

TOWNSHIP OF BYRAM

NEW JERSEY

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TO: Mayor and Council and all Residents and Taxpayers of Byram Township

DATE: March 19, 2013

RE: 2013 Municipal Budget Message

INTRODUCTION

Every year the Township Council is called upon to establish municipal policy through the adoption of the Municipal Budget. While the Manager and staff prepare recommendations in the form of a draft document, the Council must ensure that the adopted budget adequately satisfies the needs of the community and serves the best interests of the Township.

The budget is divided into several categories as follows:

1. **Fund Balance to support the budget**
Fund Balance is generated by several sources including cancellation of budget reserves from 2011, revenues in excess of anticipated amounts, receipts from delinquent taxes from 2012 and added and omitted taxes collected for when construction improvements are deemed complete by Tax Assessor.
2. **Miscellaneous revenues**
These are the revenues that are generated by fees & permits, uniform construction fees, municipal court, interest on investments, interest and costs on taxes, grants, and State Aid. The forecasting of these revenues is based upon the performance of each category in the previous year. State statute prevents from anticipating more than what was realized in the prior year.
3. **Receipt for delinquent taxes**
These are funds collected from property owners delinquent in making prior year tax payments. This budget plan anticipates \$339,350 or 3.19% of total revenues.
4. **Current property taxes**
With limited growth in the Township's ratable base, loss of State Aid and miscellaneous revenues declining, the Township increasingly relies on property taxes to support its operations.

5. Appropriations
The expenditure side of the budget is assigned by department and divided within each department into “Salary and Wages” and “Other Expenses.” Also, there are categories of expenses that are not assigned to the departments. All appropriations are presented in a line-item budget format.
6. Capital Improvement Program
This item is a critical component in long-term tax stability. The Capital Improvement Program is the vehicle that allows the Township to plan and prioritize large expenditures.
7. Sewer Utility
The Township’s Sewer Utility is supported by fees collected from users of the system. The Sewer Utility has its own separate budget.

The 2013 municipal budget including the Capital Improvement Program and Public and Private Programs Offset by Revenues totals \$10,801,009.

REVENUES

Municipal Operations and the Capital Improvement Program are supported by a variety of revenues. These sources include current property taxes, State Aid, fund balance and miscellaneous revenues generated by municipal operations.

Municipalities are required by law to adopt balanced budgets. Also, municipalities are obligated to the 2010 Cap Law (Levy Cap) that amended the 2007 Cap to a two percent (2%) Cap and modified exclusions. The general exclusions include:

- Increases in debt service and capital expenditures
- Weather and other “declared” emergencies
- Pension contributions in excess of two percent
- Health benefit cost increases in excess of two percent and limited by the increase in State Health Benefit rate increase (9.2% for 2013).

The following compares the proportion of budgeted revenues from 2007 to 2013 excluding public and private revenues.

	2007	2008	2009	2010	2011	2012	2013
Current property taxes	67%	69%	71.10%	74.39%	74.47%	74.85%	75.39%
Miscellaneous revenues	18%	16.60%	14%	10.78%	10.43%	10.04%	9.77%
Surplus fund	11%	10.80%	11.50%	11.41%	11.77%	11.86%	11.66%
Delinquent taxes	4%	3.60%	3.40%	3.42%	3.33%	3.25%	3.19%

Fund Balance:

The fund balance as of December 31, 2012 totaled \$1,940,138.44. The amount of Fund Balance committed to the 2013 budget is \$1,240,102 (11.66% of total revenues) leaving a balance of

\$700,036.44. In 2012, the Township had one-time occurrences that supported the regeneration of fund balance and supported increases of reserve balances.

Sources of One-time Occurrences:

- Miscellaneous Restitution (FEMA): \$110,072.80 – 2011 Storms
- Other Miscellaneous Revenues (NJHIF Dividend): \$42,065.57
- One-Time Interfund: \$161,943.78 (\$150,000 Special Emergency Note charged to operations)
- Cancellation of Accounts Payable (2008): \$44,291.31

Increases of Reserve Balances:

- The Township had a pay down of Sick and Vacation Leave Reserve in 2012 of \$212,156.60 (two officers retired December 31, 2012 requiring payout for unused sick time, comp time and vacation time = \$196,318.35)
- The State of New Jersey Best Practice Initiatives expect the municipality to reserve at least the average of snow removal expenses incurred over a minimum of three years. The Township was able to increase the Snow Removal reserve \$43,844.44 for a total of \$118,844.44 but still falls significantly short of the yearly average (minimally \$231,000).

