

# **NEW HOPE BOROUGH**

## **REVIEW OF FULL-YEAR 2021 REVENUE AND EXPENSES VS. BUDGET AND SIGNIFICANT 2021 FINANCIAL EVENTS**

**FEBRUARY 15, 2022**

# 2021 REVENUE AND EXPENSES VS. BUDGET

## BACKGROUND

- New Hope's 2021 Budget was developed by our Borough Manager and Treasurer in the third quarter of 2020, a rough draft was shared with Council in October 2020 for their input, released to the public in draft form in November, and adopted by Council in December 2020.
- The Budget was based on year-to-date October 2020 Revenue and Expenses projected to year-end, prior-year (2019) experience, expected inflation and 2021 projects.
- This presentation is intended to provide constituents with an analysis of how actual Revenue and Expenses tracked against the Budget and observations on the sources of major variances.

## **METHODS and NOTES**

- Based on actual revenue received and actual expenses paid through December 31<sup>st</sup>, 2021.
- Since the books have not been formally closed (which is normal at this point in a new year) there are a handful of bookkeeping transfers that still need to take place.
- As is the case every year, transactions will be independently and formally audited. The audit will be performed in accordance with all appropriate accounting principles, and the Auditor's report will be posted online when it is completed by the auditor.

## **METHODS and NOTES (continued)**

- This Summary does not reflect items that are collected from specifically-dedicated portions of the total 13.77 Real Estate tax millage that are 100% pass-throughs.
  - For example, the parts of the Real Estate Taxes that constituents pay for the Library, Ambulance Services and Fire Department are “pass throughs” meaning that real estate taxes for those items are forwarded to them upon receipt.
  - “Budgets” these pass throughs are kept separate.
- In a few cases, the General Fund (which is 8.08 mils of the 13.77 mils) also pays above and beyond the actual taxes that are received and designated for that purpose.
  - For example, four years ago, Council decided to pay additional monies to the Ambulance service provider in order to expand locally-provided ambulance services from 12 to 24 hours. Those additional dollars are in addition to the Ambulance mils that are received and are paid from the General Fund.

## **BOROUGH REVENUE and ITS SOURCES**

- The Borough's General Fund has about 40 sources of revenue.
- The three largest sources of the fund's revenue were:
  - Earned Income Tax (half a percent of wages)
  - Real Estate Transfer tax (half a percent of home purchase price)
  - Metered parking fees

These three sources accounted for **66%** of General Fund revenue.
- Most Metered Parking fees are paid by non-New Hope residents.
- Real Estate Taxes represents just **10%** of General Fund revenue.

## Constituent Real Estate Taxes

Made up of 3 components... Borough, County and the School.

The Borough's tax is 9.3% of a resident's Real Estate Tax bill.

The remaining 90.7% of a resident's Real Estate taxes are paid to:

- Bucks County - 17.3%
- New Hope Solebury School District 73.4%
  
- A homeowner in the Borough with a house that is assessed at \$500K pays roughly \$7,400 a year in Real Estate Taxes
  - \$690 of this goes to the Borough, of which about
    - \$400 goes to the Borough's General Fund, \$290 is "passed through"
  - \$1,275 goes to the County, and
  - \$5,450 goes to the School District

## BACKGROUND ON BOROUGH EXPENSES

- Like most municipalities, the majority of our expenses are salary and benefit costs. These costs consume about 70% of the Budget, and therefore, managing these costs is a high priority for us.
- Unlike many municipalities, the Borough’s employee headcounts have remained stable over the years, and other than movement back and forth, and where we “in-sourced” a role that can be performed more economically by an employee than by a contractor, our headcounts are virtually unchanged over the past 10 years.
- Our Manager, Treasurer and Chief of Police uses part-time and seasonal staff wherever practicable to control labor costs.

Employees	Full-time	Part-time/Seasonal
○ Management and Administration	4	1
○ Public Works	4	1
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Total	8	2
○ Police	10	10
<b>TOTAL</b>	<b>18</b>	<b>12</b>

## **SUMMARY OF 2021 BUDGET PERFORMANCE**

The events of 2020 and 2021 presented all organizations, corporations and municipalities with unprecedented challenges.

