

TOWNSHIP OF BYRAM

NEW JERSEY

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

DATE: March 6, 2012

RE: 2012 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:

Municipal Operations
Capital Improvement Program
Sewer Utility

Municipal Operations and the Capital Improvement Program are supported by a variety of revenues. These sources include current property taxes, state aid, surplus balance and miscellaneous revenues generated by municipal operations. The Sewer Utility is supported by fees collected from users of the system.

The 2012 municipal budget including the Capital Improvement Program and Public and Private Programs Offset by Revenues totals \$10,458,631. This represents a 1.39% increase over the 2011 budget excluding public and private programs offset by revenues (grants).

On July 13, 2010 the New Jersey Legislature with the support of Governor Christie enacted the 2010 Cap Law (Levy Cap) that amended the 2007 Cap to a two percent 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 (10.3% for 2012).

Also, 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 CY2012 budget is calculated at 3.5%. Since the COLA is more than the statutory maximum of 2.5%, the cap rate for CY 2012 is 2.5%.

Pursuant to N.J.S.A. 40A: 4-45.2, “municipalities shall be prohibited from increasing their final appropriations by more than 2.5%...” unless action is taken by the governing body to increase their final appropriations subject to the cap to the statutorily permitted three and a half percent (3.5%).

The Byram Township Mayor and Council adopted Ordinance No. 1-2012 titled, “Calendar Year 2012 Ordinance to Exceed the Municipal Budget Appropriation Limits and to Establish a Cap Bank” during the February 7, 2012 council meeting. This ordinance increased the cap base for 2012 to 3.5% and is used to establish the Cap bank which is the banking of any unappropriated balance. Cap bank balances from 2010 and 2011 are available for use in 2012.

The New Jersey Division of Community Affairs accepted the Township’s ordinance. The Township’s professionals recommend this ordinance be adopted each year.

Adoption of this ordinance in itself does not define the council’s policy for the 2012 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. For 2012, the Township is under the 2.5% Appropriations Cap by \$41,625.

The budget is divided into several categories as follows:

1. Surplus to support the budget

Surplus is generated by several sources including cancellation of budget reserves from 2010, revenues in excess of anticipated amounts, receipts from delinquent taxes from 2011 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. The Township will continue to remain conservative with the anticipation of miscellaneous revenues.

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 3.24% 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.

REVENUES

Municipalities are required by law to adopt balanced budgets. The proposed budget requires an increased use of the surplus fund to balance the budget. The growth of the Township's ratable base is restricted. With the reduction of State Aid and miscellaneous revenues, there is a reliance on property taxes and surplus to support operations. Also, there is an increased dependency on debt to fund items that have been previously covered under the capital improvement fund.

The surplus fund balance starting January 1, 2011 totaled \$2,021,154.37. Surplus anticipated for the 2011 budget was \$1,200,102. The results of 2011 operations resulted in regeneration of surplus totaling \$1,112,371.78. The reserve for Sick & Vacation Time and the Reserve for Tax Appeals were funded \$90,000 and \$43,000 respectively. The Township closed 2011 with \$1,933,424.15 in the surplus fund.

Surplus anticipated in this budget is \$1,240,102 or 11.86% of the total revenues. This is a \$40,000 increase from 2011. This increase was the result of a one-time dividend that was received as miscellaneous revenue not anticipated in 2011 from the North Jersey Health Insurance Fund (NJHIF). This payment was for a surplus balance in its closed year account as of December 31, 2010. The NJHIF recommended not applying as a credit against the 2012 healthcare assessment. The Township elected to use this as an increase in surplus to offset the 2012 healthcare increase. It is expected the dependency on surplus for the 2013 budget cycle will minimally be reduced by this amount.

The proposed state aid for 2012 totals \$617,395 or 5.9% of the total revenues. The Governor reported in his February 21, 2012 proposed FY 2013 State budget message that all municipalities will be receiving the same State formula aid they received in State FY 2012 budget for Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Total Energy Receipts.

The amount of State Aid the Township is receiving is far less the amount that is due to the Township if the State fully funded the programs. It has been the policy of the State to classify the

Energy Tax, CMPTRA, and Open Space Payment in Lieu of Taxes (PILOT) funding as State Aid rather than revenue replacement funding for the intention of property tax relief. The New Jersey League of Municipalities provided a tool to calculate the annual and 10-year aggregate losses for the Energy Tax and CMPTRA. For the ten year period 2001 to 2011 the Township's deficit receipts exceeds \$1.8 million dollars. In 2011 the funding formula indicates that Byram should have received \$1,069,220 in the Energy Tax and CMPTRA but instead the Township only received \$575,475.