Miscellaneous Revenues:

Local Finance Notice 2013-11 published February 27, 2013 titled CY 2013/SFY 2014 State Aid Certification reports that the State Fiscal Year budget proposes level aggregate funding for Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Energy Tax Receipts (ETR). While the funding is level, the State is classifying more CMPTRA dollars as ETR, and the Township continues to remain underfunded for its ETR. ETR were taxes created for utilities for having lines or mains located in, on, over any street, highway or other public property. In the 1980's, the State of New Jersey took control over the collection and distribution of various energy taxes and rebranded the local municipal revenues as State Aid. Chapter 168, of P.L. 1999, provided that in each year subsequent to State FY 2002, ETR distributions would annually increase at the rate of the Implicit Price Deflator which is used to measure the impact of inflation on governmental spending. There is a calculator available on the New Jersey League of Municipalities website which indicates the Township has been underfunded in its ETR in excess of \$2.3 million for the period 2000 to 2012. The State of New Jersey is using municipal revenues to balance their own budget while exacerbating the local property tax problem. The proposed CMPTRA and ETR for 2013 total \$575,475 or 5.41% to the total revenues.

The Governor's budget proposal does not provide Open Space PILOT (Payment in Lieu of Taxes) funding to any municipality during the State's next Fiscal Year. Funding received last October is for use in CY 2013 and municipalities can apply it in their 2013 budgets. The Township received \$41,920 in PILOT funding.

Other Miscellaneous revenues anticipated comprise 3.96% of the revenues or \$421,500 which is flat from 2012. These anticipated revenues include Court Fees, Uniform Construction Fees, Interest on Investments, Interest and Costs on Taxes, and Fees and Permits. Interest on Investments and Deposits continue to decline, and in 2012 the Township realized only \$5,247.31 in interest income

but had anticipated \$10,500. Interest income has declined from \$210,909 in 2007 to \$5,247.31 in 2012.

Property Taxes:

This budget plan has property taxes representing 75.39% or \$8,020,514 in revenues. In 2012, budgeted property taxes totaled \$7,826,629 of the revenues. This budget plan is a 2.5% or \$193,885 increase of the tax levy.

The Township is not raising the levy to the maximum allowable amount as permitted under the 2010 Levy Cap.

APPROPRIATIONS

Appropriations are the platform that allows local government to deliver services to its residents.

General Government, Public Safety, Public Works and Community Programs include all the Salary & Wages and Operating Expenses for each of the Township's departments.

The Township is still subject to the 1977 CAP law (Appropriations Cap) that established the original municipal Appropriation Cap. The most recent amendments to this Cap in 2003 imposed a 2.5% limit on increases on municipal appropriations.

The COLA for CY2013 budget is calculated at 2.0%. Since the COLA is less than the statutory maximum of 2.5%, the cap rate for CY 2013 is 2.0%.

The Byram Township Mayor and Council adopted Ordinance No. 1-2013 titled, "Calendar Year 2013 Ordinance to Exceed the Municipal Budget Appropriation Limits and to Establish a Cap Bank" during the February 5, 2013 Council meeting. This ordinance increased the cap base for 2013 to 3.5% and is used to establish the Cap bank which is the banking of any unappropriated balance. Cap bank balances from 2011 and 2012 are available for use in 2013.

Adoption of this ordinance in itself does not define the Council's policy for the 2013 municipal budget, but ensures responsible action has been taken for future budget cycles keeping local control without a dependency on the State of New Jersey in the event of an unplanned event impacting the Appropriations Cap.

The Township's operations are identified by the following general categories: General Government, Public Safety, Public Works and Community Programs. Overall, these general categories have seen a reduction in Operating Expenses totaling \$8,950.

The collective bargaining agreements with the Township's labor unions all expired December 31, 2012. The Township is still in active negotiations with the Township's labor unions and no changes have been applied to Salary and Wages keeping the same budgeted amounts from 2012.

