

Hillsborough Township

September

CFO
Report

2011

Submitted by Nancy R. Haberle,
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Chief Finance Officer's Report Hillsborough Township September, 2011

Executive Summary

The Township of Hillsborough continues to maintain a business-like approach in the area of municipal finance. This requires making careful and often difficult decisions today while bearing in mind their impact on future years.

This report examines these financial issues:

2011 Best Practices Compliance Assures 100% of State Aid for 2nd Consecutive Year

Hillsborough Township Maintains High Bond Rating While Other Governments See Downgrades

Debt Reduction and Pay As You Go Capital Programs Continue to Save Tax Dollars

2011 Budget Line Item Reductions

2011 Mandatory Cost Increases Beyond Local Control

Effect of 2% CAP and Revaluation on Tax Rate

Summary

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2011 Best Practices Compliance Assures 100% of State Aid for 2nd Consecutive Year

The Best Practices Inventory Questionnaire, which was implemented for the first time in 2010, was issued by the Division of Local Government Services to assist municipalities, in a constructive manner, to evaluate, and change as needed, processes which could improve financial accountability and transparency.

The questionnaire makes municipalities look at internal controls, such as segregation of duties, offsite data storage, and written policies for employee practices. It questions the existence of a system of checks and balances that should be in place for purchasing, financial transactions and payroll processing.

Municipalities are expected to maintain personnel manuals, provide employee training at all levels, and comply with EEO and non-discrimination policies, and institute policies and procedures that will provide savings in the areas of worker's compensation and liability claims.

Hillsborough Township has been proactive in these areas and compliance came easily when completing Best Practices. The Township's participation in the CJJIF had already instituted many of the insurance, public safety and personnel practices in prior years, providing annual cost savings. The 2010 audit is a confirmation of the Township's compliance with the financial standards set by the document.

Hillsborough Township continues to participate in shared services and joint purchasing agreements, and pursues any new opportunities as they arise. The introduction of the 2011 municipal budget included a presentation done in unison with the Board of Education to give taxpayers a better understanding of their property taxes. The Township website is well maintained and provides meaningful information to the residents.

The 2011 Best Practices Inventory Questionnaire confirms that the Township is in compliance in all categories, making Hillsborough Township eligible to receive 100% of the final State Aid payment again this year.



Hillsborough Township Maintains High Bond Rating While Other Governments See Downgrades

In 1992, the Township's initial bond rating was A1, which is Upper Medium Grade. By 2001, the Township had reached a bond rating of Aa3, which is High Grade. In 2010, Hillsborough Township was upgraded to a High Grade bond rating of Aa2, where it remains today.

This rating is affected by many key factors, including debt per capita, the unemployment rate in the County, population changes, Current Fund Surplus balance, and outstanding debt in dollars and as a percent of total allowable debt. Some of these are uncontrollable factors.

The Aa2 bond rating is, in part, a reflection of the benefits from the on-going Debt Reduction and Pay As You Go Capital Programs. The allowable debt for a municipality is 3-1/2% of the 3 year equalized valuations. Hillsborough Township's net debt is .26%, far below the debt limit.

Considering the economic downturn and the effect both that economy and the new budget laws have had on surplus balance and the ability to generate surplus, the upgrade and stability of a Aa2 bond rating since 2010 can be attributed to prudent fiscal practices and planning strategies by the Township.



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

Debt Reduction Plan

After the 2011 budget payment, the Township's Bond Anticipation Note (BAN) balance, which totaled \$4,454,800 in 2006, will be reduced to \$851,340.

Through a commitment to its Debt Reduction Plan, the 2011 BAN balance will have been reduced by nearly 81% over the past 5 years.

By making extra BAN payments, the accumulated interest savings from 2006 through 2011 is over \$154,000.

Pay As You Go Capital Improvement Plan

In each year since the institution of the "Pay As You Go" capital improvement plan in 2003, routine capital purchases have been funded through the municipal budget.

