

TOWNSHIP OF BETHLEHEM
BOARD OF COMMISSIONERS



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Doug Bruce

MEMORANDUM

Date: October 14, 2022

To: Board of Commissioners

From: Doug Bruce, Manager

Subject: 2023 Proposed Budget

On behalf of Bethlehem Township's administration and staff, I am presenting the township's proposed 2023 budget for public review and discussion. The annual budget is the spending and revenue plan for the coming year.

The budget will be presented to the board and public at the board's October 17 regular public meeting and will be discussed at budget hearings Thursday, October 20 (6-8 p.m.); Tuesday, October 25 (6-8 p.m.); and Thursday, November 3 (6-8 p.m.). All those meetings will be in-person with virtual attendance options.

A few notes on the proposed budget:

1. General Fund: The general fund is the largest of the township's six budget funds. Its main sources of revenue are the real estate tax, the earned income tax, the real estate transfer tax, and BTCC fees. Major expenditures paid from the general fund include most of the police, community development, finance, public works, administrative, and BTCC budgets and contributions to the fire companies. Proposed general fund projected revenues and expenses over the past three years:

| Year | 2021 | 2022 | 2023 |
|----------|---------|---------|---------|
| Revenues | \$18.9M | \$20.6M | \$20.4M |
| Expenses | \$20.3M | \$19.3M | \$20.2M |

As you can see, the projected 2023 general fund budget continues a short-term trend of volatility, due mainly to the coronavirus pandemic. The 2021 budget projected lower revenues due to pandemic-related shortfalls, particularly in business privilege tax and community center revenues. Actual 2021 revenues were bolstered by a \$1.25 million payment from the federal government as part of the American Rescue Plan Act (ARPA).

The 2022 budget projected increased revenues due to the second and final \$1.25M ARPA payment, which was received in September. Projected expenses for 2022 decreased due to a \$1 million drop in the township’s pension obligations (which are determined by biennial valuations of pension funds) and by the new stormwater fund absorbing more than \$400,000 in spending previously supported by the general fund.

The proposed 2023 budget projects decreased revenues, as the federal ARPA payments are now done. Expenses are expected to increase, partially due to proposals to expand the full-time workforce for the first time in many years (more details on that below).

The proposed budget projects the following revenues and expenses for the township’s six funds:

| Fund | 2023 projected revenue | 2023 projected expense |
|--------------|------------------------|------------------------|
| General | \$20.36 million | \$20.21 million |
| Sewer | \$6.24 million | \$6.24 million |
| Capital* | \$2.90 million | \$2.90 million |
| Stormwater | \$2.00 million | \$1.32 million |
| Liquid fuels | \$840,000 | \$799,000 |
| Fire tax | \$154,000 | \$0 |

* Capital fund revenue includes a \$1.69 million transfer from the general fund.

2. Fund balance: Generally speaking, good government budgeting practices recommend a general fund balance percentage to be at 10 percent or higher during normal operating circumstances. The fund balance is essentially the money the township has “on hand” or “in reserve.” For many years, up until 2021 (when the first federal ARPA payment was received and the township’s pension obligations were decreased), the projected year-end fund balance was usually in the range of 10 to 15 percent. Last year, the projected year-end balance was nearly 26 percent, and next year’s projection is even higher at just over 32 percent.

While these historically large projected fund balances are unquestionably a good thing for the township, as noted in last year’s budget message, there is reason to believe they are a short-term aberration. As mentioned, these general fund balances are largely based on (1) federal ARPA “bailout” money provided in two payments, one in 2021 and one in 2022; (2) a \$1 million drop in pension obligations due to strong investment returns

prior to 2022; and (3) moving more than \$400,000 in general fund spending to the new stormwater fund. The federal ARPA payments are done and the township’s pension funds will be reevaluated in 2023 – after investment losses this year due to a general market downturn, there is a possibility the township’s pension obligation will increase for 2024. And, as will be discussed below, the stormwater fund – while absorbing some general-fund expenses – has also created a need for increased staffing and labor costs.

Several years ago I wrote in a budget message: “This is the stark financial picture of Bethlehem Township... a mature, nearly built-out municipality where annual revenues have not quite been keeping up with annual expenses for the better part of a decade.” Despite the large projected fund balances of the past few years, which appear to be a short-term anomaly, I think there will be a quick return in the future to much tighter budgets.

3. Balanced budget with no tax or fee increases: The proposed 2023 general fund budget is balanced – projected revenues exceed projected expenses by a small margin. The budget proposes no increases in real estate tax rate, stormwater fees, or sewer fees. The budget is also the fifth in the row to propose no new borrowing on the general fund.

4. General fund debt: Regarding general fund borrowing and debt: With the board’s support, we have emphasized a “pay as you go” approach to capital spending and prioritized reducing the township’s general fund debt. Overall general fund debt service will drop slightly in the proposed 2023 budget, with the possibility of substantial reductions beginning in 2024, as previous borrowings are retired, if the township avoids new debt:

| | DEBT SERVICE | REDUCTION FROM 2022 |
|------|--------------|---------------------|
| 2022 | 2,623,852 | |
| 2023 | 2,545,553 | 78,299 |
| 2024 | 1,900,888 | 722,964 |
| 2025 | 930,507 | 1,693,345 |
| 2026 | 524,388 | 2,099,464 |
| 2027 | 228,809 | 2,395,043 |

5. Full-time employment: As mentioned above, this budget proposes expanding the full-time township workforce. By way of background, the number of township full-time employees peaked at 95 in 2008. Following the 2008-9 recession, a succession of commissioners and managers cut the full-time workforce through attrition by 2019 to 86, where it has remained since.

This year, the township’s department heads have requested a total of six new full-time employees. To my recollection, it’s been more than a decade since a manager has received a request for even one new full-time position from a department head.

