



TOWNSHIP OF BETHLEHEM

Board of Commissioners

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Township Manager

Melissa A. Shafer

October 17, 2016

Bethlehem Township Commissioners,

The 2017 Bethlehem Township Preliminary Budget is respectfully submitted to the Commissioners and citizens of Bethlehem Township. As presented, the Budget does not propose a tax increase.

Over the course of the last two months, management met with all departments to review their budgets and recommended cuts where appropriate. The goal was to balance the budget and continue providing the same level of service to the community that is expected from a First Class Township.

Four publicly advertised budget hearings are planned over the next several weeks in order for the Board of Commissioners and the public to review all aspects of the budget document.

The forecasted beginning fund balance for each fund as well as revenue and expenditure projections are below:

Fund	Forecasted Beginning Fund Balance	Revenues	Expenditures	Year End Fund Balance
General Fund	2,495,719	16,802,061	17,478,409	1,819,371
Capital Fund	125,000	6,404,800	6,384,800	145,000
Sewer Fund	-	5,346,877	5,346,877	-
Liquid Fuels Fund	254,254	776,698	904,049	126,903

This is the Budget that is being presented to the Board of Commissioners for 2017:

\$16,802,061	2017 REVENUE (MILLAGE INCREASE)	-
(\$17,556,709)	2017 EXPENSES	
(\$754,648)	2017 FUND BALANCE INCREASE/(REDUCTION)	
(\$78,198)	2017 OPERATING SURPLUS/(DEFICIT)	
(\$676,450)	2017 TRANSFER TO CAPITAL (SEE 410)	
(\$754,648)	2017 FUND BALANCE INCREASE/(REDUCTION)	
\$1,995,719	2016 OPENING FUND BALANCE	
\$500,000	2016 PROJECTED INCOME/(LOSS)	
\$2,495,719	2017 PROJECTED OPENING FUND BALANCE	
(\$754,648)	2017 PROJECTED FUND BALANCE INCREASE/(REDUCTION)	
\$1,741,071	2017 PROJECTED ENDING FUND BALANCE	

10.36% PROJECTED ENDING FUND BALANCE AS % OF PROJECTED REVENUE		
10.00% BENCHMARK WOULD REQUIRE RESERVE AMOUNT OF --->		\$1,680,206
15.00% BENCHMARK WOULD REQUIRE RESERVE AMOUNT OF --->		\$2,520,309
20.00% BENCHMARK WOULD REQUIRE RESERVE AMOUNT OF --->		\$3,360,412

Due to conservative spending and budgeting practices, we estimate ending the year with a \$500,000 surplus, which helped maintain our current reserve level. The Capital Fund relies on a combination of transfers from the General Fund, Grants, and Line of Credit funding.

The projected ending fund balance is just over 10% of projected revenue. While the Township does not have an official Fund Balance Policy in place, most recommendations fall between 10% - 20% of the General Fund Budget.

In 2015, the Township was able to balance the operational deficit in the budget by using \$1,986,020 of the \$3,449,843 Reserve Fund (balance of the General Fund). This dropped the Township reserve fund below the 10% mark and caused the Township to reevaluate the General Tax millage rate last year. In 2016, the Board of Commissioners approved a 1.10 mil increase, bringing the current real estate tax to 7.09 mils.

This chart below provides the historical data on the Reserve Fund over the past 10 years. As you can see, we are actually going to end the year with an 11% Reserve Fund (we had projected 9% at the end of last year).

