

Hillsborough Township

September

CFO
Report

2014

Submitted by Nancy R. Costa,
CCFO/CMFO/CTC/PPPO



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Chief Finance Officer's Report
Hillsborough Township
September 2014

Executive Summary

This report examines these financial issues:

Non-Tax Budget Revenues Increase for Second Consecutive Year

Key 2014 Budget Spending Changes

2014 Budget Reflects No Increased Departmental Spending for Other
Expense Line Items

The 2014 Tax Rate Components as Compared to the 2013 Tax Rate

Hillsborough Township Continues to Maintain the Lowest Per Capita
Spending of Area Municipalities

Saving Tax Dollars Through the Continuation of Pay As You Go
Capital Plans

Standard & Poor's Announces AA+ Credit Rating for Hillsborough
Township

Summary

Submitted by Nancy R. Costa, CCFO/CMFO/CTC/RPPO
September, 2014

Non-Tax Budget Revenues Increase for Second Consecutive Year

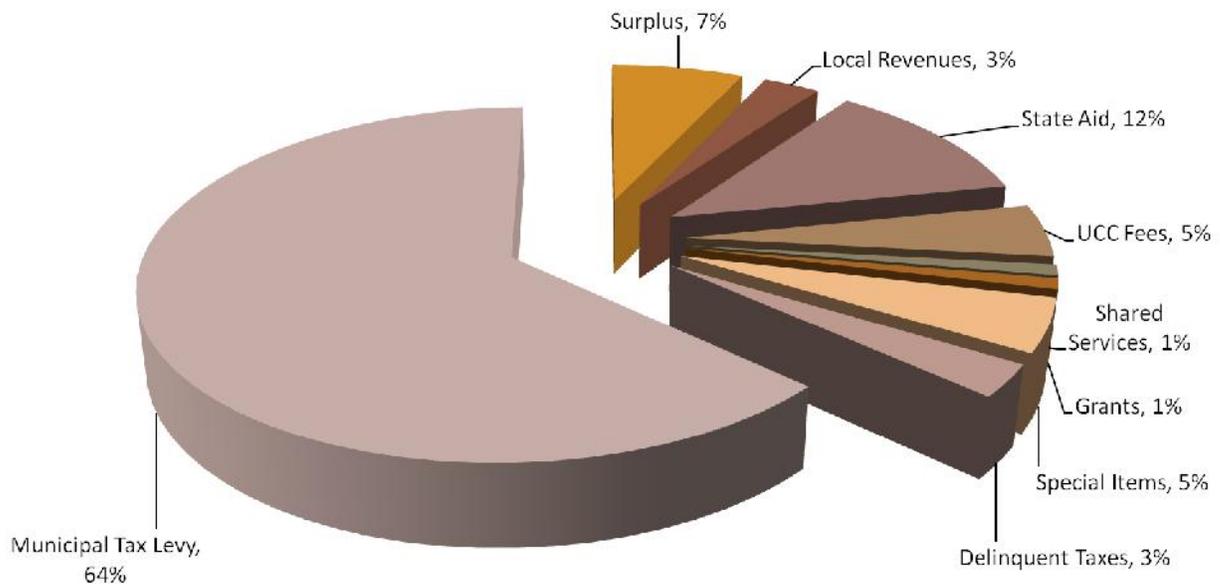
Municipal property taxes provide 64% of the budget revenues. The additional 36% of non-tax revenues come from sources such as licenses, fees & permits, interest on investments and delinquent property taxes, and State Aid.

During the economic downturn, non-tax revenues have declined nearly 20% since 2008. As the economy begins to rebound, increases in fees & permits, UCC fees and interest income have slowly begun to rebound as well.

In 2013, the Township saw an increase in non-tax revenues for the first time in six years. In 2014, non-tax revenues once again reflect an increase over the prior year.

The 2014 non-tax budget revenue is anticipated to be \$10,011,844 – an increase of \$144,565 over 2013.

