid Below 2008	\$273,065
• Interest on Investments	\$210,000
• Grants Not Yet Confirmed	\$ 98,276
• Planning/Zoning/Engineering Fees	\$ 70,000
Total Reductions	\$651,341

Revenue Increases:

• Energy Receipts Tax	\$166,024
• Cell Tower Fees	\$ 30,000
• Construction Fees	\$ 10,000
Total Increases	\$206,024
Total Reductions	(\$651,341)
Net Reduction in Non-Tax Revenues	(\$445,317)



Hillsborough Township Decided Against The 2009 Pension Borrowing Plan

The Hillsborough Township Committee decided against the State Plan that allowed borrowing for one-half of the 2009 pension payment.

To have not paid the total pension payments for 2009 would have cost the taxpayers nearly 1.6 million dollars in subsequent years, as shown in the chart below.

These additional expenses would have included more than \$800,000 in interest over the 15-year repayment plan.

Additionally, while participating in the Pension Borrowing Plan would have reduced the 2009 pension payment, Hillsborough would have had to make a full payment in 2009. The increase in the 2010 mandatory pension appropriation would have been \$930,000, which would have resulted in a 2.46 point tax increase on that single line item next year.



HILLSBOROUGH TOWNSHIP 2009 MUNICIPAL BUDGET

Pension Borrowing Plan

Amount to be Borrowed	\$ 795,399
Interest for 15 year repayment at 8.75% per year	\$ 803,765

Total Cost of Borrowing Plan
\$1,599,164



2009 Budget Reductions

The table on page 13 lists the 34 appropriation line items in the 2009 Hillsborough municipal budget that were reduced below the 2008 level.

These reductions resulted in a 2009 savings of \$881,123.

There are also 28 appropriation line items that remain unchanged from 2008 to 2009.

Additionally, there are 31 line items that are at a lower level in 2009 than they were in 2007.



HILLSBOROUGH TOWNSHIP 2009 MUNICIPAL BUDGET

34 LINE ITEMS REDUCED
2009 SAVINGS OF \$881,123

Administrator OE	\$ 108	Governing Body OE	\$ 398
Township Clerk OE	\$ 1,259	Elections OE	\$ 471
Information Tech OE	\$ 1,601	Human Resources OE	\$ 2,255
Legal Services OE	\$ 4,350	Outside Legal OE	\$ 3,210
Econ.Develop OE	\$ 150	Financial Admin OE	\$ 644
Tax Collection S&W	\$ 17,789	Tax Collection OE	\$ 739
Tax Assessor OE	\$ 1,432	Planning Board OE	\$ 30,000
Zoning OE	\$ 526	Envir. Comm. OE	\$ 74
Construction S&W	\$ 9,609	Construction OE	\$ 51,000
Police OE	\$ 52,932	Emergency Mgmt OE	\$ 4,139
Municipal Court OE	\$ 2,157	Engineering OE	\$ 2,511
Board of Health OE	\$ 2,409	Social Services OE	\$ 220
Wildlife Mgmt OE	\$ 923	Gypsy Moth OE	\$ 259
Blood Borne Path. OE	\$ 90	Recreation S&W	\$ 22,894
Gasoline	\$ 25,000	Group Insurance	\$100,058
Deferred Charges	\$ 5,200	Debt Service Interest	\$ 99,579
Capital	\$246,000	Reserve Uncoll. Taxes	\$191,137



Debt Reduction and Pay As You Go Capital Program Saves Tax Dollars

Debt Reduction

Through a commitment to its Debt Reduction Plan, Hillsborough has reduced Bond Anticipation Note (BAN) debt by 44% since 2006. In 2006, debt was \$4,454,800, and now, in 2009, the balance is \$2,493,321 (see chart on page 15).

By making extra BAN payments, the interest **savings** for taxpayers in the 2009 budget is **\$51,825** (see chart on page 15).

The accumulated interest savings from 2006 through 2009 is over \$75,000 and that savings is expected to double in 2010.