	<u>OPENING</u> <u>FUND</u> <u>BALANCE</u>	<u>ACTUAL</u> <u>REVENUE</u>	<u>ACTUAL</u> <u>EXPENSES</u>	<u>ENDING</u> <u>FUND</u> <u>BALANCE</u>	<u>FUND</u> <u>BALANCE AS</u> <u>% REVENUE</u>	<u>COMMENTS</u>
	(2016/2017 FIGURES ARE PROJECTED)					
Year						
2017	2,495,719	16,802,061	17,556,709	1,741,071	10.4%	PROJECTED REVENUE REFLECTS 2017 TAX INCREASE
2016	1,995,719	16,452,620	15,952,620	2,495,719	15.2%	
2015	2,958,408	1,551,0327	1,666,0326	1,808,409		
2014	2,949,842	14,942,632	14,934,066	2,958,408	19.7%	ADJUSTED FOR RE- FINANCING (NOTE PROCEEDS/DRAWS)
2013	1,925,188	15,420,307	14,395,653	2,949,842	12.5%	ADJUSTED FOR RE- FINANCING (NOTE PROCEEDS/DRAWS)
2012	1,524,718	15,102,397	14,701,927	1,925,188	10.1%	
2011	968,002	15,405,294	14,848,578	1,524,718	6.3%	
2010	900,752	14,492,744	14,425,494	968,002	6.2%	
2009	1,054,299	13,691,255	13,844,802	900,752	7.7%	RECESSION - TOTAL IMPACT, LAST TAX INCREASE
2008	2,158,409	12,948,195	14,052,305	1,054,299	16.7%	RECESSION - PARTIAL IMPACT
2007	2,549,923	12,414,994	12,806,508	2,158,409	20.5%	
2006	2,979,813	12,231,868	12,661,758	2,549,923	24.4%	
2005	2,643,263	11,482,397	11,145,847	2,979,813	23.0%	