The budget plan assumes replacement of positions for long term employees which retired in 2012 (2 Police Officers and 1 DPW employee). Salaries for these positions have not been reduced and kept

at top rate of pay. After all labor contracts are finalized, the Township will assess the impact on Salary and Wages for 2013 and may need to revisit the plan for filling these positions. A budget amendment may be required or budget transfers can be completed as permitted under title 40A:4-58. Appropriation transfers during last 2 months of fiscal year.

Following are comments on the other expenses of the Township. These expenses include utilities, insurances, statutory expenses, pension expenses, garbage, debt service, deferred charges, capital improvements and the reserve for uncollected taxes.

It should be noted that the majority of expenses that are increasing are not directly under the control of the Township due to contractual obligations and other assessments. The following categories have presented the largest challenge and increases for the 2013 budget.

Debt Service	\$ 10,805
Statutory Expenditures (Pensions)	\$ 52,203
Group Insurance	\$ 198,873

Utilities – Minimal Change – decreased 15% (\$4,500):

- The Township changed phone service.
- No other changes to utilities, which may present a challenge with unpredictability of heating oil and fuel prices.

Statutory Expenditures (Pensions) – increased 6.58% (\$52,203):

- The Township’s obligation to fund the Police and Fire Retirement System increased \$42,115.
- The Township’s obligation to fund the Public Employee Retirement System increased \$10,088.

Group Insurance – increased 12.99% (\$198,873):

- Public Law 2011, Chapter 78 was effective June 28, 2011 that increased the share of health benefits coverage paid by public employees and retirees who receive employer paid health benefits.
- Highlights of the law that impact employees of Byram Township are as follows:
 - Byram Township is a non-SHBP Employer and under the law it requires that the cost of coverage shall include all health care benefits, medical, prescription drugs, dental, and vision.
 - Percentage of contribution (derived from salary and type of coverage tables) is multiplied by the total premium due for each employee and deducted from base salary. Contribution is phased in over four years at 25% each year.
 - All active employees receiving health benefits will contribute to the cost of health benefits.
 - Existing employees (Total of 7) not covered by Collective Negotiations Agreement (CNA) were required to start phased-in contribution January 1, 2012. They will reach Tier 3, July 1, 2013.
 - Remaining employees (DPW, Clerical and PBA) started the four year phase-in effective January 1, 2013.

- The Group Insurance budget includes medical insurance, prescription drugs, dental, Medicare reimbursements, payment for waiver of medical benefits, life insurance, and long term disability which is assessed based on each employee's salary.
- The health Insurance and prescription drug premium assessment for 2013 is 11.3%.
- Changes in the 2013 employee census are increasing the number of employees eligible to receive health benefits:
 - Included employee change of status from Parent/Child to Family.
 - Three employees retired in 2012 (2 Police Officers, and 1 DPW Employee). All these employees are eligible for continued health benefits in retirement at no cost to the employee.
 - The Township is planning to replace each of these employees in 2013. This budget plan includes cost of benefits for prospective new hires (family benefit coverage less employee contributions).
- The 2010 Levy Cap Law allows for a general exclusion for health benefit cost increase in excess of 2 percent but limited by the increase in State Health Benefit rate increases (9.2%).

Employee Group	Total Cost: (Health, Dental & RX)	Employee Contributions	Total Net Cost to Township
Clerical Active	\$56,787	\$1,764	\$55,023
Clerical Retired	\$56,833	\$0	\$56,833
DPW Active	\$276,315	\$12,346	\$263,969
DPW Retired	\$221,428	\$0	\$221,428
Police Active	\$536,714	\$43,879	\$492,835
Police Retired	\$377,240	\$0	\$377,240
All Other Active	\$145,626	\$18,060	\$127,566
All Other Retired	\$63,983	\$0	\$63,983
Waivers			\$39,995
TOTALS:	\$1,734,926	(\$76,049)	\$1,698,872

Workers Compensation and General Liability – increased 2.53% (+\$6,579):

- Byram Township is a member of the Statewide Insurance Fund for Workers Compensation and General Liability. The Township covers all active employees and volunteers of both the Lakeland Emergency Squad and Byram Township Fire Department.

Solid Waste (Garbage Contract) – decreased 4.63% (-\$32,500):

- The five year contract with the garbage hauler expired January 31, 2013.
- A new contract was awarded effective February 1, 2013 for a period of three years with two, one-year options.
- The Township will pay the tipping fee for solid waste disposal and the Township will own recyclables under new contract.
- The Township entered into a contract with a single-streamed recycling facility for disposal and sale of recyclable material (\$18/ton).