Since 2008, the Township has needed to manage a \$388,645 reduction of State Aid.

In 2008, the State eliminated several aid programs: Municipal Homeland Security Assistance Aid (\$50,000) and Municipal Property Tax Assistance (\$16,554). Municipal Homeland Security Assistance Aid was a population-based formula and was allocated to all municipalities that spent more than \$300,000 in police costs. This revenue was to be treated as property tax relief. The Calendar Year (CY) 2007 budget (2008 State FY) included a new \$32.6 million property tax relief State aid program with aid granted to all municipalities as Municipal Property Tax Assistance. This program was eliminated for CY 2008. Also, the Township stopped receiving the Supplemental Energy Receipts Tax (\$20,252) in 2008. The basis for energy tax receipts was described in Local Finance Notice MC 1997-6 (Energy Deregulation and Utility Taxes).

Energy Receipts Tax and CMPTRA funding has reduced \$228,913 from \$804,388 in 2007 to \$575,475 in 2012.

In the State FY 2011 Budget, the appropriation for Garden State Trust (payment in lieu of taxes) was reduced by one third from \$9.824 million to \$6.473 million. This reduction did not impact the CY 2010 budget but affected the CY 2011 budget. This resulted in a reduction of \$20,960. Our PILOT funding for 2012 remained flat from 2011.

Miscellaneous revenues comprise 4.03% of the revenues or \$421,500 which is a \$24,500 decrease from 2011. 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 2011 the Township only realized \$10,773.31. The 2011 actual court revenues were 21% less than anticipated. This budget anticipates an increase of \$10,000 in uniform construction fees largely due to revenues generated from Netcong Borough for the consolidated services agreement to provide construction department services.

This budget plan has property taxes representing 74.85% or \$7,826,629 in revenues. In 2011, property taxes totaled \$7,592,013 of the revenues. This budget plan is a 3.1% or \$234,616 increase of the tax levy.

The Township is not raising the levy to the maximum allowable. The maximum allowable amount that can be raised by taxation under the 2010 Levy Cap is \$7,945,828.

The following compares the proportion of budgeted revenues from 2007 to 2011 excluding public and private revenues.

	2007	2008	2009	2010	2011	2012
Current property taxes	67%	69%	71.1%	74.39%	74.47%	74.85%
Miscellaneous revenues	18%	16.6%	14%	10.78%	10.43%	10.04%
Surplus fund	11%	10.8%	11.5%	11.41%	11.77%	11.86%
Delinquent taxes	4%	3.6%	3.4%	3.42%	3.33%	3.25%

APPROPRIATIONS

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

I offer the following comments on the general categories of the 2012 appropriations:

General Government, Public Safety, Public Works and Community Programs include all the Salary & Wages and Operating Expenses for each of the Township's departments. Overall these expenses increased \$53,855 (1.11% from 2011) or .52% of the total budget.

General Government – down 2.85% (-\$35,180):

- **Salary & Wages:**
 - General Government Salary and Wages includes annual salary increases.
 - Staff changes:
 - Part-time Clerical Position in Finance Department was eliminated. (-\$17,000)
 - Eliminated Temporary Records Clerk Help. (-\$9,500)
 - Eliminated Part-time Deputy Court Clerk Administrator Position. Transferred employee to Finance Department and employee assists on court dates.
- **Operating Expenses:**
 - Reduced printing, advertising, publications and codification costs (-\$4,500).
 - Eliminated manager's cell phone (-\$1,500).
 - Reduced professional planner fees, COAH, Highland's Plan Initiative budgets and increased planning board attorney budget. [Net Change (-\$17,000)].
 - Cut hours of animal attendant supporting pound. (-\$3,000)
 - Increased budget to defend tax appeals (+\$5,000)

Public Safety – up 2.45 % (+\$55,085):

- **Salary & Wages:**
 - The Police Department Salary and Wages includes annual salary increases for each officer, step increases, and longevity increases. (+\$80,890)
 - Staff changes:
 - Full-time Police Records Clerk retired. Replaced with a part-time employee. (-\$31,978)
- **Operating Expenses:**
 - Radio Communication Services contract for dispatch services with Sparta Township increased 3.5%. The contract expires at the end of 2012. (+\$5,829)

Public Works – up 2.53% (+\$32,300):