I have emphasized austerity and “doing more with less” in my nearly 20 years as assistant manager and manager. However, I also trust the township’s department heads to assess accurately their staffing needs and to justify requests for new positions. From 2010 to 2020, the township’s population grew by more than 9 percent – and township revenues grew from \$14.9 million in 2010 to a projected \$20.2 million in 2024. It appears the township is now at an inflection point where current full-time staffing, which has remained stable for a decade, is no longer meeting operational needs. As such, I support the creation of the following six new full-time positions:

A. Three new entry-level police patrol officers. As mentioned, the township’s population has grown by 9 percent since 2010. The police department has held steady at 35 officers for the past 10 years. According to the FBI, the national average for sworn officers per 1,000 inhabitants is 2.4; other law enforcement organizations suggest a ratio of 1.7 to 1.9 is optimal; the township’s current ratio is 35 officers per 25,868 residents, or 1.36. I recommend that our police department expand to serve a growing community.

B. A new assistant director of finance. The township has six departments and finance is the only one without a non-union professional assistant director position or equivalent. This position will address additional workflow related generally to township growth and specifically to the new stormwater fund and improvement plan. The position would also serve as the township’s grants coordinator.

C. A new entry-level clerk in the community development department, which is responsible for planning, zoning, code enforcement, and inspection functions. The department has one full-time administrative clerk, who routinely handles 45 phone calls per day, 25 permit applications per week, and all clerical support for the community development director, zoning officer, residential construction official, commercial construction official, fire marshal, and code enforcement officer. The new position will provide additional administrative and clerical support to this busy department.

D. A new entry-level clerk shared between the finance and PPIS (Physical Plant and Information Services) departments. The PPIS department (which also provides all administrative support to the Bethlehem Township Municipal Authority) is currently served by one part-time clerk. Both departments have seen additional workflow due to the new stormwater fund (stormwater construction projects are being overseen by the BTMA). This position is proposed to be charged 50 percent to the sewer fund and 50 percent to the stormwater fund, and it will not impact the general fund.

The cost of these six proposed positions would be substantial – most likely more than \$500,000 in 2024, depending on hire dates and benefit costs. But I believe these positions are necessary to continue to provide the municipal services rightly expected by those who live, work, and visit Bethlehem Township.

6. Community center budget: The community center budget continues to rebound from pandemic-related problems. In the 2020 budget (approved before the

pandemic), BTCC revenues were projected at \$1.32 million based on prior years' performance. When the pandemic hit in early 2020, the facility was closed for several months altogether, the outdoor pool was not opened that summer, and actual 2020 revenues were just \$288,000. Actual 2021 revenues increased to \$474,000 as the pandemic lingered. This year actual revenues are tracking very closely to the original budget estimate of \$826,500. The proposed 2023 budget projects BTCC revenues to increase marginally to \$836,500. BTCC revenues may never return to pre-pandemic numbers, but the facility remains popular and busy.

7. Capital budget: Projected 2023 capital spending is \$2.90 million, less estimated grants received (\$1.14 million), less estimated park fund use (\$70,000), leaving a \$1.69 million transfer from the general fund to cover all capital costs. The capital budget – which is used for major purchases and projects – envisions the following major items over \$100K:

- \$1.09 million for the Sculac culvert replacement underneath the D&L Trail;
- \$327,000 for replacement of major sections of the municipal building roof;
- \$300,000 for SCUBA-style air tank replacements for Bethlehem Township Volunteer Fire Company;
- \$198,000 for three new police patrol vehicles;
- \$175,000 for a new wheel loader replacement for the public works department.

8. Fire tax: The township's fire tax is projected to take in \$154,000 in 2023, bringing the fund's holdings to \$834,000. The fund was created several years ago to pay for major fire apparatus purchases. The next such purchase – a firetruck for Nancy Run Fire Company – was scheduled for 2023, but has been pushed back to 2024 due to supply delays and lead time requirements. This truck is now expected to cost approximately \$900,000 and its purchase in 2024 will nearly deplete the fire tax fund. The next major apparatus purchases are scheduled for 2028, when both fire companies are planning to replace aging firetrucks. At its current rate of collection, the fire tax fund will not have enough money to fund both of these purchases in 2028.

9. Road paving: For several years, the Board of Commissioners and staff have discussed increasing the township's annual road paving program. In recent years, the township has budgeted approximately \$500,000 from the liquid fuels fund for repaving township roads. The public works department monitors these roads and develops a prioritized five-year road paving schedule based on pavement conditions. The proposed 2023 budget projects spending \$450,000 to repave parts of Lafayette Drive, Temple Court, Moravian Court, and Rutgers Drive.

The next roads on the priority list include portions of Skyline Drive, Michigan Court, and Moravian Court, at an estimated cost of \$515,000. To add these roads in to the 2023 paving schedule might create an overall cost savings, due to economies of scale and decreased mobilization costs. Combining the projects in the same year would cost an estimated \$860,000 to \$900,000.

However, based on the current proposed 2023 budget, combining these two paving projects would either necessitate spending a portion of the township's fund balance/cash reserves or cutting other proposed spending items. This is a matter that can be discussed further.

10. Stormwater fund: The township's new stormwater fee and stormwater management program took effect January 1 of this year. First-year fee collections and fund expenditures are tracking close to original projections. As mentioned, there is no proposed change to the stormwater fee structure in 2023. However, also as mentioned, the new stormwater program, budgeted at \$2.1 million per year over its first four years, has created a need for increased support staffing. The board recently approved a new stormwater capital improvement plan, which calls for an ambitious multi-year series of infrastructure projects to both improve stormwater quality and reduce flooding.

I look forward to robust and substantive debate on this proposed budget as we move through the public hearing process.