

# TOWNSHIP OF BETHLEHEM

## BOARD OF COMMISSIONERS

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### Township Manager:

Doug Bruce



## MEMORANDUM

**Date:** October 16, 2023

**To:** Board of Commissioners

**From:** Doug Bruce, Manager 

**Subject:** 2024 Proposed Budget

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On behalf of Bethlehem Township's administration and staff, I am presenting the township's proposed 2024 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 16 regular public meeting and will be discussed at budget hearings Tuesday, October 17 (6-8 p.m.); Thursday, October 26 (6-8 p.m.); and Thursday, November 2 (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, earned income tax, real estate transfer tax, and community center (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 four years:

Year	2021	2022	2023	2024
Revenues	\$18.9M	\$20.6M	\$20.4M	\$20.9M
Expenses	\$20.3M	\$19.3M	\$20.2M	\$20.9M

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

Fund	2024 projected revenue	2024 projected expense
General	\$20.90 million	\$20.90 million
Sewer	\$6.21 million	\$6.21 million
Capital*	\$3.14 million	\$3.14 million
Stormwater	\$2.13 million	\$2.12 million
Liquid fuels	\$883,000	\$1.01 million
Fire tax	\$159,000	\$0

\* Capital fund revenue includes a \$1.27 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 of total revenues 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 pandemic-related ARPA payment was received and the township’s pension obligations decreased significantly), the projected year-end fund balance was usually in the range of 10 to 15 percent. The 2022 projected year-end balance was nearly 26 percent, the 2023 balance was projected at more than 32 percent, and next year’s projection is even higher at 38 percent.

While these historically large projected fund balances are unquestionably a good thing for the township, there is reason to believe they are a short-term aberration, as noted in last year’s budget message. These general fund balances are largely based on (1) \$2.5 million in federal ARPA “pandemic bailout” money provided in two payments, one in 2021 and one in 2022; (2) a \$1 million drop in pension obligations two years ago due to strong investment returns prior to 2022; and (3) moving more than \$400,000 in general fund spending to the new stormwater fund starting in 2022.

However: The federal ARPA payments are done. There are no additional general fund expenditures due to be transferred to the stormwater fund. And the township’s pension funds recently received a new two-year valuation. Due to investment losses in 2022, the pension funds went from being 96.9 percent funded (1/1/21 valuation) to 86.6 percent funded (1/1/23 valuation). As such, we expect the township’s pension obligation to increase from approximately \$1.1 million in 2024 to at least \$1.7 million in 2025 and 2026.

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.” I think this continues to be the case. Despite the large projected fund balances of the past few years, which appear to be a short-term anomaly, the annual balance between revenues and expenses remains extremely tight.

**3. Balanced budget:** The staff is projecting a balanced budget again for 2024, with revenues and expenses both at \$20.9 million. Projected revenues reflect a 2 percent increase and expenses a 2.3 percent increase from 2023 figures. The budget proposes no increases in real estate tax rate or stormwater fees. The sewer fund includes a 3.1 percent sewer rate increase – a “pass-through” entirely attributable to the City of Bethlehem increasing its fees for treating township sewage.

**4. General fund debt:** This is the sixth consecutive budget with no new general fund borrowing or debt proposed. 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 significantly in 2024 and 2025, as previous borrowings are retired, if the township avoids new debt:

	DEBT SERVICE	REDUCTION FROM 2023
2023	2,545,553	
2024	1,900,888	644,665
2025	930,507	1,615,046
2026	524,388	2,021,165
2027	228,809	2,316,744

**5. Full-time employment:** The 2023 budget created six new full-time positions: three entry-level police officers, an assistant finance director, a community development clerk, and a finance clerk. In the past nine months and with the board’s approval, we have seen the need to add two more full-time positions: an assistant director of the community center and a clerk in the police department.

The 2024 budget proposes the creation of one new full-time position, an assistant zoning officer. The community development department has experienced significant backlogs this year due to increased volumes of permit applications, zoning complaints, zoning hearings, and land development applications. At best, there has been a three-week review period for zoning permits. This has created understandable frustrations among residents and contractors. As such, I believe a new full-time assistant zoning officer position is warranted.