- **Salary & Wages:**
 - The total public works staff is at eleven which includes Buildings and Grounds employee, Public Works Superintendent and Mechanic. The budget plan includes annual salary increases, step increases for three eligible employees, and longevity increases. (+\$38,900)
 - Funding was eliminated for an Assistant Supervisor (-\$2,600).
 - The budget does not have funding dedicated for summer help.
- **Operating Expenses:**
 - In 2011, the Road Repair and Maintenance operating expenses reduced \$40,500 which included a \$20,000 reduction of the Park Maintenance and Operating Budget. There was no change for 2012.
 - The budget includes \$70,000 for improvements to streets and roads. This will support an oil and stone program.
 - Public Buildings and Grounds Operating Expense budget reduced. The Township eliminated our cleaning service and partnered with SCARC, Inc. which provides a mobile crew for cleaning services throughout Sussex County. (-\$6,600)
 - No change to Fleet Maintenance budget.

Community Programs – up 1.59% (+\$1,650):

- **Salary & Wages:**
 - The budget plan includes annual salary increases for Recreation Director and Senior Citizen Transportation Bus Driver.
- **Operating Expenses:**
 - Celebration of Public Events Budget was reduced to \$2,000 (-\$250)
 - Senior Citizens receive \$8,000. – No Change
 - Historical Society receives \$1,000 – No Change

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 four categories have presented the largest challenge and increases for the 2012 budget.

Trash Contract and Tipping Fee Increase	\$45,000
Debt Service Increase	\$42,341
Deferred Charges (Tax Reassessment) Increase	\$30,000
Group Insurance Increase	\$146,127

Utilities – No Change

- In 2011, the fuel budget was increased \$40,000 to cover cost of increased gasoline, diesel and heating oil prices. Budget is based on an average annual cost of \$3.50 per

gallon. Usage will need to be monitored and policy implemented to keep within budgeted amounts.

Statutory Expenditures (Pensions & FICA Taxes) – Minimal Change – up .06% (+\$446):

- FICA taxes increased due to the increase of salaries. (+\$12,000)
- The Township's obligation to fund the Police and Fire Retirement System reduced. (-\$14,897)
- The Township's obligation to fund the Public Employee Retirement System increased. (+\$1,443)
- DCRP (Defined Contributions Retirement Plan) was required to increase to cover costs for LTD and LIFE Insurance contributions. (+\$1,900)
- Local Finance Notice 2011-20 – presents implementation of the 2011 Pension and Health Benefits Reform under Public Law 2011, Chapter 78. This law required increased contributions from the members of PERS (Public Employees Retirement System) and PFRS (Police Fire Retirement System). Without the reform of Chapter 78 the Township's pension contribution was estimated to increase \$63,111.

Group Insurance – increased 10.55% (\$146,127):

- 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. The law changes the health care contribution standards set in Chapter 2 of 2010, by increasing the amounts contributed and expanding the range of employees and retirees covered by the contribution requirement.
- 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 to 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.
 - As of June 28, 2011 health benefit contributions are not negotiable for four years, or four years from the expiration of any contracts in effect on June 28, 2011.
 - All active employees receiving health benefits will contribute to the cost of health benefits.
 - Existing employees not covered by Collective Negotiations Agreement (CNA) are required to start phased-in contribution as soon as it can be locally implemented (6 employees).
 - Remaining employees covered by a CNA will start four-year phase-in with the expiration of the contracts (DPW, Clerical and PBA). CNAs expire December 31, 2012.
- The Group Insurance budget includes medical insurance, prescription drugs, dental, Medicare reimbursements, payment for waiver of medical benefits, life insurance, and long term disability.
- Health Insurance and prescription drug premium assessment for 2011 was 15.6%.

- In 2012, staff changes through attrition and status changes for employees and retirees have lowered the number of employees eligible to receive health insurance benefits. (FT clerical position eliminated, retiree passed, and employee changed status.)
- 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 (10.3 percent). In 2011, the Township did not need a Levy Cap exclusion due to the fact that the Group Insurance budget actually decreased \$14,000. The savings was passed to the tax payer.