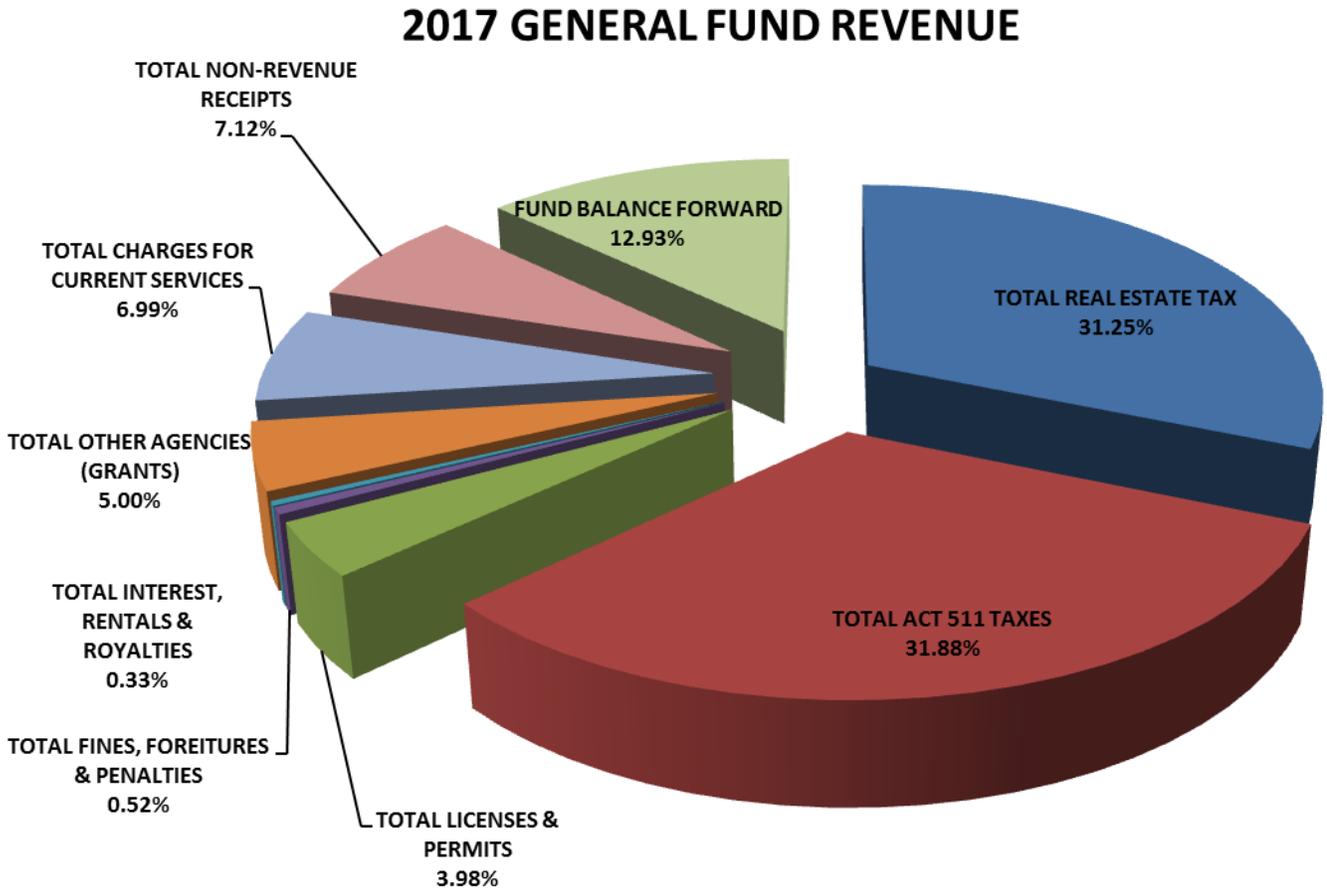
Long Range Forecasting

After last year's tax increase, the Commissioners charged the staff with creating a long range financial plan that would allow them to have a better understanding of the operating and capital expenses of the next five years. The staff worked together and this year, along with the preparation of the 2017 Budget, we also prepared a 2017-2021 Long Range Budget. That Budget is presented on the next page with three forecasting models, with the most moderate in the middle.

Looking at the moderate model on the middle of this forecasting spreadsheet, the projected ending fund balance dips to 7% in 2018. Capital projects for road improvements, renovations at the Community Center, and general operations of the Township, our service needs and expenditures are increasing. While the Township does not require a tax increase for 2017, it may be advisable for the Commissioners to consider a small tax increase for this year and next year. A 0.25 mil tax increase would generate approximately \$210,000 of revenue for the Township and cost each property owner an average of \$23 per year.

General Fund Revenues

The largest two revenue sources in the General Fund are the Act 511 Taxes (Real Estate Transfer, Earned Income, Business Mercantile Tax and Local Service Tax) at 31.88% and Real Estate Taxes at 31.25%. Fund Balance Forward is the third largest, making up 12.93% of the Township's Annual Revenue. See the following chart for more information.



The bulk of the “Charges for Current Services” include the Community Center memberships and programming fees. The “Non-Revenue Receipts” include items that we sell (maps, photocopies, and auctioned equipment) as well as reimbursable engineering costs. “Other Agencies” includes grant funding. “Licenses & Permits” are cable franchise fees and construction permits. “Fines, Forfeitures & Penalties” are code enforcement and vehicle code violations. “Interest, Rentals & Royalties” is primarily the DUI Center at the Coolidge Building and the cell tower rental at the Township’s Hope Road property.

Real Estate Tax

The 2017 Budget proposes maintaining the General Real Estate Tax of 7.09 mils. This levy equates to an average annual tax of \$643 for a taxpayer with a property valued at \$177,618 median market value/\$88,809 median assessed housing value in Bethlehem Township.

Earned Income Tax

Bethlehem Township Earned Income Tax rate is one half of 1%. The interesting exception to this tax is if a person working in this township lives in a municipality without an EIT, Bethlehem Township collects the full 1% of the tax. This revenue source is expected to generate \$3,925,000 in 2017. According to the 2010 Census, there are 8,777 households in the township with a median annual household income in Bethlehem Township is \$82,209. This translates into an average annual earned income tax payment per household of approximately \$415.

A note on the EIT – Bethlehem Township is closely monitoring New Jersey Governor Chris Christie's intention to pull out of the earned income tax reciprocity agreement with Pennsylvania, which would be effective January 2017. If the reciprocity agreement is terminated, residents who live in Pennsylvania but work in New Jersey would pay the New Jersey EIT rate (which is variable depending on salary) to that state. We do not know what the impact would be to Bethlehem Township at this point, but will have to make the necessary amendments to the budget once we become aware.