Pay As You Go Capital Improvement Plan

In 2003, Hillsborough instituted a "Pay As You Go" capital improvement plan.

Instead of borrowing for routine capital purchases, less the 5% state mandated down payments for bond ordinances, the monies needed for these purchases were managed through each year's budget.

The following chart reflects capital ordinances for the period 2003 to 2009 for routine capital infrastructure improvement and equipment purchase programs, each of which was funded through that year's budget.

If the \$8,811,180 that was eligible for bonding had been issued, the resulting interest payment, estimated at the current municipal market interest rate of 4%, would have to have been included in the 2009 budget.

This has resulted in a **savings** of over **\$352,000** in interest payments in the 2009 budget (see chart on page 16).

The net effect of the debt reduction and pay as you go capital policies is a total interest savings of **\$404,272** for taxpayers in 2009.



“Debt Reduction Plan” Continues to Save Tax Dollars

Debt Reduction:

YEAR	BEGINNING BALANCE - BANS	PAYDOWN	YEAR END BALANCE	ACCUMULATED % REDUCED
2005	\$4,454,800	\$0	\$4,454,800	0
2006	\$4,454,800	\$146,921	\$4,477,879	0
2007	\$4,477,879	\$299,973	\$4,177,906	6.22%
2008	\$4,177,906	\$828,332	\$3,349,574	24.81%
2009	\$3,349,574	\$856,253	\$2,493,321	44.03%

Resulting Interest Savings:

YEAR	INTEREST W/O PAYDOWN	INTEREST PAYMENT	SAVINGS	
2005	\$133,644	\$133,644	\$0	
2006	\$194,898	\$194,898	\$0	
2007	\$184,992	\$178,618	\$6,374	
2008	\$184,992	\$167,116	\$17,876	
2009	\$127,182	\$75,357	\$51,825	
2010	\$184,992	\$99,733	\$85,259	(Estimated 4%)
TOTAL SAVINGS			\$161,334	



“Pay As You Go” Capital Program Continues to Save Tax Dollars

Capital Ordinance	Amount
03-18	\$1,265,495
04-17	\$1,307,500
05-17	\$1,259,200
06-13	\$1,698,950
07-15	\$1,514,845
08-18	\$1,290,936
09-20	\$ 938,000
	<u>\$9,274,926</u>
5% Downpayment	<u>\$ 463,746</u>
Authorized Debt	<u>\$8,811,180</u>
2009 Savings from Debt Not Issued (4% Interest)	\$ 352,447
2009 “Pay As You Go” Savings	<u>\$ 51,825</u>
2009 Total Saving	<u>\$ 404,272</u>



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Summary

Each year, New Jersey's 566 municipalities face the arduous task of providing a budget that is fiscally responsible while maintaining a level of service that meets the expectations of the taxpayers.

There are increases beyond local control from collective bargaining contracts, State and Federal mandated costs, and inflation rates.

Hillsborough Township continues to see annual reductions in State Aid and this year saw reduced income from interest on investments and land use fees, resulting from the economic downturn.

While facing the challenge of balancing less revenue against mandatory spending increases, Hillsborough Township still maintains the lowest per capita spending of area municipalities, as well as the best efficiency ratio of employees per resident.

By carefully reviewing before replacing vacant positions and controlling departmental spending, the Township was able to reduce 34 line items and freeze an additional 28 line items in the 2009 budget.

(continued on next page)

Hillsborough Township CFO Report



The Township Committee chose to “Just Say No” in response to the Pension Borrowing Plan, which would have ultimately cost Hillsborough Township’s taxpayers \$1.6 million in future years.

By making a commitment to debt reduction and a “pay as you go” capital plan, over \$403,000 did not have to be budgeted in 2009 to pay interest on outstanding debt and borrowing for routine capital purchases.

As a result of these prudent fiscal practices, the Township of Hillsborough, despite financial obstacles outside the control of the Township, is still able to hold the municipal tax rate change below the rate of inflation.

Spending levels continue to be viewed as a means by which to measure efficiency. Because of these commitments, the Township’s residents are provided with continuity in the quality of services they receive.

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