**Despite these challenges, we are pleased to report that the Borough's performance, for most Revenue and Expenses aligned with or tracked favorably against our Budget.**

**This is the result of the rigorous and experienced budgeting process of our Treasurer and Borough Manager and their continued focus on expense management.**

This document was produced by the Chair of the Finance Committee and reviewed by Borough staff. While deemed accurate and complete, it does not represent an audited analysis of the year's transactions.

For ease of communication, some line items were merged, which is by its nature somewhat subjective, and there will be cases where smaller components of line items will not align precisely with the underlying sub-categories, however any impact is minor.

That said, this summary reflects all of the General Fund's revenue and expenses, with no exclusions, and all numbers tie back to the Revenues and Expense totals.

## 2021 Revenue Developments

**Budget: \$4.3M**

**Actual: \$5.2M**

### Key Drivers:

- Parking (primarily street parking) revenue exceeded Budget by **\$103K**.
- Parking Violation Income exceeded budget by **\$234K** (due to mid-year increase in the parking ticket fine).
- Earned income taxes, (half of one percent of Earned Income) exceeded Budget by **\$510K**.
  - Revenue will vary annually depending on actual income received by high-income residents, which is difficult to predict.
- Real estate Transfer taxes (half of one percent of the sale price of homes purchased in the Borough during the year) exceeded Budget by **\$83K** (likely due to increased property sales and values).

## EXPENSE DEVELOPMENTS

**Budget: \$4,165,155**

**Actual: \$4,225,949**

### Key Drivers:

- Two-thirds of the Borough's expense "budgets" came in under budget.
- However, total General Fund expenses exceeded budget by **\$61K (1.5%)**. This was a combination of items that came in lower and higher than budgeted.

### Expenses that Came in **Lower**

	BUDGET	ACTUAL	VARIANCE
Admin, Supplies	149,213	118,153	31,060
Police Benefits and FICA	748,670	714,474	34,196
Police Wages and Overtime	1,302,009	1,231,751	70,258

Unfortunately, there were two Expenses that Came in Significantly **Higher** than planned for...

	BUDGET	ACTUAL	VARIANCE
Special Legal Counsel	23,000	243,452	220,452
Borough Solicitor	45,000	122,170	77,170

## Notable Off-Budget Revenue Developments

- The Borough received a federal Covid impact grant of **\$132K**. Permissible use of monies is limited - guidance is forthcoming and being evaluated.
- The Borough teamed with the School Board to pursue legal action against a taxpayer for prior unpaid Earned Income Taxes. The matter was settled, with the Borough and the School District each received a payment of **\$237K**.
- After exhaustive legal, financial and competitive review the Borough accepted American Tower's offer to convert an annual \$27K rent payment for a piece of land in the Public Works lot that the tenant uses for a cell tower, into a long-term lease, for a one-time lump sum payment of **\$550K**.
- These revenues were used to pay down \$567K of the Borough's outstanding debt and the balance is being sequestered for future capital improvements.

## 2021 Bond Refinance and Lump Sum Pay-Down

- Our Manager and Treasurer analyzed the Borough's outstanding bond debt (\$1.8M) to determine how a lower interest rate could be obtained.
- They succeeded in refinancing the bond at a much lower rate.
- Also, in view of the settlement of the Earned Income Tax matter and the lump sum payment from American Tower, Council felt it prudent to use a sizable chunk of those monies to pay-down the debt with a lump sum payment to reduce the amount that needed to be refinanced.
- Accordingly, the Borough made a lump sum payment of roughly \$567K, in addition to the "normal" annual principal and interest payment of \$167K.
- The Borough also decided to shorten the length of the new note, from the 13 years that had been remaining, to 9 years. This shortened payback period kept the required annual debt service (principal and interest) close to the previous note's annual payment requirement (roughly \$165K per year).
- It is estimated that the effects of the lower interest rates, the lump sum pay-down and the more aggressive payoff schedule will save over **\$300K** in interest.