The breakdown of revenues in the municipal budget can be seen in the chart shown below.



2014 Municipal Budget Key Spending Changes

The snow removal costs for the winter of 2014 increased the 2014 municipal budget by \$319,000.

Debt service was increased by \$267,978, to reflect the final payment due for the 2002 Library Expansion Project.

Contractual salary increases totaled \$165,005, and Insurance & Benefits saw a budget increase of \$119,116.

Bond ordinance 2014-10 was introduced in 2014, to replace damaged Public Works Equipment as well as fund much needed road resurfacing, all resulting from the extreme winter of 2014. This allowed for a reduction in the contribution to the Capital Improvement Fund included in the 2014 budget of \$200,000.

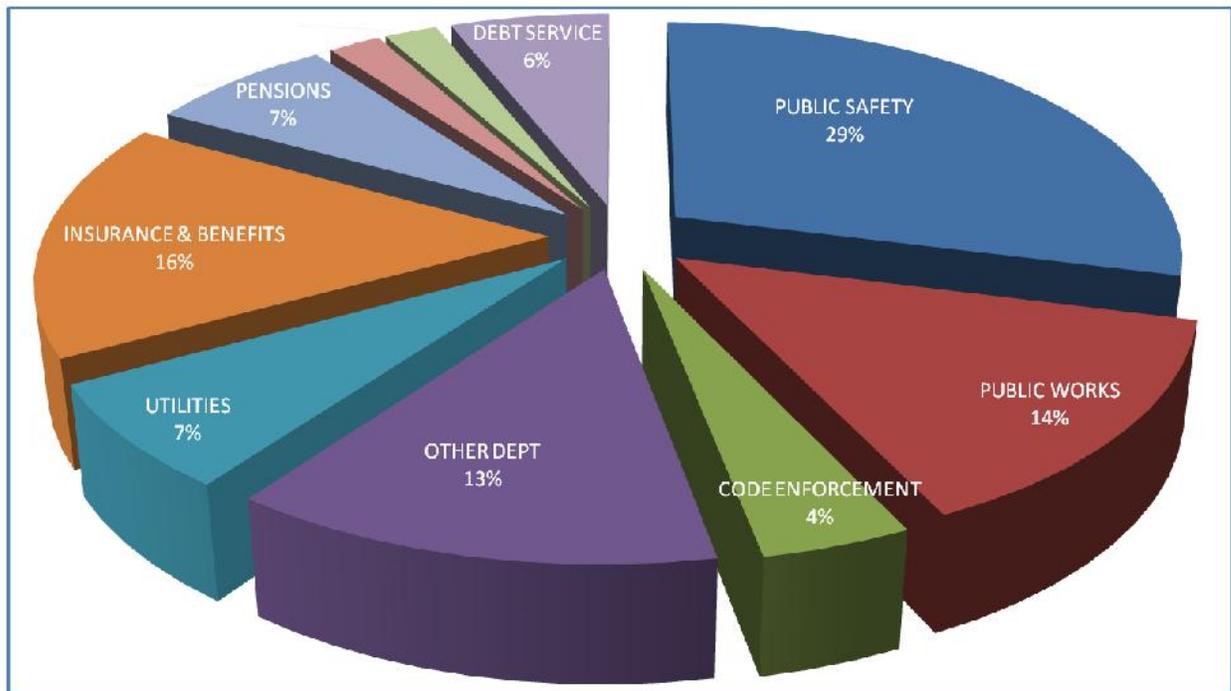
Employer pension contributions saw a \$146,000 reduction in the 2014 municipal budget as well.

2014 Budget Reflects No Increased Departmental Spending for Other Expense Line Items

The 2014 Municipal Budget reflects no increased departmental spending for Other Expenses in any of the 51 budget line items.

Of these line items, 41 remained unchanged from 2013, and 10 were reduced below their 2013 spending levels.

