

Township of Middletown

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Board of Supervisors

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November 9, 2015

The 2016 Middletown Township Preliminary Budget is respectfully submitted to the Board of Supervisors and citizens of Middletown Township. As presented, this spending plan will allow Middletown Township to not only continue to provide municipal services and programs at existing levels, but also expand services in some areas – with no proposed tax increase.

This Preliminary Budget is balanced and includes \$32,006,543 in expenditures over fourteen governmental funds, reflecting a **0.5% decrease** from the 2015 proposal. It should be noted that, this time last year, the 2015 proposal was down **2.9%** from 2014.

The Township's fourteen governmental funds include costs to provide typical governmental functions. The 2016 proposed General Fund includes expenditures of \$17,581,809 which represents a 4.6% increase over the 2015 Budget. This increase is primarily attributed to expansion of public safety services.

Governmental Funds	2016 Proposed Expenditures
General	\$17,628,809
General Street Light	492,286
Fire Protection	1,094,584
Parks and Recreation	1,318,563
Ambulance and Rescue Squad	206,403
Road Machinery	182,017
Fire Hydrant	56,856
Debt Service	2,752,007
Capital Reserve	2,415,860
Investment	42,000
Highway Aid	1,394,436
Sanitation Fund	4,096,902
Curb Assessment	0
Fire Apparatus	325,820
Total	\$32,006,543.00

The Township's Proprietary Funds are funds used to account for a government's business-type activities and include the Middletown Country Club Fund and the Farm Fund.

Proprietary/Enterprise Funds	2016 Proposed Expenditures
Middletown Country Club	\$125,593
Farm	43,850
Total	\$169,443

Middletown Township's three Fiduciary Funds report assets held by the Township in a trustee or agency capacity that are not available to support township programs or services.

Fiduciary Funds	2016 Proposed Expenditures
Police Pension	\$2,455,000
Police Post Retirement Benefits	10,000
General Pension	207,300
	\$2,672,300

Budget Overview

Over the past several years, the most challenging budget issue in Middletown Township has been a recurring structural imbalance that has been present in the General Fund for more than a decade. I am pleased to report that the proposed 2016 Budget shows no structural imbalance in the General Fund, and for the first time in five years, no proposed emergency transfer from the Investment Fund is needed to balance the General Fund Budget.

This accomplishment can be attributed to a combination of factors:

- Over the past several years, the Administration has emphasized a culture of cost containment and ongoing review of revenue enhancement. Solicitation of competitive proposals resulted in cost savings in the areas of healthcare insurance, workers compensation insurance, electric generation costs and third party inspection services.
- When possible, staff reductions were made and replacement positions were regularly delayed to save money.
- The township continues its efforts to aggressively seek grant revenue, and in 2014 and 2015, more than \$2,400,000 was received from various grant programs.
- Revenue from the Earned Income Tax has been strong since its inception in 2014 and has helped bring the fund balance in the General Fund to targeted levels recommended by the Government Finance Officers Association.

Other significant variables that impact budgeting and financial management:

- The Township's Bond rating by Standard and Poor's Rating Services remains at AA+. This rating reflects the Township's sound financial position and strong management.
- Middletown Township was awarded the *Certificate of Achievement for Excellence in Financial Reporting* from the Government Finance Officers Association (GFOA) for the 2012 and 2013 Comprehensive Annual Financial Reports (CAFRs). We expect to receive the 2014 award by the end of the year. Attaining this recognition is a significant financial management accomplishment.
- The 2014 General Obligation Bond Issue provided \$4.9 million in funding for major capital infrastructure improvements. In 2015, Year Two of the Fifteen-Year Road Improvement Program was completed and included the paving of more than fifteen miles of township roadways. More than thirty miles of township roads have been paved in the first two years of this program.