## BOND and OTHER DEBT SUMMARY

- Thanks to our policy of paying things “as they come due” the Borough does not resort to borrowing or issuing bonds to fund ongoing expenses, nor for even for capital improvements and major purchases
  - Example - the Borough’s cost for the Main Street and Bridge Streets pedestrian improvement projects, new patrol cars and public works trucks were paid for with cash).
- The last time the Borough took out Bond debt was over 10 years ago for the purchase and renovation of a “church” into this Community Room. This bond debt was refinanced around 5 years ago at a more favorable interest rate, with an 18-year term. This is the same bond that was again refinanced at even more favorable terms in 2021.
- As a result, the Borough is in the enviable position of have a very manageable level of Bond debt (roughly **\$1.25M** now remains on the bond). This is less than 20% of our budget.
- The annual principal and interest payment is about \$160K (about 2% of our budget) and the term is now **9 years**.
- When compared to our Budget, the Borough’s Bond debt and its annual principal and interest payment compares very favorably to surrounding municipalities and Townships.
- **The Borough has no other debt.**

The following chart (from on-line information, not audited) illustrates the relative indebtedness of New Hope compared to surrounding communities.

This is for broad comparison purposes, so while comparisons won't be "apples to apples" and municipalities have differing revenues and expenses, long-term objectives and comfort levels as to how much debt is right for them, there is no doubt that New Hope follows a "Pay As We Go" approach...

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	<b>Debt</b>	<b>Relative to Budget</b>	<b>Principal and Interest</b>	<b>Percent of Budget</b>	<b>Annual Principal and Interest per Resident</b>	<b>Debt per Resident</b>
<b>New Hope Borough</b>	<i>\$1,250,000</i>	<i>20%</i>	<i>\$160,000</i>	<i>2%</i>	<i>\$65</i>	<i>\$500</i>
<b>Solebury Township</b>	<i>\$20,000,000</i>	<i>150%+</i>	<i>\$3,000,000</i>	<i>25%</i>	<i>\$350</i>	<i>\$2,350</i>
<b>Lambertville City</b>	<i>\$13,000,000</i>	<i>200%+</i>	<i>\$1,400,000</i>	<i>25%</i>	<i>\$370</i>	<i>\$3,450</i>

## PENSION FUNDING

- For the past 5 years, the Borough has had a practice of paying the suggested maximum annual contribution to the fund each year, rather than the minimum permissible contribution to the fund each year. It is our intention to continue this practice and have the Pension Plan become fully-funded with 10 years.
- This accelerated our contributions toward the pension liability by about \$100K over this period.
- The plan's annual funding (roughly \$200K) is planned for and manageable.

## ILLUSTRATIVE COMPARISON OF THE BOROUGH'S REAL ESTATE TAX COMPARED TO SURROUNDING MUNICIPALITIES

		<b>Estimated Annual Tax</b>	
		<b>\$250,000 Home</b>	<b>\$750,000 Home</b>
	<b>Millage</b>		
New Hope Borough	13.77	\$325	\$975
Bucks County	25.45	\$636	\$1,908
NH/Solebury School District	108.15	\$2,703	\$8,109

## **NEXT STEPS and FUTURE FINANCE INITIATIVES**

- Will present a synopsis of 1<sup>st</sup> Quarter 2022 Budget performance in our May Work Session or Council Meeting, as well as...
  - A summary of our Cash and Capital Improvement balances.
  
- Efforts that our staff plan to undertake in 2022:
  - Creation of a Formal Investment Policy for our accounts.
  - Analyze our 13.77 mils tax rate to determine if the allocations need to be re-allocated among the individual Budgets.

## BACK-UP – NOT PRESENTED....

### New Hope Borough Millage:

General Fund	8.080
Debt	2.000
Fire	1.850
Street Light	0.795
Library	0.545
<u>Ambulance</u>	<u>0.500</u>
Total	<b>13.77 Unchanged since January 2016</b>

### Progression of NH/Solebury School District Taxes:

Fiscal Year	Millage Rate	Change	Increase
2010/2011	82.15	2.31	2.90%
2011/2012	83.30	1.15	1.39%
2012/2013	84.72	1.42	1.70%
2013/2014	86.16	1.44	1.70%
2014/2015	87.96	1.81	2.10%
2015/2016	89.64	1.67	1.90%
2016/2017	93.94	4.30	4.80%
2017/2018	97.70	3.76	4.00%
2018/2019	100.04	2.34	2.40%
2019/2020	102.34	2.30	2.30%
2020/2021	105.00	2.66	2.60%
2021/2022	108.15	2.66	3.00%

11-year increase.... 30%+