Other Taxes

The township is fortunate to have a diverse tax base to support its operations.

Real Estate Transfer Tax

The Real Estate Transfer Tax is levied at one half of 1% of the value of all real estate that is transferred within Bethlehem Township. The BASD receives the other .5% of this transfer tax. Revenue is budgeted for 2017 at \$620,000. We came in over budget on this line in 2016 due to the sale of two large properties in the Township, but those types of sales are difficult to predict and we aim to be conservative in our budgeting practices.

Local Services Tax (Formerly the Emergency and Municipal Services Tax)

Anticipated revenue in 2017 is estimated at \$625,000. This \$52 annual tax is levied on all individuals that work within a municipality for the purpose of supporting police, fire, emergency services, road construction and/or maintenance in accord with the Local Tax Enabling Act. The Township provides for an exemption for those persons who make less than \$12,000 per year. BASD receives \$5 from each person taxed by the LST.

Business Privilege/ Mercantile Tax

The Business Privilege Tax is a \$10 License Fee collected annually for those businesses operating within the township, including home-based businesses.

The Mercantile Tax serves as a Gross Receipts Tax with a shared millage rate between the school district and the township. Each entity receives .75 mills for retail and 0.75 mills for wholesale. Since 1988, Bethlehem Township has been grandfathered into the Mercantile Tax along with 60% of the first class townships in our region. Per state legislation, no new municipalities are permitted to enact such a tax.

From 2009 – 2013, the township engaged professional services of Robert Susko, CPA, to audit township-based businesses to ensure we were optimizing the Mercantile Tax collection rate. Mr. Susko was responsible for finding approximately \$1,000,000 in proceeds that were either under-reported or not being reported by businesses. These findings were relayed to Berkheimer Associates and are now included on the Township's tax rolls.

Investments

Pension

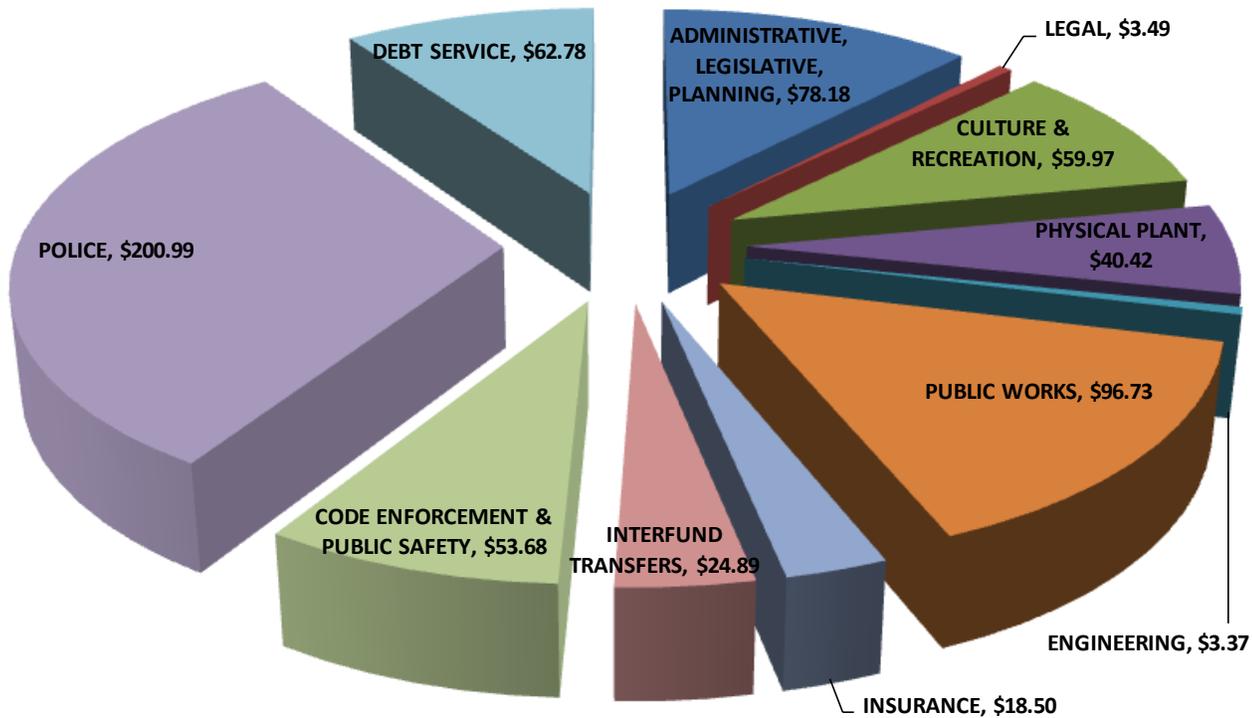
The Minimum Municipal Obligation for 2017 is budgeted at \$1,691,871 for the pension plans. This obligation is offset by \$520,583 in state aid from the Commonwealth, making the Township's out-of-pocket expenses for all plans \$1,171,288.