- The 2016 Proposed Budget provides for the continuation of the Road Improvement program with \$900,000 dedicated to road paving.
- During the past five years, the Township's vehicle and equipment replacement needs have been consistently met by the Bucks County Redevelopment Authority (RDA) Grant Program. The 2016 RDA grant request includes eleven vehicles (nine in the police department and 2 in public works) at a cost of \$510,896.
- Township employees are represented by four separate collective bargaining units: the Police Benevolent Association (PBA), Independent Association of the Department of Public Works (DPW), Teamsters Local 107, and the Crossing Guard Association.

The Teamsters Contract outlines a wage increase of 3%. The proposed DPW contract includes a 3% wage increase for all public works employees in 2016. The current Crossing Guard Association Contract calls for a 2.5% increase for crossing guards in 2015. The police contract is currently being negotiated.

The Budget Process

The formal process for the 2016 Budget commenced in late August when departmental budget requests were prepared and submitted for review to the Township Manager and Finance Director. After thorough evaluation and revision during the month of September, a draft budget was developed and presented to the Board of Supervisors during two public Budget Workshops. These meetings included review of the proposed budget and discussion of long range goals and capital improvement planning.

Publicly advertised Budget Workshop Meetings held as part of the 2016 budget process occurred on **October 12, 2015 and October 26, 2015**. In addition to the Budget Workshop, the Board of Supervisors met with department directors to discuss equipment and staffing needs.

The adoption schedule for the 2016 Budget is proposed as follows:

- **November 9, 2015** - Presentation of 2016 Budget to Board of Supervisors and citizens of Middletown Township; Authorization to advertise Preliminary Budget
- **November 13, 2015** - Advertisement for public inspection (20 days prior to adoption)
- **December 7, 2015** - Official adoption of Final 2016 Budget

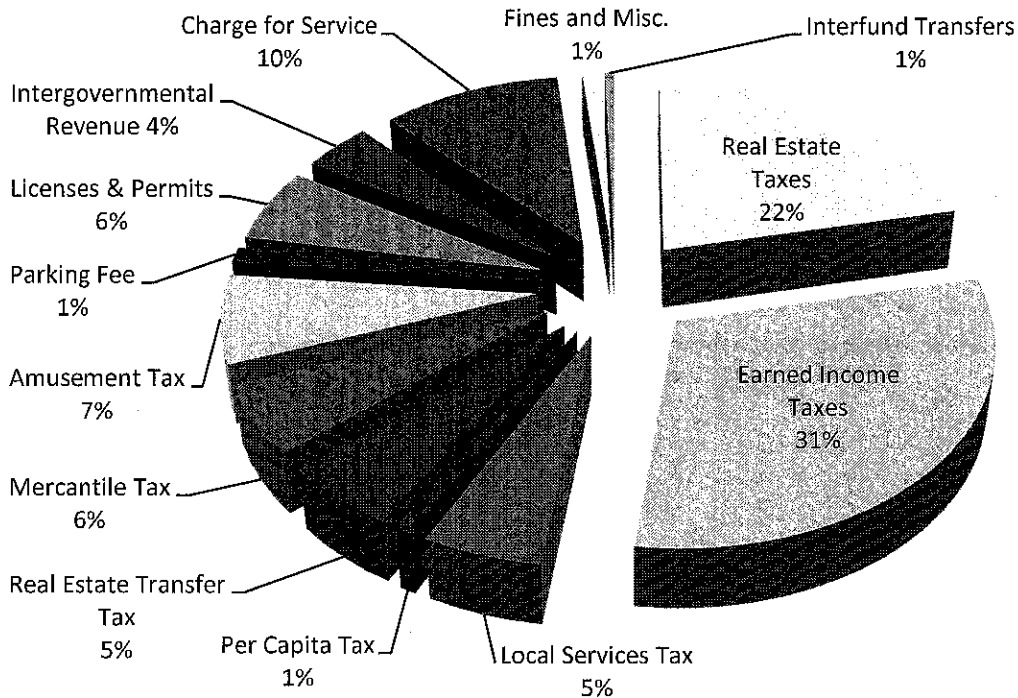
The budget document, as presented, incorporates input from the Board of Supervisors from the two budget workshops.