Musconetcong Sewer Fees (VC) – decreased 28.99% (-\$20,000):

- Musconetcong Sewer Authority (MSA) fees are the sewer allocation fees paid for the Village Center allocation of 40,000 gallons.
- The Township has been notified that the MSA debt service is reducing in 2013 and will reduce further in 2014. This was reported as a reduction of debt service from Phase 1 and 1A capital improvements.
- The Township’s overall charge was reported as reducing \$55,000 in 2013 and another \$20,000 is expected in 2014.
- The MSA Director and Auditor confirmed this will be a permanent reduction of the debt service unless there is plan for a significant capital improvement.
- The risk with taking the reduction is forecasting future capital improvements and subsequent financial impact that are not in the direct control of the Township.

Debt Service– increased 2.72% (+\$10,805):

- Total Debt Service including Bond Principal and Interest, Bond Anticipation Notes Principal and Interest, and Loan Repayments for Principal and Interest has been increasing with the need to incur debt to support capital projects.
- Under the Local Bond Law (40A:2-8.1) no bond notes can be renewed beyond the third anniversary date of the original notes unless the first legally payable installment is paid.
- In 2012, the Township was required to increase the pay down on notes by \$37,106 to cover the minimum payment of the 11-2009 Bond Ordinance. Minimal increases in principal pay downs on notes were estimated for budget years 2013 and 2014, respectively. A permanent bond issue is targeted in 2016.

Capital Improvement Fund – increased 132.14% (+\$74,000):

- The Capital Program for 2012 was reduced \$74,000.
- The plan was to restore the capital program in 2013 when deferred charges reduced \$74,000 (last year of special emergency for revaluation).
- The Capital Program was increased \$74,000 and includes the following:
 - Capital Improvement Fund (increased \$70,000): \$75,000
 - *Capital Improvement Fund:* \$50,000
 - *Road Resurfacing Program:* \$25,000
 - Drainage Improvements (increased \$4,000): \$5,000
 - Supplement Roseville Road/Tamarack Road: \$50,000

TAX RATE

The 2013 municipal budget calls for an estimated municipal rate increase of .862 for each \$100 of assessed value using the net valuation of \$930,211,700. This increase represents an estimated \$59.02 annual municipal tax increase for the average assessed home of \$253,116. A comparison of municipal real estate taxes is summarized in the following table.

	2008	*2009	2010	2011	**2012	2013	Estimated Increase/ Decrease
Average Assessed Home	\$146,473	\$303,743	\$302,795	\$301,833	\$253,020	\$253,116	
Tax Rate	1.244	.631	.669	.687	.839	.862	
Municipal Taxes	\$1,822.12	\$1,916.62	\$2,025.70	\$2,073.59	\$2,122.84	\$2,181.86	\$59.02
Open Space Taxes	\$27.83	\$27.34	\$27.25	\$27.16	\$27.83	***\$30.37	\$2.54
Total Municipal Taxes	\$1,849.95	\$1,943.96	\$2,052.95	\$2,100.75	\$2,150.67	\$2,212.23	\$61.56

NOTES:

- *2009 was the revaluation year.
- **2012 was a reassessment year.
- For 2013 there was a loss of \$2,045,021 in the overall net valuation of the Township. This loss in net valuation is shared among all tax payers in the Township. This was about a \$5.06 impact to each tax payer based on the value of the average assessed home.
- ***Assuming \$110,430 to be raised in OS Tax.

ALLOCATION OF TAX DOLLAR

	2008	2009	2010	2011	2012
Municipal Tax with OS Tax	25.81%	26.54%	26.68%	26.40%	26.75%
County	17.84%	16.75%	16.56%	16.92%	16.05%
Schools	56.35%	56.71%	56.76%	56.68%	57.20%

SUMMARY

In summary, the challenge with this budget and future budgets is to be able to maintain the same level of services for the Township residents while costs continue to increase, the growth of the Township's ratable base remains restricted, State Aid is reduced and miscellaneous revenues decrease. As referenced in the list of appropriations with significant increases, most of the expenses are beyond the direct control of the Township.

The 2013 municipal budget, as presented, maintains current service levels that residents have come to expect which adds to the quality of life for all taxpayers in Byram.

Respectfully submitted,



Joseph W. Sabatini, Township Manager