State Aid is based on unit value; Police Pension Participant is given 2 unit values and Non-Uniform Pension Participant is given 1 unit value. A unit value is calculated by the state on an annual basis and is currently valued at approximately \$3,500-4,000 per unit.

General Fund Expenditures

The largest expenditure categories in the General Fund are Police, Insurance, Administration, and Public Works. Instead of simply showing the percentage breakdown of the General Fund, the following chart shows exactly how the average property owner's local tax dollars of \$643 will be spent:

2017 GENERAL FUND EXPENSES



General Fund Expenditure Highlights

Township Departments

The Township Department Heads submitted Budget Assumption Reports outlining their budgetary requests for 2017. All budgetary requests from the Township Departments were reviewed by the Township Manager, Assistant Manager, and Finance Director. Modifications to those requests were made during the internal budget review process. Any capital request modified internally has been noted on the budget for the Board to review as well.

Personnel

In a municipality of Bethlehem's size, personnel costs make up a significant portion of the budgeted expenditures. This is because local government is a service-based industry. Ten years ago, Bethlehem Township had 93 full time employees (prior to the Community Center opening). Through attrition, we are heading into 2017 with 87 full time employees. With the opening of the Community Center, we also now employ 100 part time workers.

Bethlehem Township has three labor unions: Police Benevolent Association, Teamsters, and AFSCME. All three contracts expire at the end of 2017, so the Township will be entering into negotiations with the unions next year.

Insurance Costs

Health insurance is purchased through Benecon, a municipal insurance pool. We have been able to stabilize our health insurance costs by negotiating and implementing an opt-out program with the employees. We are budgeted \$2,100,000 for health insurance for 2017 which is close to the same amount we budgeted in 2015. So even though our health insurance costs have risen by 7.5%, we are realizing a savings in 2017 of approximately \$157,000.

Commercial Liability is budgeted for \$263,300 and Worker's Compensation is budgeted for \$318,000 in the General Fund. Liability and Worker's Compensation combined total \$72,700 in the Sewer Fund. Life Insurance costs \$13,400 out of the General Fund. Worker's Compensation costs came in significantly higher than projected due to our experience mod which jumped from .913 to 1.141. There were some unfortunate worker's compensation claims in the last few years but they have been addressed. We should continue to see decreases in this experience mod and therefore our rates in the coming years.

Short Term Disability is self-funded through the Township.

Other Funds

Liquid Fuels

Act 89 of 2013 came with a promise of \$35 million in extra revenues for local road improvement projects in the state of Pennsylvania. For 2017, we are budgeting \$776,000, which is \$150,000 more than we had in the budget two years ago. PennDOT is projecting that by 2019 we will be receiving over \$800,000 in Liquid Fuels funding. This additional funding will allow us to tackle major projects like Brodhead Road.