This has eliminated both the required state mandated 5% down payment as well as the borrowing of monies through a bond ordinance.

The resulting **savings** of over **\$423,060** in interest payments in the 2011 budget is shown in the chart on page 6.



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
10-20	\$753,625
10-32	\$458,300
11-17	\$646,300
	\$11,133,151
5% Downpayment Authorized Debt	\$556,658
	\$10,576,493
2011 Savings from Debt Not Issued (4% Interest)	\$423,060



2011 Budget Line Item Reductions

The 2011 Municipal Budget Township reflected a spending increase totaling \$180,684. This is an increase over the 2010 budget of .65% (less than 1%).

There are 61 line items in the 2011 budget which remained frozen at their 2010 levels. An additional 15 line items were reduced from their 2010 level, providing a savings of \$369,745.

The table on page 8 shows the individual line items which have been reduced in 2011. These reductions have been accomplished through position attrition or the replacement of essential positions at entry level salaries, reductions in capital spending, and the Township's on-going Debt Reduction Plan.

The Township worked with municipal employees and successfully entered into voluntary agreements that provided budget reductions in 2010 of more than \$299,000. Several of these agreements included provisions for future budgetary savings. In the 2011 budget, these savings total nearly \$204,000.

While facing the challenge of balancing less revenue against mandatory spending increases, the Hillsborough Township budget process still remains focused on finding budget reductions that will not result in a change in services to its taxpayers.



2011 Budget Line Item Reductions

15 Line Items REDUCED

2011 SAVINGS OF \$369,745

Governing Body S&W	\$3,500	Township Clerk S&W	\$54,786
Planning Board S&W	\$12,344	Municipal Court S&W	\$41,495
Engineering S&W	\$3,968	Road Repairs S&W	\$38,110
Public Bldg. S&W	\$7,800	Parks Maintenance S&W	\$16,598
Social Services S&W	\$2,709	Sick & Vacation Reserve	\$15,000
Social Security	\$14,935	Capital Contracts	\$38,500
Interest on Bonds	\$31,650	Interest on Notes	\$12,927
Payments on BANS	\$75,423		



2011 Mandatory Cost Increases Beyond Local Control

While the Township was able to reduce 15 line items and freeze 61 others, there are still mandatory cost increases beyond local control.

Health benefits, while being subsidized by 1-1/2% employee contributions, continue to rise, as well as required annual pension contributions.

There were increased costs for animal control services, general insurance and matching funds reflected in the 2011 budget.

These mandatory increases beyond local control totaled \$727,557.

PFRS Pension Payment	\$250,134	
Health Benefits	\$230,757	*
PERS Pension Payment	\$189,637	
Animal Control	\$27,342	
Matching Funds (Grants)	\$16,424	**
General Insurance	\$13,263	

*Total includes 1.5% employee contributions to reduce costs

**Necessary to continue Safe & Secure Police Grant



Effect of 2% CAP and Revaluation on Tax Rate

The 2% CAP instituted in 2011 provided the most significant challenge in the preparation of the 2011 municipal budget. The Township chose not to take the available exceptions and loop holes that would have allowed a tax increase far above the 2% CAP and instead, worked to find means with which revenues could be increased and spending could be decreased to keep the municipal portion of the tax increase at 2%, or \$330,037.

The complete revaluation of all properties in Hillsborough Township has increased the total Net Valuation Taxable from \$3.835 billion in 2010 to \$5.572 billion in 2011.

This significantly changed all of the elements of the tax rate, including the County, School and Municipal portions.

The 2010 total tax rate was \$3.111 per \$100 of assessed value. The 2011 total tax rate is \$2.181 per \$100 of assessed value.

