

Hillsborough Township

CFO
Report

September

2015

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



Chief Finance Officer's Report Hillsborough Township September, 2015

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:

Breakdown of 2015 Municipal Budget Revenues

2015 Key Spending Changes in the Municipal Budget

Analysis of 2015 Total Tax Rate

Comparison of 2014 vs. 2015 Tax Rate Components

2015 Best Practices Compliance Assures 100% of State Aid for 6th Consecutive Year

Hillsborough Township Maintains High Bond Rating

Hillsborough Township Has Lowest Per Capita Spending of Area Municipalities

Summary

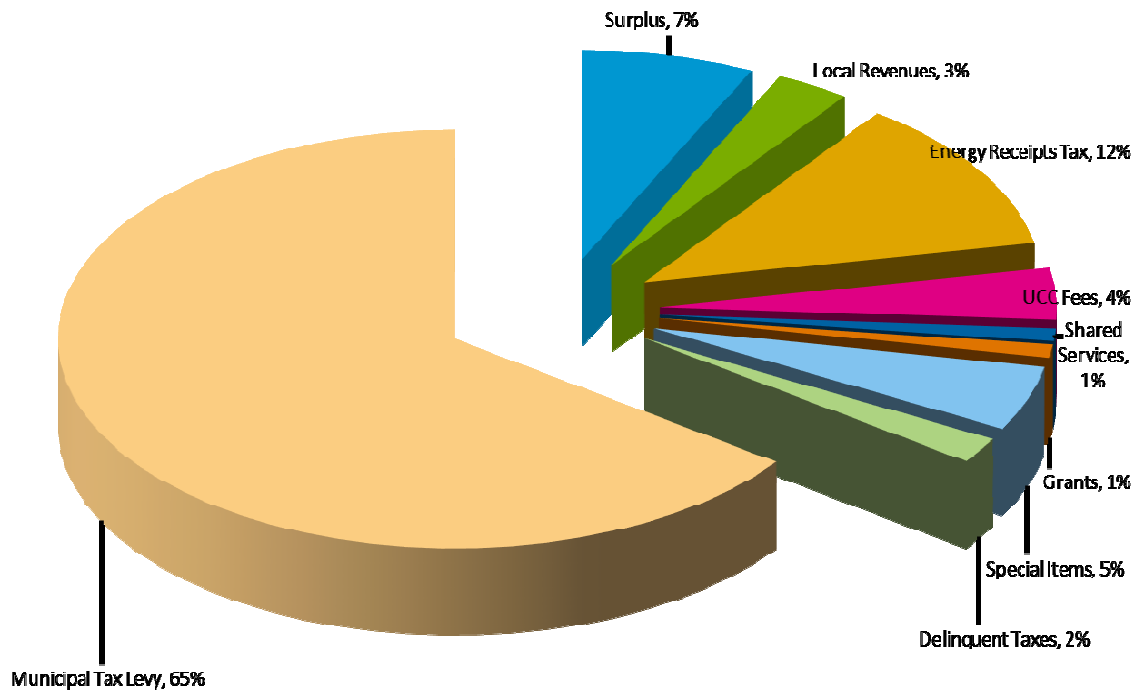
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Breakdown of 2015 Municipal Budget Revenues

The primary source of revenue in the 2015 municipal budget is the municipal tax levy at 65%. The over \$3.2 million dollars in Energy Receipts Taxes from the State of NJ provides 12% of the revenues. The balance of revenues come from various sources, such as licenses, fees & permits, cell tower leases & cable tv franchise fees, construction code permits, interest on investments and delinquent taxes, and contractual agreements.

Revenues have begun to bounce back following the economic downturn of five years ago. This year, non-tax revenues are down slightly from 2014. While we have seen increases in some areas, licenses & permits relating to property renovations and new construction have still not fully rebounded. In 2014, the tax collection rate increased, which means more taxes were collected timely, but that means that the revenues from interest & costs on delinquent taxes will decrease.