The chart shown below provides the breakdown of 2014 budget appropriations, with 29% being spent on Public Safety, which encompasses Police and Municipal Court expenditures, and 14% for Public Works, which includes the Department of Public Works as well as the Parks and Engineering Departments.



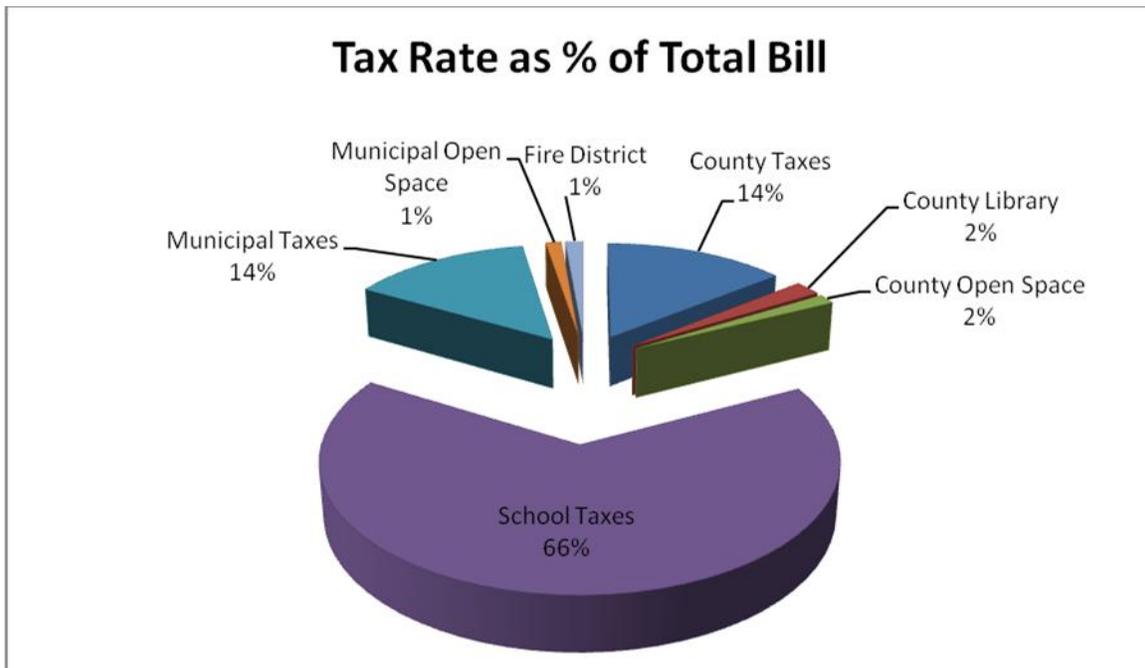
The 2014 Tax Rate and Its Components

There are 5 components of the tax rate – school, county, municipal, open space and fire district.

The 2014 tax rate is \$2.334 per \$100 of assessed value, which is an increase of 1.4 cents per \$100 of assessed value in 2014.

As shown in the tax rate chart, the 66% of property taxes fund the school budget. The Township’s budget represents 14% of the total tax bill.

On page 7, a comparison of the tax rate components and their increases from 2013 to 2014 is shown.



**Comparison of 2013 and 2014 Tax Rate Components
For a Home Valued at \$350,000**

HILLSBOROUGH TOWNSHIP TAXES – 2013 VS. 2014		
	2013	2014
County Tax	0.333	0.330
County Library	0.048	0.048
County Open Space	0.032	0.032
Regional School	1.467	1.536
Municipal Taxes	0.313	0.327
Municipal Open Space	0.028	0.028
Fire District	0.031	0.033
Total	2.252	2.334

Hillsborough Township Continues to Maintain the Lowest Per Capita Spending of Area Municipalities

When comparing the 2014 budgets for Hillsborough, Bridgewater, Montgomery and Franklin, in Somerset County, Hillsborough Township continues to have the lowest per capita spending.

