

**FINDINGS AND RECOMMENDATIONS OF THE
UPPER SAUCON TOWNSHIP BUDGET REVIEW ADVISORY COMMITTEE**
November 7, 2011

INTRODUCTION

The Budget Review Advisory Committee was created in an effort to bring greater transparency to the budget process and provide a channel for the views of citizens. The Committee met six (6) times during the summer and fall of 2011. It reviewed several Township documents including:

- 2011 Township Budget
- 5 Year Capital Plan (2012-2016)
- Township Department Staffing Trends (2008-2011)
- 5 Year Budget Projections (2012-2016)
- Police Department Staffing Study dated March 2011
- Township Debt and Repayment Schedules

The following individuals served on the Committee:

Steven Annunziato, MBA, MEMfgEng, Business Executive Synapse Biomedical Inc. NJIT School of Management Board of Visitors; Upper Saucon Township resident for 7 years; Municipal Authority Secretary since 2010, Planning Commission 2009.

James Largay, Ph.D., CPA, Professor of Accounting, Emeritus, Lehigh University. 40+ articles in academic and professional journals; former Editor of award-winning *Accounting Horizons* research journal; Upper Saucon Township resident for 11 years.

Peter Staffeld, Ph.D., P.E., Engineering Consultant for Staffeld Engineering Services, Assistant Professor of Chemical Engineering, Villanova University. Previously was Vice President of a global polymer manufacturing company in Allentown and worked for Mobil Oil Corporation for 13 years; Upper Saucon Township resident for 9 years.

John Gilda – Board of Supervisors liaison

Thomas Beil – Staff liaison

Joseph Horvath – Board of Supervisors liaison

Robert Kassel – Staff liaison

Intended to provide independent external perspectives, the Committee's work complements but cannot override the judgments of elected officials and employees of the Township. We hope that our observations contribute to and have a positive influence on the informed deliberations of the Township's leadership and are pleased to offer our insights gained from this experience. All three of us love Upper Saucon Township and believe it is a wonderful environment in which to live and raise a family.

We understand that the Township's budget is a reflection of the Board of Supervisor's policy, and should reflect the needs and concerns of the taxpayers. We note that Township officials have responded to the economic downturn. For example, some projects have been deferred, some have been cancelled, and two open positions in the Road Department have not been filled.

As a voluntary advisory group with a short exposure to some of the Township's intimate affairs, we do not claim a level of expertise in Township budgetary matters. However, we believe our perspectives are useful and should form productive inputs into the budgetary process.

FINDINGS AND RECOMMENDATIONS

The Committee offers the following findings and recommendations for consideration by the Board of Supervisors.

FINDINGS

F1. The Township's budget is under pressure, primarily due to lower revenues (particularly the earned income tax and real estate transfer tax hit hard by the economic downturn), higher service demands caused by population growth, rising material costs, reduced State and County aid, rising costs of complying with new State and Federal regulations, and the upward spiral in employee benefit costs.

F2. Budget forecasts suggest the General Fund's unallocated "rainy day" reserve will be depleted during the year 2012. Should this occur, the Township could be hard-pressed to meet payroll and pays bills for the first 4 months of the year until real estate tax collections begin. Temporary *tax anticipation* financing could be required. It is also true that the Township might not have sufficient funds available to adequately respond to major emergencies.

F3. The Township's 5 year General Fund budget forecast envisions a deficit of (\$800,000) at the end of 2013 that could rise to (\$3,800,000) at the end of 2016. We believe this budget gap is structural or long-term in nature and has been exacerbated by the economic downturn. Costs of operating the Township are sticky and hard to bring down while important revenue sources have shrunk and are not likely to recover quickly. We do not believe the Township faces a one- or two- year mismatch between revenues and expenses.

F4. The Township owns property and other fixed assets that, if sold, could provide a significant infusion of revenue to the Township over a period of years.