Municipalities are permitted to utilize Liquid Fuels funding for Street Light Energy and Maintenance, and in 2017, the Township has just over \$220,000 set aside for this.

Twenty percent of Liquid Fuels funding is also available for vehicle purchases. In 2017, the Township has budgeted for a new large dump truck for the Public Works department.

Recreation Fund

The Township collects recreation contributions during the land development process and utilizes those funds for improvements to the township park and recreation system. There are several Capital Items slated for this use, including the renovation of Comer Park at \$250,000 and (pending other grant funding) a new bathroom facility at the North Forty Fields. There is just over \$1,082,000 in the Recreation Fund.

Traffic Impact Fund

The Township collects Traffic Impact Funds during the land development process and utilizes those funds for traffic improvements in specifically designated areas within the Township. In 2017, the township staff will be looking at updating the Traffic Impact Study to ensure compliance with state regulations. There is approximately \$3,640,000 in the Traffic Impact Fund, and state regulations permit the Township to utilize 50% of the funds towards improvement projects within the designated area.

The Township is currently tapping into this Fund for the engineering and design of the William Penn Highway corridor project.

Debt

In 2014, the Township authorized a \$9.7 million line of credit with a three year draw down and five year repayment schedule to pay for capital projects. This accounts for \$4 million in refinancing and \$5.7 million in new projects. We have just extended that draw down for one more year to accommodate the first phase of the Bethlehem Township Community Center Renovation Project. An outline of those items is included below. *Items above the total have already been drawn down; items below the total were included in the ordinance and are estimates for 2017.*

9,700,000	G.O. NOTE, SERIES 2014 ISSUE
(4,000,933)	RE-FINANCE SERIES 2004 (BTCC)
(2,000)	CLOSING COSTS (AT SETTLEMENT)
(527,927)	NANCY RUN LADDER TRUCK DOWN PAYMENT
(162,553)	NANCY RUN LADDER TRUCK FINAL PAYMENT
(388,450)	BTVFC FIRE RESCUE TRUCK DOWN PAYMENT
(388,440)	BTVFC FIRE RESCUE TRUCK FINAL PAYMENT
(39,792)	POLICE CAR PORT APPLICATION PAYMENT
(83,529)	POLICE CAR PORT APPLICATION PAYMENT
4,106,376	AVAILABLE FUNDS PER LINE OF CREDIT
2,000,000	<i>BTCC RENOVATIONS (2017)</i>
1,300,000	<i>BRODHEAD ROAD RECONSTRUCTION (2017)</i>

Capital Reserve Fund

The 2017 Budget recommends a transfer of \$676,450 from the General Fund to the Capital Fund. This year's Capital Fund shows a Five Year Capital Budget

To diversify our revenue stream and alleviate some pressure on the General Fund, the Township is pursuing over \$1 million in grant funding for vehicles and park improvements.

The final option for Capital Project funding is financing just over \$4 million through the 2014 and future 2017 Series Borrowing. The two major projects here are the BTCC Renovation and the Brodhead Road reconstruction. We do anticipate being able to utilize two years' worth of Liquid Fuels funding (2017 and 2018) to pay off \$1 million of the \$3 million Brodhead Road financing.

It is important to note that expenditures from the Capital Fund will require a future vote from the Board of Commissioners at subsequent meetings to be realized.

Sewer Fund

The City of Bethlehem is increasing our bulk sewer rate from \$2.172 to \$2.313 per 1,000 gallons. The last bulk sewer rate increase by the City was in 2014. This rate increase is estimated to be approximately 2.2% for each property owner, but the Township staff is working on some options for the Board to consider.

Conclusion

I am confident that this budget is a reliable financial plan for 2017 and that we have put Bethlehem Township in a position to continue to offer first-rate services to its residents and businesses.

Respectfully submitted,

A handwritten signature in blue ink that reads "Melissa A. Shafer". The signature is fluid and cursive, with the first name being the most prominent.