In 2015, the Township also implemented a capital planning process that included review and discussion of all capital needs over a five-year horizon. This plan was discussed during public meetings during the month of August. It is anticipated that the capital plan will be revisited annually prior to the budget process.

General Fund Revenues

The Township's General Fund includes revenues from taxes, permits, charges for service and intergovernmental revenue. The Earned Income Tax is now the largest source of revenue in the General Fund at 31%, followed by Real Estate Taxes at 22%. Other major tax categories include the Amusement Tax (7%), Mercantile Tax (6%) and Real Estate Transfer Tax (5%).

2016 General Fund Revenue



Real Estate Tax

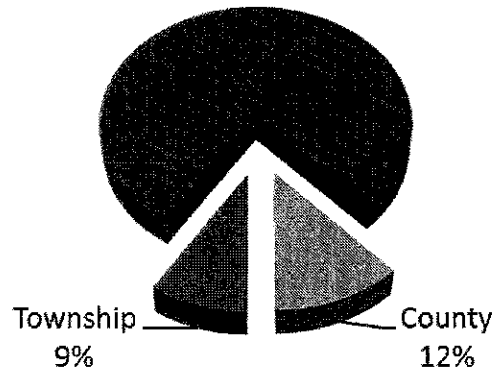
The 2016 Middletown Township Real Estate Tax is based on an anticipated total assessed value of \$530,073,610. The proposed rate of **17.570 mills** reflects no change from the 2015 rate.

The average assessment of a residential property in Middletown Township is **\$29,194** which equates to an average Township real estate tax of **\$513**.

Eight separate funds receive dedicated funding from the Real Estate Tax. Please see the chart below for a breakdown of the millage across funds.

Tax Fund	2015 Rate	2016 Rate
General Fund	7.340	7.340
General Street Lighting Fund	0.988	0.988
Fire Protection Fund	1.375	1.375
Park & Recreation Fund	1.920	1.920
Ambulance & Rescue Fund	0.395	0.395
Road Machinery Fund	0.300	0.300
Fire Hydrant Fund	0.107	0.107
Debt Service Fund	5.145	5.145
Total Real Estate Tax Millage	17.570	17.570

The Middletown Township portion of a resident's Real Estate Tax bill is minimal compared to the County and School District portions. Total Real Estate Tax for Middletown residents is 192.770 mills which is broken down as follows: Neshaminy School District 152 mills, Bucks County 23.2 mills and Middletown Township 17.57 mills.



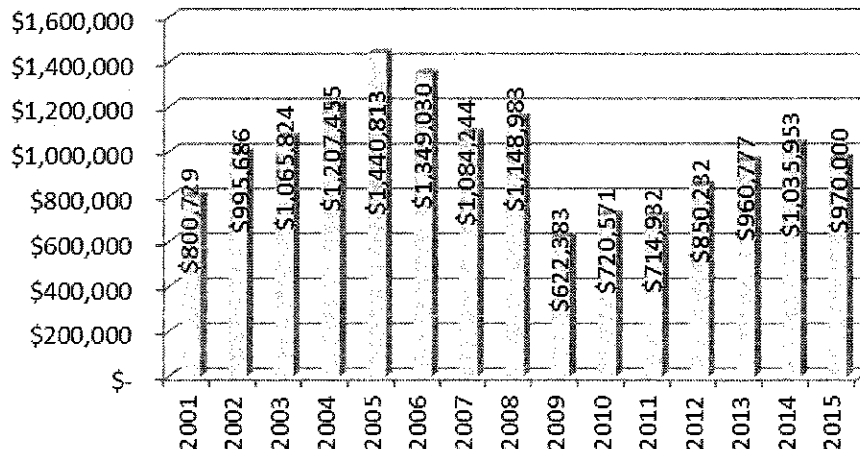
The table below illustrates the portion of the Real Estate Tax bill that would be paid to Middletown Township in 2016 as compared to the School District and County for several sample properties.