RECOMMENDATIONS

Although we were unable to perform a complete analysis of operational improvements and efficiencies that might reduce the budget gap, we did examine several cost-cutting measures. Likewise, although we reviewed some revenue-producing ideas, no single revenue enhancement scheme is completely free from drawbacks. But these highly productive discussions led us to make the following unanimous recommendations for serious consideration by Township officials.

R1. Do not fill the two open positions in the Road Department, saving the Township about \$130,000 per year—a \$260,000 reduction in the projected \$800,000 deficit at the end of 2013. Although unlikely to adversely affect snow plowing operations, some delays could result in road maintenance, detention pond mowing, and park/rail trail maintenance.

R2. Investigate opportunities for sharing municipal services with nearby communities, including Coopersburg and the townships of Lower Saucon, Richland, Upper and Lower Milford and Springfield. We think opportunities for such sharing may exist in zoning code enforcement, building inspections, and fire and police service.

R3. Authorize a study to determine whether the Township should sell its water system, currently a nonperforming asset. Sale of the water system could result in a significant cash infusion over several years that could cover capital expenditures and related debt service.

R4. Reduce engineering and legal costs by limiting the number of projects assigned to the Township engineer and solicitor and outsourcing others to lower-cost quality providers. Carefully track legal and engineering expenses to avoid exceeding budgeted amounts. Consider revising the existing Township engineering arrangements in order to reduce costs while maintaining quality.

R5. Require employees to contribute to medical benefits through higher deductibles, co-insurance, co-pays, and/or paying a percentage of the medical insurance premium. The Township must utilize the collective bargaining process in order to change the medical benefits of union employees.

R6. Change the employee pension plan from the current defined benefit arrangement to a defined contribution arrangement for new employees as soon as possible. The current plan is extremely generous. Although it will be several years before the Township will realize significant savings from this change, there is no reason to delay. The Township must use the collective bargaining process in order to make this change for new employees who are union members.

R7. Use benchmarking with other localities to develop a performance measurement process to assess the efficiency and effectiveness of Township services. Such a process will assist decision-makers in setting budget priorities, determining whether expected service levels are being met, and will strengthen municipal accountability to taxpayers.

R8. Support the Environmental Advisory Council's evaluation of the Township's energy efficiency program in the hopes of garnering savings from enhanced energy management. Solar energy, fuel efficient vehicles and energy efficient lighting systems are a few of the options to consider.

OTHER MATTERS

We were unable to reach consensus on the matters discussed below but wish to bring them to the attention of the Supervisors.

O1. We reviewed the Police Department manpower loading analysis contracted by the Township. Examining evening staffing levels against evening demand for services suggests savings from reducing the evening shift. Supervisors may wish to confirm this with outside experts. One option discussed was creative scheduling that could free up some resources from the night shift and the Drug Task Force with little impact on safety and effectiveness.

O2. It was tempting to recommend eliminating the Open Space Fund and transferring any unspent monies (approximately \$100,000) to temporarily shore up the Capital Reserve Fund. If done as a necessary prioritization of resources, we believe it should not compromise the township's commitment to preserving open space.

O3. Possible tax increases were discussed from the very beginning. The Township has maintained its 4.2 millage rate since 1989 for which it deserves considerable credit. During the same period the Southern Lehigh School District consistently raised its millage rate and may well have absorbed almost all of the property tax capacity in the Township. Moreover, many residents are hurting from the economic downturn. Although we recognize that a tax increase may be unavoidable sometime in the future, we could not agree on the timing and focused our recommendations on cost containment and reduction.

CONCLUSION

As interested citizens we want to see a well-run township government on a responsible fiscal footing. There is no question in our minds that Upper Saucon Township will be financially stressed for several years or until the economy recovers. People are hurting. In virtually every jurisdiction at every level of government, constituents increasingly

want their elected officials to lead their organizations to live within their financial means, consistent with the tough economic environment in which we all find ourselves.

We appreciate this opportunity to serve Upper Saucon Township, to learn more about the budgeting process, and to voice our opinions on ways to improve the Township's financial position. We would be willing to serve again, if needed.