Melissa A. Shafer
Township Manager

2017-2021 FORECASTING
10/11/201611:02 AM

									PERCENTAGE	2017-2021
		CURRENT ASSESSMENT (2% ESCALATION)	\$846,933,900	\$846,933,900	\$863,872,578	\$881,150,030	\$898,773,030	\$916,748,491	INCREASE	CONTROL TOTALS
		COLLECTION RATE	99.00%	99.00%	99.00%	99.00%	99.00%	99.00%		
		MILLAGE RATE - CURRENT	7.09	7.09	7.09	7.09	7.09	7.09		
		MILLAGE RATE INCREASE - PROPOSED	-	-	-	-	-	-	0.00%	
		MILLAGE RATE - NEW	7.09	7.09	7.09	7.09	7.09	7.09		
		REAL ESTATE TAX - CURRENT	5,924,593	5,944,714	6,063,608	6,184,880	6,308,578	6,434,749		
		REAL ESTATE TAX - (DISCOUNT)	(\$77,000)	(\$77,000)	(\$79,000)	(\$80,000)	(\$82,000)	(\$84,000)		
		REAL ESTATE TAX - PENALTY	\$15,000	\$15,000	\$15,000	\$15,000	\$16,000	\$16,000		
		REAL ESTATE TAX - NET OF DISCOUNTS/PENALTIES	5,862,593	5,882,714	5,999,608	6,119,880	6,242,578	6,366,749		30,611,529
				16,802,061.00						
SCENARIO 1 ESCALATION FACTOR	ACTUAL TO BUDGET %		2016	2017	2018	2019	2020	2021	SCENARIO 1	
		PROJECTED OPENING FUND BALANCE	\$1,995,000	\$2,495,719	\$1,819,371	\$1,139,423	\$764,373	\$185,741		\$2,495,719
2.25%	100.00%	OPERATING REVENUE (EXCLUDES REAL ESTATE TAX)	10,590,027	\$10,919,347	\$11,165,033	\$11,416,246	\$11,673,111	\$11,935,756		\$57,109,493
		REAL ESTATE TAX - NET OF DISCOUNTS/PENALTIES	5,862,593	5,882,714	5,999,608	6,119,880	6,242,578	6,366,749		\$30,611,529
		HOUSENICK ESTATE - LOAN REIMBURSEMENT		\$0	\$100,000	100,000	100,000	100,000		\$400,000
4.00%	97.00%	OPERATING EXPENSES	(\$15,159,056)	(\$15,095,471)	(\$15,228,311)	(\$15,362,320)	(\$15,497,508)	(\$15,633,887)		(\$76,817,497)
		SERIES 2013 DEBT SERVICE	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)		(\$4,432,441)
	100.00%	SERIES 2014 DEBT SERVICE	(\$736,205)	(\$795,000)	(\$1,152,000)	(\$1,261,000)	(\$1,367,000)	(\$1,404,000)		(\$5,979,000)
SPREAD		SERIES 2017 DEBT SERVICE	\$0	(\$25,000)	(\$117,789)	(\$149,867)	(\$183,325)	(\$308,120)		(\$784,101)
-1.75%	100.00%	TRANSFERS TO CAPITAL	(\$192,000)	(\$676,450)	(\$560,000)	(\$351,500)	(\$660,000)	(\$260,000)		(\$2,507,950)
		PROJECTED ENDING FUND BALANCE	\$1,473,871	\$1,819,371	\$1,139,423	\$764,373	\$185,741	\$95,753		\$95,753
		FUND BALANCE RESERVE AS % REVENUE	9%	11%	7%	4%	1%	1%		
SCENARIO 2 ESCALATION FACTOR	ACTUAL TO BUDGET %		2016	2017	2018	2019	2020	2021	SCENARIO 2	
		PROJECTED OPENING FUND BALANCE	\$1,995,000	\$2,495,719	\$1,819,371	\$1,203,328	\$957,940	\$576,632		\$2,495,719