2015 Key Spending Changes in the Municipal Budget

The primary spending increases in the 2015 budget are the result of increases in the mandatory annual pension contributions, contractual increase for salaries & wages per labor contracts, and the results of yet another stormy winter. Conversely, debt service decreased after the final payment on the library expansion notes were made in 2014. The deferred charges line item also shows a reduction, after the 5th and final appropriation funding the 2010 5-year Special Emergency Appropriation, was also allocated in 2014.

Pension Contributions	\$227,558
Salaries & Wages (excludes Snow)	\$141,056
Snow Removal (Overtime & OE)	\$ 90,000
Debt Service	(\$222,153)
Deferred Charges to Future Taxation	(\$170,000)

The \$222,153 reduction in the Debt Service line item is a direct result of the Township's ongoing Debt Reduction Plan, which was instituted in 2006. By making more than the legally required principal payments on Bond Anticipation Notes, the Township is able to eliminate the need for permanent financing and has accumulated interest savings since 2006 of over \$200,000.

In 2012, the Township authorized refinancing bonds which reduces the Township's interest annual interest payments on permanent financing by over \$90,000 for the remainder of the debt, without extending the life of the loan.



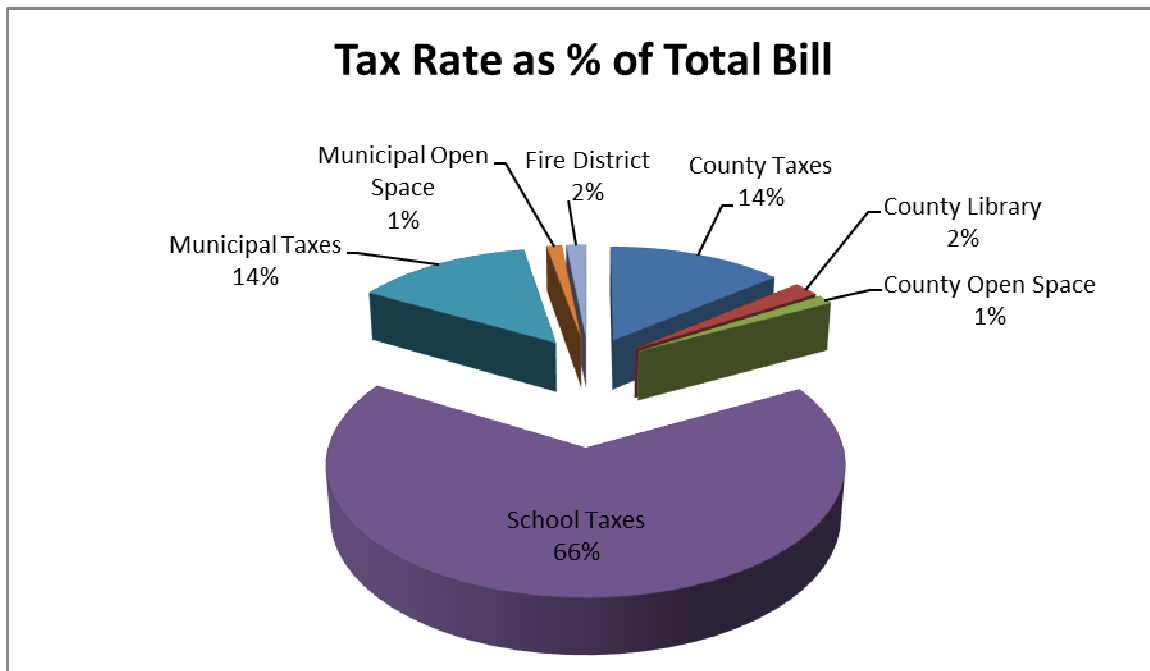
Analysis of 2015 Total Tax Rate

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

The 2015 tax rate is \$2.384 per \$100 of assessed value, which is an increase of five (5) cents per \$100 of assessed value in 2015.