Development	Assessment of Sample Property	Total Real Estate Tax Bill	Neshaminy School District	Bucks County	Middletown Township
Snowball Gate	\$29,650	\$5,716	\$4,507	\$688	\$521
Highland Park	\$25,620	\$4,939	\$3,894	\$595	\$450
Maple Point	\$43,600	\$8,405	\$6,627	\$1,012	\$766
Villages of Flowers Mill	\$34,200	\$6,593	\$5,198	\$794	\$601

Real Estate Transfer Tax

The Real Estate Transfer Tax is levied at ½ of 1% of the value of all real estate that transfers within Middletown Township. Revenue from this tax peaked in 2005 at \$1,440,813. This line item is expected to bring in approximately \$970,000 in 2016.

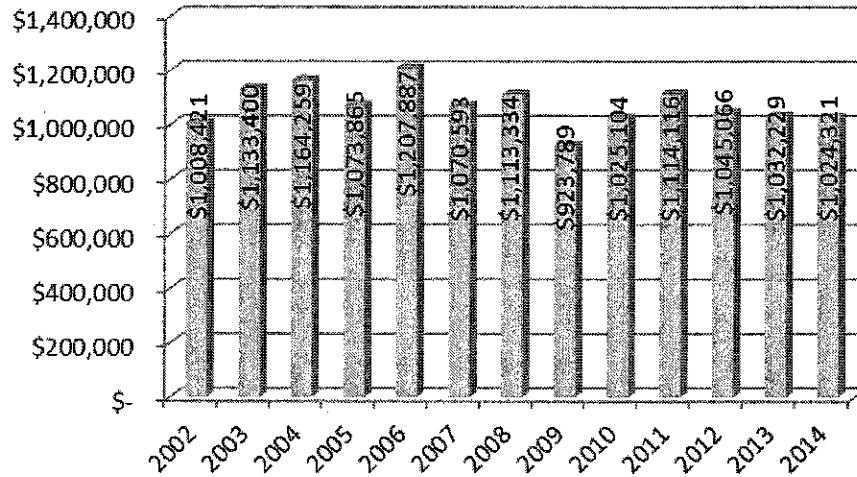
Real Estate Transfer Tax Revenues 2001-2015



