

2007 BUDGET RECOMMENDATION

The preparation of the 2007 Lawrence Township municipal budget once again reflects an effort towards balancing the appropriate levels of service with the financial impact of taxation necessary to provide these services to the residents of this community. Thorough consideration was exercised to examine the budget from the perspective of a business and a homeowner. At the same time assurances had to be made that the budget met the mandates of law that regulate the New Jersey municipal budget process. In addition to the existing laws the 2007 Lawrence Township budget was developed so as to meet anticipated legal changes now being deliberated by state officials on the issue of tax reform.

As government officials at the local level our primary function is to provide services to the residents of our community. Similar to a business the 2007 budget was prepared identifying methods to efficiently and cost effectively operate this service organization. Matters of staffing, levels of service, what services were discretionary or non-discretionary and remaining progressive in our delivery were all considered.

Not unlike a homeowner the budget was examined as how demands upon our limited resources could be met. We considered what items could be done without, how can we stretch the limits of our income to meet the many growing obligations, which purchases could be delayed and how do we ensure a financially secure future. Just like a homeowner items were eliminated to stay within our means.

The Lawrence Township budget as presented is compliant with existing New Jersey budget law. It includes all statutory appropriations, is balanced and is well within the New Jersey Local Budget Law expenditure limits of two and one-half (2.5%). But this budget as recommended has also met the challenge of capping the municipal tax levy at the anticipated rate of four percent (4%) now being considered under New Jersey tax reform legislation. The method applied was an increase of four percent (4%) over the prior year municipal tax levy plus the revenue generated from the value of added construction of the prior year. The methodology is similar to what Counties now use in their budget preparation and may need adjustment pending final adoption of legislation.

The following are discussions of revenues and appropriations recommended in the 2007 municipal budget.

REVENUES

The municipal budget is crafted with use of revenue from four categories; anticipated surplus, miscellaneous revenues, receipts from delinquent taxes and current taxes. Sound budget management requires that the anticipated use of revenue from each of these said categories must be considered from the prior year, the appropriate level for the current year and what amounts may be reasonable to anticipate for future budgets. Simultaneously the New Jersey Budget Law may place restrictions on permissible anticipated amounts.

Surplus as a source of revenue is the result of financial activity from the immediate preceding fiscal year. The excess funds of the prior year become available for use as revenue in the subsequent year. Items such as excess anticipated revenues, including delinquent taxes and current taxes, the lapsing of unexpended budget balances from two years prior and miscellaneous revenues not anticipated all become sources of surplus. Important to the budget process is using caution when anticipating the use of surplus funds as a revenue because a municipal entity should plan a budget that will assist in regenerating surplus at an equal amount.

The 2007 municipal budget recommends surplus as anticipated revenue at the same amount that was included in the 2006 municipal budget, \$5,996,000. At the close of the 2006 fiscal year the amount of available surplus is \$9,466,000, which is \$50,000 less than year-end 2005. Anticipating the same amount of surplus in the 2007 municipal budget will maintain available unused surplus balances that are consistent over the past five years. The recommendation has been proposed with consideration as to the reasonable amount of surplus that may be regenerated from 2007 financial activity. Anticipated surplus is 16% of total revenues.

Miscellaneous revenues are generated from known and recurring sources. This category of revenue includes local revenues, state aid, grants and other sources. Generally revenues are limited to being anticipated in a current budget to no more than had been realized in the prior year. Fluctuations in amounts of revenues realized are certainly common among the individual items included in the miscellaneous category. Miscellaneous revenues in 2007 are generally being anticipated at levels similar to 2006 and are 34% of total revenues.

Significant to the category of miscellaneous revenue is State Aid. The 2007 municipal budget as recommended contains the anticipation for the same level of State Aid as fiscal year 2006. State Aid as a portion of the total budget continues to decline. The impact of declining State Aid forces pressure on other revenues to make up the difference. If State Aid were to change the budget would need to be adjusted accordingly.

Receipts from delinquent taxes are the third category of revenue that may be anticipated in the municipal budget. The source of these receipts is the outstanding balances of unpaid taxes and tax title liens at the close of the prior fiscal year. The appropriate level of anticipated delinquent tax revenues is predicated on what is likely to be collected from the outstanding receivable balance. The 2007 municipal budget anticipates \$768,000 in delinquent tax revenue, identical to the amount in 2006. Delinquent taxes are 2% of total revenues.

The amount to be raised by taxation for municipal purposes is the last category of revenue. The pressure on the needed level of taxation continues to be caused by stagnate state aid, increases in the cost of operations, limited new sources of revenue and minimal ratable growth.

The taxable value of Lawrence Township continues to increase at nominal amounts. The increase in value from 2006 to 2007 is only \$10,427,805 or a change of .39%. Simply the lack of ratable growth requires existing property owners to share any increase in the need for taxes. For the year 2007 one penny on the tax rate is worth \$269,532 versus \$268,489 in 2006, a difference of only \$1,043.