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

On page 6, a comparison of the tax rate components and their increases from 2014 to 2015 is shown.





Comparison of 2014 vs. 2015 Tax Rate Components

Component	2014	2015
County Tax	0.330	0.328
County Library	0.048	0.049
County Open Space	0.032	0.031
Regional School	1.536	1.581
Municipal Taxes	0.327	0.330
Municipal Open Space	0.028	0.028
Fire District	0.033	0.037
Total	2.334	2.384

The result of over \$57 million dollars in increased ratable values as well as the 1.96% tax levy increase is a 2015 municipal tax rate of 33 cents per \$100 of property value. On a home with an assessed value of \$350,000, this meant an increase in municipal taxes of \$10.50 for 2015.



2015 Best Practices Compliance Assures 100% of State Aid for 6th 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 has instituted many of the insurance, public safety and personnel practices in prior years, providing annual cost savings. The 2014 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 Township website is well maintained and provides meaningful information to the residents.

The 2015 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

In 1992, the Township's the 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. And in March 2014, Standard & Poor's announced that Hillsborough Township's rating had been increased to AA+. The only higher rating left to reach is AAA.

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 AA+ 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 .272%, far below the debt limit.

While many municipalities still struggle to recover from the economic downturn and the effect both the economy and the new budget laws have had on surplus balance and the ability to generate surplus, the upgrade and stability of an AA+ bond rating can be attributed to prudent fiscal practices and planning strategies by the Township.



Hillsborough Township Has Lowest Per Capita Spending of Area Municipalities

When comparing the 2015 budgets for Hillsborough, Bridgewater, Montgomery and Franklin, in Somerset County, Hillsborough Township maintains the lowest per capita spending.

The following chart shows the population based upon the 2010 US Census Report as it compares to the 2015 adopted budgets:

Municipality	Population	Budget	Per Capita
Montgomery Tshp.	22,254	\$26,872,416	\$1,207.53
Franklin Tshp.	62,300	\$57,250,372	\$ 918.95
Bridgewater Tshp.	44,464	\$40,271,490	\$ 905.71
Hillsborough Tshp.	38,308	\$28,182,103	\$ 753.67

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



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Revenues have begun to bounce back following the economic downturn five years ago. This year, non-tax revenues are down slightly from 2014. While we have seen increases in some areas, licenses & permits relating to property renovations and new construction have still not fully rebounded. In 2014, the tax collection rate increased, which means more taxes were collected timely, but that conversely means that the revenues from interest & costs on delinquent taxes decreased in the budget.

Once again, the harsh winter conditions forced an increase in snow removal costs of \$90,000. Mandatory pension contributions and contractual salary agreements also resulted in increases for 2015. Appropriations for Debt Service and Deferred Charges to Future Taxation both decreased as a result of the final payment on the 2004 Library Expansion Notes as well as the elimination of the 2010 Special Emergency Appropriation for Mandatory Revaluation.

The 2015 total tax rate increased by 5 cents per \$100 of assessed value, primarily due to a significant increase in school taxes. The municipal tax rate change resulted in an increase of \$10.50 per year for a home valued at \$350,000.

Through prudent fiscal practices and proactive decision-making, Hillsborough Township will once again receive 100% of its 2015 State Aid allocation for the 6th consecutive year, based on its 2015 Best Practices Compliance.



By continuing a commitment to debt reduction Hillsborough Township has maintained a High Grade bond rating of AA+ and has kept its net debt far below the allowable debt limit.

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

Hillsborough Township's business-like management style includes scrutinizing spending levels on an annual basis, looking for ways to reduce debt, and working diligently to balance the decline in revenues against mandatory spending increases. The philosophy of strategizing for the future by promoting fiscal responsibility, and making well thought out decisions has, and will continue to, ensure the continuity of services to taxpayers at their level of expectation.

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