Mercantile Tax

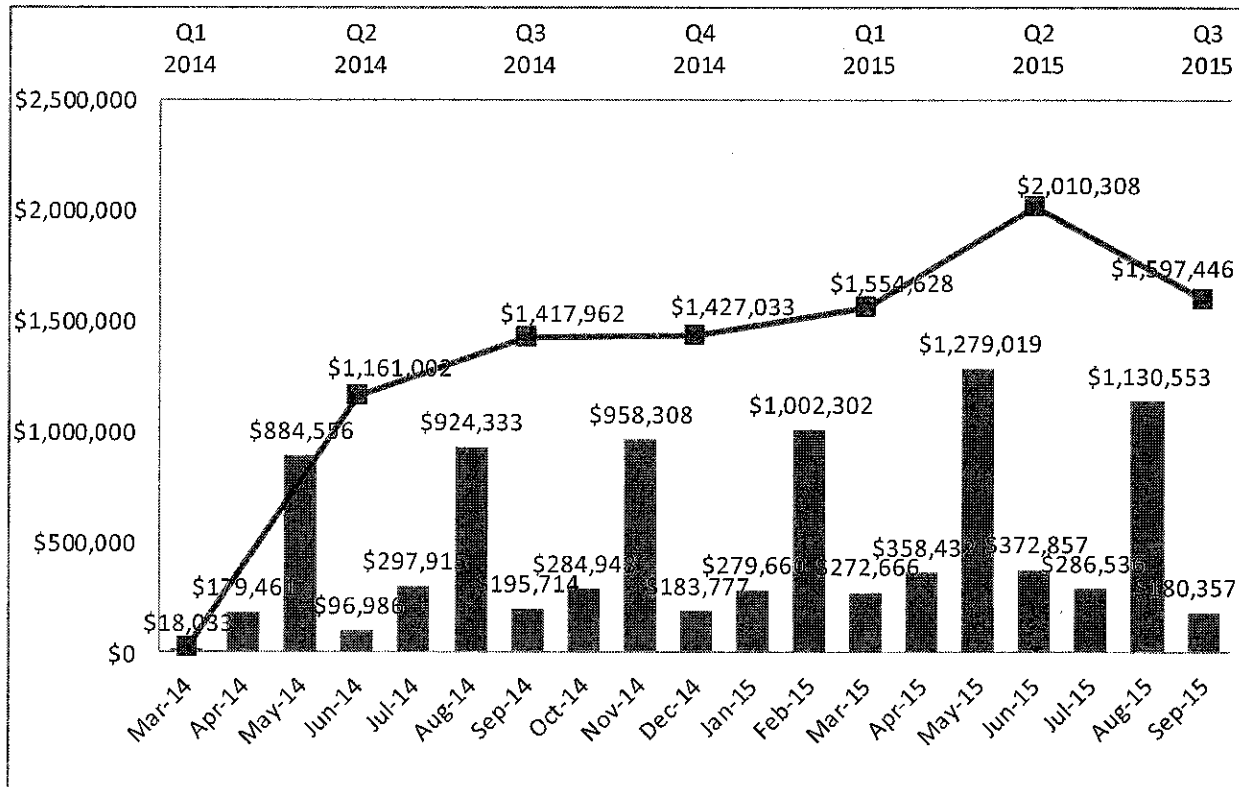
The Mercantile Tax is assessed on the gross income of anyone engaged in the sale of goods, wares and merchandise located within the Township. The tax is calculated based upon total gross receipts. The rate is ½ mill per \$1,000 gross receipts for wholesale and ¼ mill per \$1,000 gross receipts for retail. This line item is expected to generate \$1,025,000 in revenues in 2016.

Mercantile Tax Revenue 2002-2015



Earned Income Tax (EIT)

An Earned Income Tax was levied in 2014 at a rate of 0.5% of earned income on resident and non-resident workers. It is estimated that this tax will generate \$5,500,000 during the 2016 calendar year. Please see the chart below for quarterly revenues for this revenue source from the inception of the tax in 2014 to the present.



Amusement Tax

The Amusement tax levies a tax equal to 5% of eligible admission prices to certain places of amusement, entertainment or recreation. In 2016, \$1,300,000 is anticipated in revenue from this source.

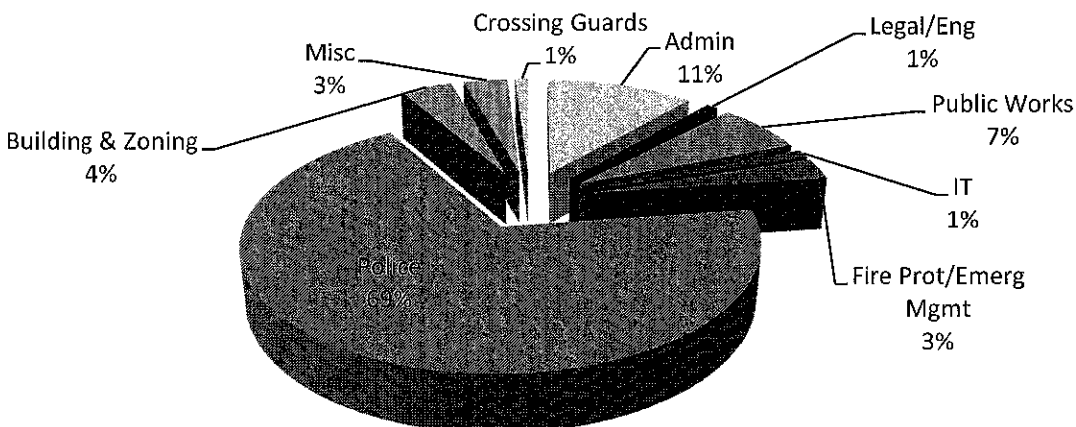
General Fund – Expenditures

The primary expenditure category in the General Fund is Police Protection at \$12,121,467. This category has increased 5.4% from the 2015 budget, reflecting the decision by the Board of Supervisors to expand public safety services in Middletown Township. This category is significantly impacted by salary and benefit costs for the Township's police force. There are currently 54 officers in the department. The 2016 budget includes the hiring of one officer for a full year and a second officer to be hired mid-year. These hires will bring the number of sworn officers to 56.