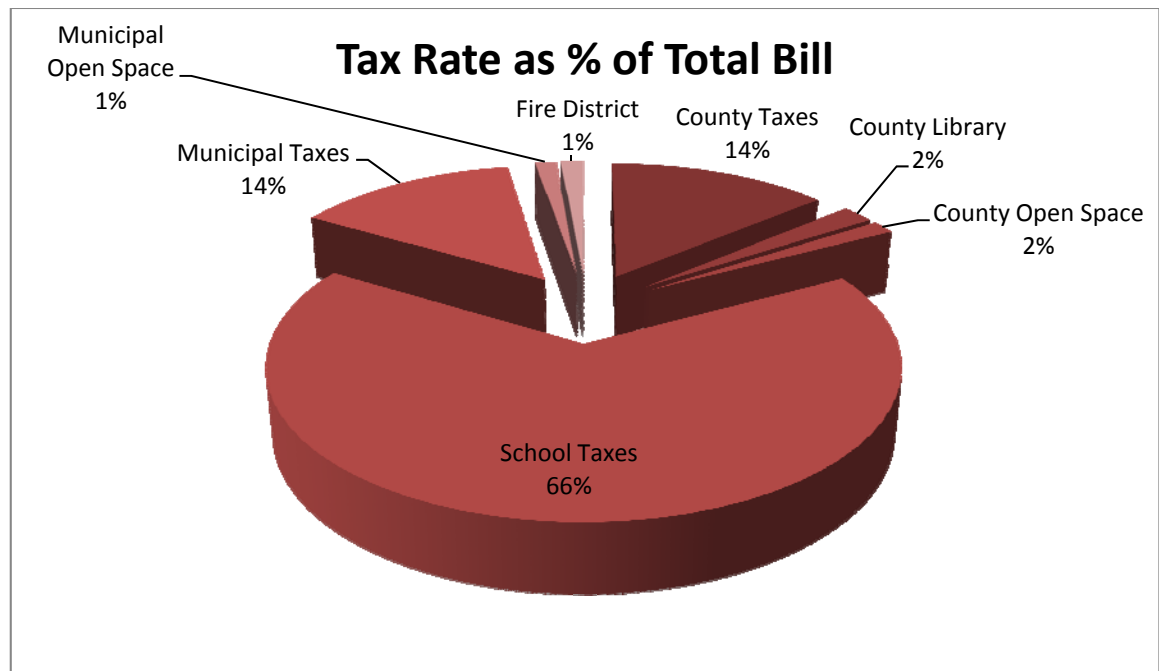
The charts on page 11 show the breakdown of the 2011 total tax rate, and the tax rate as a percentage of the total tax bill.



Breakdown of 2011 Total Tax Rate

2011 Tax Rate

County Tax	0.301
County Library Tax	0.044
County Open Space Tax	0.032
School Tax	1.444
Municipal Tax	0.302
Municipal Open Space Tax	0.028
Fire District	0.030





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Summary

Through prudent fiscal practices and proactive decision-making, Hillsborough Township will once again receive 100% of its 2011 State Aid allocation.

By continuing a commitment to debt reduction Hillsborough Township has maintained a High Grade bond rating, when other government entities are being downgraded, and has kept its net debt far below the allowable debt limit.

Hillsborough Township's "Pay As You Go" capital plan, which is now in its 9th year, annually reduces the amount of monies that need to be budgeted for interest payments. In the 2011 budget, interest of over \$423,000 did not have to be appropriated as a result of not borrowing monies for routine capital purchases.

The Township continues to find ways to reduce budget line items through hiring practices, reductions in capital spending, debt reduction, and voluntary agreements with municipal employees. Spending levels are scrutinized annually. Hillsborough Township works diligently to balance less revenue against mandatory spending increases which are beyond local control.

The 2% CAP and complete revaluation, both instituted in 2011, had a significant impact on the amount to be raised for municipal taxes. By choosing to say "no" to the various exceptions and loop holes which would have increased municipal taxes more than 2%, the Township instead made tough decisions and worked diligently to find ways to decrease spending and increase revenues.

Hillsborough Township CFO Report



Hillsborough Township's philosophy of being fiscally responsible, proactive, and planning for the future continues to maintain a level of service that meets the expectations of the taxpayers.

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