2.50%	100.00%	OPERATING REVENUE (EXCLUDES REAL ESTATE TAX)	\$10,590,027	\$10,919,347	\$11,192,331	\$11,472,139	\$11,758,943	\$12,052,916		\$57,395,676
		REAL ESTATE TAX - NET OF DISCOUNTS/PENALTIES	5,862,593	5,882,714	5,999,608	6,119,880	6,242,578	6,366,749		\$30,611,529
		HOUSENICK ESTATE - LOAN REIMBURSEMENT		-	100,000	100,000	100,000	100,000		\$400,000
3.75%	97.00%	OPERATING EXPENSES	(\$15,159,056)	(\$15,095,471)	(\$15,191,704)	(\$15,288,552)	(\$15,386,016)	(\$15,484,102)		(\$76,445,845)
		SERIES 2013 DEBT SERVICE	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)		(\$4,432,441)
	100.00%	SERIES 2014 DEBT SERVICE	(\$736,205)	(\$795,000)	(\$1,152,000)	(\$1,261,000)	(\$1,367,000)	(\$1,404,000)		(\$5,979,000)
SPREAD		SERIES 2017 DEBT SERVICE	\$0	(\$25,000)	(\$117,789)	(\$149,867)	(\$183,325)	(\$308,120)		(\$784,101)
-1.25%	100.00%	TRANSFERS TO CAPITAL	(\$192,000)	(\$676,450)	(\$560,000)	(\$351,500)	(\$660,000)	(\$260,000)		(\$2,507,950)
		PROJECTED ENDING FUND BALANCE	\$1,473,871	\$1,819,371	\$1,203,328	\$957,940	\$576,632	\$753,588		\$753,588
		FUND BALANCE RESERVE AS % REVENUE	9%	11%	7%	5%	3%	4%		
SCENARIO 3 ESCALATION FACTOR	ACTUAL TO BUDGET %		2016	2017	2018	2019	2020	2021	SCENARIO 3	
		PROJECTED OPENING FUND BALANCE	\$1,995,000	\$2,495,719	\$1,819,371	\$1,267,233	\$1,151,466	\$967,365		\$2,495,719
2.75%	100.00%	OPERATING REVENUE (EXCLUDES REAL ESTATE TAX)	\$10,590,027	\$10,919,347	\$11,219,629	\$11,528,169	\$11,845,194	\$12,170,937		\$57,683,276
		REAL ESTATE TAX - NET OF DISCOUNTS/PENALTIES	5,862,593	5,882,714	5,999,608	6,119,880	6,242,578	6,366,749		\$30,611,529
		HOUSENICK ESTATE - LOAN REIMBURSEMENT		-	100,000	100,000	100,000	100,000		\$400,000
3.50%	97.00%	OPERATING EXPENSES	(\$15,159,056)	(\$15,095,471)	(\$15,155,098)	(\$15,214,961)	(\$15,275,060)	(\$15,335,396)		(\$76,075,985)
		SERIES 2013 DEBT SERVICE	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)	(\$886,488)		(\$4,432,441)
	100.00%	SERIES 2014 DEBT SERVICE	(\$736,205)	(\$795,000)	(\$1,152,000)	(\$1,261,000)	(\$1,367,000)	(\$1,404,000)		(\$5,979,000)
SPREAD		SERIES 2017 DEBT SERVICE	\$0	(\$25,000)	(\$117,789)	(\$149,867)	(\$183,325)	(\$308,120)		(\$784,101)
-0.75%	100.00%	TRANSFERS TO CAPITAL	(\$192,000)	(\$676,450)	(\$560,000)	(\$351,500)	(\$660,000)	(\$260,000)		(\$2,507,950)
		PROJECTED ENDING FUND BALANCE	\$1,473,871	\$1,819,371	\$1,267,233	\$1,151,466	\$967,365	\$1,411,047		\$1,411,047
		FUND BALANCE RESERVE AS % REVENUE	9%	11%	7%	6%	5%	8%		