Employee Group	Total Cost: (Health, Dental & RX)	Employee Contributions	Total Net Cost to Township
Clerical Active	\$51,543	\$1,440	\$50,103
Clerical Retired	\$74,272	\$0	\$74,272
DPW Active	\$275,419	\$9,699	\$265,720
DPW Retired	\$162,709	\$0	\$162,709
Police Active	\$504,082	\$15,000	\$489,082
Police Retired	\$274,124	\$0	\$274,124
All Other Active	\$93,515	\$6,624	\$86,891
All Other Retired	\$32,539	\$0	\$32,539
Waivers	\$43,931	\$3,422	\$40,509
TOTALS:	\$1,512,134	(\$36,185)	\$1,475,949

Workers Compensation and General Liability – increased 2.47% (+\$6,347):

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

Solid Waste (Garbage Contract) – increased 6.84% (+\$45,000):

- The five year contract with the garbage hauler expires January 31, 2013.
- The contract requires an annual increase of \$30,000 for 2012.
- In 2010, the Township negotiated an addendum to the agreement that resulted from the Sussex County Municipal Utilities Authority implementing flow control and significantly increasing the disposal rate. This resulted in the hauler absorbing an increase in the tipping fee to \$89/ton for solid waste.
- At the November 2011 rate hearing, SCMUA raised tipping fee to \$125/ton before reducing to \$96/ton (\$7/ton increase). This has an estimated \$25,000 impact on the 2012 budget.
- The Township was fortunate for 2012, since \$3 of the tipping fee will be charged to the recycling tax line item and the remainder only required a \$15,000 increase in the budget.

Debt Service– increased 11.94% (+\$42,341):

- 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.
- In recent years, the Township’s Auditor has recommended increasing our debt pay down to prepare for required increases in debt service pay downs. This has been avoided to keep the tax levy low.
- 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 is required to increase our 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 of \$7,000 and \$10,000 are estimated for budget years 2013 and 2014 respectively.
- It has been supported by the Township Auditor to consider only a minimal bond ordinance in 2012 with the assumption that a permanent bond issue is targeted in 2016.

Deferred Charges – increased 40.54% (+\$30,000):

- In 2012 the Township was ordered by the Sussex County Board of Taxation for a special assessment to make current the previous 2007 revaluation program.
- This required the authorization of a special emergency appropriation for the amount of \$150,000. Under the law (40A:4-54.3) at least 1/5 (\$30,000) shall be paid each year to ensure that the special emergency note is paid no later than the last day of the fifth year.
- This is the last year the Township needs to budget for the special emergency due to the result of the 2007 ordered revaluation. (\$74,000)

Capital Improvement Fund – down 56.92% (-\$74,000):

- The Capital Program for 2012 is being reduced \$74,000. The Capital Fund was reduced \$70,000 which is used to fully fund the streets and road resurfacing program. Another \$4,000 was eliminated from drainage improvements.
- The plan is to restore the capital program in 2013 when deferred charges are reduced \$74,000.
- The Capital Program still includes the following:
 - \$5,000 to fund capital program which are funds allocated to cover down payments or fully funded ordinances.
 - \$1,000 to fund drainage improvements.
 - \$50,000 for Road Resurfacing of Roseville Road Phase 3. The Township filed for a 2012 New Jersey Department of Transportation grant to support funding of this project.

TAX RATE

The 2012 municipal budget calls for an estimated municipal rate increase of .84 for each \$100 of assessed value using the net valuation of \$932,256,721. This increase represents an estimated \$47.74 annual municipal tax increase for the average assessed home of \$253,020. A comparison of municipal real estate taxes is summarized in the following table.

	2007 Amount	2008 Amount	*2009 Amount	2010 Amount	2011 Estimated	*2012 Estimated	Estimated Increase/ Decrease
Average Assessed Home	\$146,379	\$146,473	\$303,743	\$302,795	\$301,833	\$253,020	
Tax Rate	1.141	1.244	.631	.669	.688	.840	
Municipal Taxes	\$1,670.18	\$1,822.12	\$1,916.62	\$2,025.70	\$2,077.63	\$2,125.37	\$47.74
Open Space Taxes	\$ 29.28	\$ 27.83	\$ 27.34	\$ 27.25	\$ 27.16	\$29.85	\$2.69
Total Municipal Taxes	\$1,699.46	\$1,849.95	\$1,943.95	\$2,052.95	\$2,104.79	\$2,155.22	\$50.43

***NOTES:**

- 2009 was the revaluation year.
- 2012 is a reassessment year. – The reassessment is complete and new taxable values have been established for 2012. The value of the average assessed home reduced \$48,813 from 2011. Since the overall net valuation of the Township reduced this requires an increase in the tax rate.

ALLOCATION OF TAX DOLLAR

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

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 2012 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