The 2007 municipal budget includes an increase of \$846,491 in the amount to be raised by taxation. The 2006 current tax revenue was anticipated at \$17,450,572 and the recommended level for 2007 is \$18,297,063. This category of revenue is 48% of the total budget. Once again, that amount to be raised by taxes for Township operations meets the anticipated limits that have been legislatively proposed that will mandate municipalities cap tax levies at four percent.

APPROPRIATIONS

The appropriation section of the 2007 municipal budget was developed with careful consideration of level of service, appropriate staffing, implementation of efficiencies and most importantly the impact upon Lawrence Township taxpayers. This last issue was repeatedly considered through all the phases of budget development. The 2007 municipal budget as recommended remains consistent with the past policy of the Township Council, which is quality services and fairness to all taxpayers. In addition, the recommended level of appropriations are \$315,000 below the State CAP Law limit of 2.5%. Overall, exclusive of possible changes for ambulance services, the 2007 appropriations are up by only 2.62%.

A list of major increases and extraordinary changes in spending with explanations is as follows:

Appropriation	Increase/Decrease	Reason
Salaries	\$507,000	Labor Contract Settlements
Pensions	442,000	Increase in Contribution Rate
Health Benefits	(130,000)	Retirees to Medicare
Apartment Complex Trash Collection	120,000	Increase in Participation
Trash Collection	87,000	Contract Increases
Utilities	60,000	General Increases
Capital Improvement Fund	(75,000)	Decrease in Capital Expenses

Debt Service	50,000	Interest on Notes
Deferred Charges	(96,000)	Non-Recurring Expense
Park Maintenance S&W	(140,000)	Charge to Open Space Trust
Reserve for Uncollected Taxes	158,000	Increase in Amount to be Raised

The increase in 2007 salaries is the result of the settlement and the anticipated settlement of labor contracts with Township employees. At this time the budget does not include any new positions. Although, the matter of basic life support services remains open.

The state pension system had resumed in 2004 billing municipalities for pension contributions. Included in the 2007 budget is an increase for PERS of \$95,289 and an increase for PFRS of \$347,262 a total increase of \$442,000. This amount is billed directly by the New Jersey Division of Pensions based upon actuary calculations of the apportioned liability of Lawrence Township. Lawrence Township contractually provides health insurance to employees and retirees through the New Jersey State Health Benefits Program. Retired employees receive Township paid benefits only until Medicare eligible or for limited times depending upon their age at retirement. The decrease in this appropriation in 2007 reflects a number of retirees being removed from the Township paid program.

Trash collection services are provided by a private contractor and the 2007 increase reflects the contractual and Mercer County tipping fee adjustments. Utility increases are simply a function of market forces.

The appropriation for the Capital Improvement Fund is a required source of down payment funds necessary for capital projects. The decrease of \$75,000 is a result of an adequate reserve balance and a reduction in capital expenditure activity. The appropriation for 2007 debt service has increased by \$50,000 and is a result of a decrease in the level of debt service on existing bonded debt and an increase for the payment of interest on notes. During 2006 bond anticipation notes were issued for the funding of the 2006 capital improvement program.

The recommended 2007 municipal budget includes the adjustment to the appropriation for Park Maintenance Salaries and Wages to be partially charged to the Open Space Trust Fund. The specific amount is \$198,409. Previously the 2005 municipal budget included such an adjustment to the appropriation. During 2006 the open space funding was directed toward the acquisition of land.

The Reserve for Uncollected Taxes is a non-spending appropriation mandated by State law to ensure the adequacy of tax collections to meet the cash requirements of school, county and municipal tax levies. The purpose of this appropriation is to close the gap between the amount of current taxes anticipated to be collected and one hundred percent being collected. The appropriation for this purpose is subject to change since estimates were used to project the levies of the non-municipal tax entities.

The 2007 municipal budget was prepared with careful attention to balancing levels of quality services and the impact on the Lawrence Township taxpayer. Simultaneously consideration of the unknown impact of pending legislation which may limit increases to a tax levy to no more than four percent have added a new dimension to this process. Fortunately, the policy adopted by the Township Council at managing the tax rate over time has prepared Lawrence Township for this shift of law.

To meet the challenges of new budget law amendments, service needs and taxpayer demands will require an adjustment to the local tax rate. To achieve this I present a recommendation to adjust the local tax rate from .65 per \$100 of assessed value to .68 per \$100 of assessed value, an increase of .03. The result of this proposed tax rate for a residential property at the average 2007 assessed value of \$ 164,400 is an increase of \$49.32 or \$4.11 per month.

It is usually standard language to thank the staff and department personnel for their contributions on helping develop the budget. The usual language is quite inadequate for 2007. I cannot complement enough the commitment and joint effort that was put forth from all participants in creating this document. What has been accomplished would not have been possible without everyone's cooperation.

The administration is prepared to extend that same cooperation to the Township Council and public to facilitate the review of the 2007 municipal budget recommendation.

Respectfully submitted,

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Township Manager