The contribution required to the Police Pension fund has increased dramatically over the past six years from \$764,346 in 2010 to \$2,350,510 in 2016.

Other significant expenditure categories in the 2016 General Fund include Administration at \$1,993,437; Public Works at \$1,186,016; Building and Zoning at \$713,363 and Fire Protection/Emergency Management at \$494,898.

2016 General Fund Expenditures



Other Fund Highlights:

PARK AND RECREATION FUND

The Park and Recreation Fund includes a total of \$1,318,563 in expenditures for 2016. Of this total, \$596,764 is allocated to park maintenance, \$358,676 to administration and \$331,123 to programs. Revenue in this fund is derived from Real Estate Tax revenue, program fees and charges for service. 2016 will be the first year that this fund is fully balanced with no structural deficit since 2008.

INVESTMENT FUND

The Investment Fund holds the assets from the sale of the water and sewer facilities to Bucks County Water and Sewer Authority in 2002. Fund revenue is investment income on fixed income securities, primarily US Treasury Bills, and gains and/or losses from the sale of, or changes in

market value thereof. Expenses in this fund are limited by ordinance so that the fund balance never drops below the original \$40 million principal. 2016 marks the first year in five years that an emergency transfer will not be budgeted from the Investment Fund to the General Fund.

SANITATION FUND

In 2016, the Township will be in the second year of a three-year solid waste and recycling contract with Waste Management, Inc. Annual costs to the township in 2016 will be \$4,096,902. The cost to residents for this service will remain \$340 in 2016. In the first year of this contract, trash and recycling costs decreased for township residents by \$56.

HIGHWAY AID FUND

The Highway Aid Fund includes \$1,394,436 in proposed expenditures for 2015. The largest category of expense in this fund is \$450,000 toward highway construction. Other categories include: snow removal at \$304,710; street signs/traffic signals at \$178,503; repairs to highways at \$167,504 and repairs to tools/machinery at \$180,585. Anticipated state aid for 2016 is \$1,189,092.

CAPITAL RESERVE FUND

The 2016 Capital Reserve Fund proposes \$2,405,860 in capital projects over six broad categories: Administration, Police, Park and Rec, Stormwater, Public Works and Traffic Signals. A schedule of specific projects proposed in each category is outlined in the 2016 Capital Improvement Program which is attached in the Supporting Documents section of this document.

Conclusion

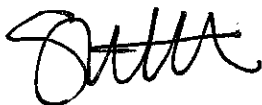
The preparation of this budget is the culmination of a collaborative process that started over the summer and involved the efforts of many people – the Board of Supervisors, department directors and township staff.

I am grateful for the dedicated work of the entire township team of employees. Special recognition must be given to Finance Director, Dennis Penko for his thorough and meticulous work in preparing this financial plan. Each department director also deserves recognition for development of their individual departmental budgets. Assistant to the Manager Scott Sodowsky was invaluable in preparation of the Capital Plan. Finally, thank you to Bernie Frisch for her administrative support in putting together this document.

I would also like to express my appreciation to the Board of Supervisors for many hours that they have dedicated to the budget process. The annual budget document is the single most important policy document adopted by the Board each year.

This budget should be a valuable tool in making the important decisions that will impact Middletown citizens and township government during the next year. I am honored to serve the Board of Supervisors and citizens in the Middletown community and look forward to the challenges and opportunities ahead in 2016.

Respectfully submitted,



Stephanie Teoli Kuhls
Township Manager