The following chart shows the population based upon the most recent US Census Report as it compares to the 2014 adopted budgets:

Municipality	Population	Budget	Per Capita
Montgomery Tshp.	22,254	\$26,348,377	\$1,183.98
Franklin Tshp.	62,300	\$57,040,501	\$ 915.58
Bridgewater Tshp.	44,464	\$40,824,760	\$ 918.15
Hillsborough Tshp.	38,308	\$27,870,408	\$ 727.53

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

**Saving Tax Dollars Through the Continuation of
Pay As You Go Capital Plans**

Pay As You Go Capital Improvement Plan

By funding routine capital purchases through the municipal budget, rather than borrowing for them each year, the Township eliminates budgeting for both the required state mandated 5% down payment as well as the resulting interest expense from the borrowing of monies.

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. The resulting **savings** of over **\$461,116** in interest payments in the 2014 budget is shown in the chart below.

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	\$452,600
11-17	\$646,300
12-20	\$323,600
13-12	\$418,275
14-08	\$265,295
Total	\$12,134,621
5% Down Payment	\$606,731
Authorized Debt	\$11,527,890
2014 Savings from Not Issuing Debt (based on 4%)	\$461,116

Standard & Poor's Announces AA+ Credit Rating for Hillsborough Township

In March of 2014, Standard & Poor's announced that Hillsborough Township's rating had been increased 2 notches, from AA- to AA+. The only higher rating left to reach is AAA.

This is the 2nd consecutive time that the Township's rating has increased. There are a number of reasons why a municipality's credit rating increases.

Standard & Poor's cited the following factors for increasing Hillsborough Township to an AA+ rating:

“The stable outlook reflects our view of the Township's consistent financial performance and economy”

“The rating is further supported by the Township's very strong liquidity and strong budget flexibility”

“The Township remains within the State mandated 2% levy cap and levies at or slightly below the cap annually”

“We do not expect to revise the rating in the next two years”

Notably, because Standard and Poor's does not expect this AA+ rating to be changed for the next 2 years, the Township should expect lower interest rates for future borrowing.

Chief Finance Officer's Report Hillsborough Township September 2014

Summary

As the economy begins to rebound, non-tax revenues which support the municipal budget have begun to increase. Interest on investments has started to recover towards their previous levels. Revenues from fees and permits, including UCC fees, have shown annual increases as well.

The harsh winter of 2014 forced an increase of over \$300,000 in the municipal budget. The final payment on the 2002 Library Expansion Project has been made in 2014. Contractual salaries as well as Insurance and Benefit increases are reflected in the 2014 municipal budget.

The Township chose to bond for the extensive road resurfacing and equipment costs necessitated by the 2014 winter. This resulted in a reduction to the Capital Improvement Fund line item. The Township also saw a reduction in the mandatory employer pension contributions as well.

The 2014 budget maintained 51 departmental spending line items at or below their 2013 levels with no effect on the services provided to the residents.

Based on population and budget, Hillsborough Township's cost of services per person is the lowest in comparing the per capita spending of neighboring municipalities.

The Township's "Pay As You Go" capital plan is a commitment to fund routine capital purchases through the municipal budget. By eliminating budgeting for the required 5% down payment, as well as eliminated annual interest payments that would result from the issuance of debt, the Township has saved over \$461,000 interest payments since the program's inception in 2003.

Hillsborough Township maintains a philosophy of providing a level of service that meets the expectations of the taxpayers while managing with a business-like style which includes scrutinizing spending levels, pay-as-you-go for routine capital purchases, and working diligently to balance changes in revenues against mandatory spending increases.

The Township's proactive planning for the future and diligent fiscal stewardship is validated in the AA+ credit rating given by Standard and Poor's in 2014. This rating is a reflection of the Township's continued strong commitment to fiscal responsibility.

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