This new position would bring the number of full-time employees to 95, which would equal the highest number in township history, last reached in 2008.

I have emphasized austerity and “doing more with less” in my 20 years as assistant manager and manager. After the recession of 2008, the board and staff worked together to cut full-time employment by nearly 10 percent through attrition, without layoffs, in an effort to “right-size” the township staff.



However, from 2010 to 2020, the township's population grew by more than 9 percent – and general fund revenues grew from \$14.9 million in 2010 to a projected \$20.9 million in 2024 (a 40 percent increase). I trust the township's department heads to assess accurately their staffing needs and to justify requests for new positions; they have been telling me for the past two years that they need more help. As such, I believe the recent new positions (including the proposed assistant zoning officer) are necessary to continue to provide the municipal services rightly expected by those who live, work, and spend time in Bethlehem Township. We will continue to monitor and adjust the township's full-time and part-time workforce as needed in the coming year.

Lastly in the area of full-time employment, and per contractual obligations, the following wage increases are factored into the proposed 2024 budget: 2 percent for AFSCME employees; 3 percent for Teamsters employees; and 3.25 percent for police union members. Additionally, I have proposed a 3.25 percent increase for non-union employees.

**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' experience. 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. Actual 2022 revenues were \$829,000 as the facility returned to relatively normal operations. This year actual revenues are tracking very close to the original budget estimate of \$836,500.

For 2024, we are projecting BTCC revenues to increase to \$891,500. I think this reflects the “new normal” for the facility. It is unlikely for the foreseeable future that BTCC revenues will return to pre-pandemic levels. During the pandemic, many people found other places to exercise and engage in social activity. The facility remains popular and busy, but annual revenues – even with the rebound in recent years – are nearly one-third below pre-pandemic levels and that appears to be a long-term situation.

**7. Capital budget:** Projected 2024 capital spending is \$3.14 million, less estimated grants received (\$1.22 million), less estimated park fund use (\$440,000), less estimated traffic impact fund use (\$212,000) leaving a \$1.27 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 \$100,000:

- \$515,000 for complete replacement of municipal park playground equipment;
- \$495,000 for the emergency pre-emption traffic signal at 9<sup>th</sup> Street and Freemansburg Avenue;
- \$253,000 for digital-capable portable radios for police;
- \$210,000 for digital-capable mobile (in-car) radios for police;
- \$150,000 for digital-capable radios for Bethlehem Township Volunteer Fire Company;

- \$100,000 for digital-capable radios for Nancy Run Fire Company;
- \$100,000 for a public works skid-steer loader;
- \$100,000 for sidewalk and stormwater repairs at Easton Avenue and Willow Park Road.

Please note the costs next year of buying digital-capable radios for police (\$463,000, for which the township has applied for federal funding) and fire (\$250,000, a small portion of which the township has applied for state grants). As part of a federal initiative, Northampton County is planning to transition over the next few years to all-digital emergency communications – and necessitating police, fire, and EMS squads in the county to similarly upgrade all radios. Each such radio, with related equipment, currently costs nearly \$10,000.

The police department is asking for all its new radios this year. Bethlehem Township Volunteer Fire Company has asked for \$150,000 per year for the next three years to complete its radio upgrade. And Nancy Run Fire Company has asked for \$100,000 per year for the next four years. The total cost for all these new radios over the next four years is projected to be more than \$1.3 million. We have and will continue to seek grants for the radios, but we will be competing with every other municipality, police department, and fire company in Northampton County. This is a significant multi-year capital expenditure, in some ways an “unfunded mandate” as part of a federal initiative and the county radio network upgrade.

**8. Fire tax:** The township’s fire tax is projected to take in \$159,000 in 2024, bringing the fund’s holdings to approximately \$381,000. The fund was created several years ago to pay for major fire apparatus purchases. This year \$591,496 was charged to the fund for the first 50 percent payment of a new engine for Nancy Run Fire Company. The second 50 percent payment will be due on delivery of that firetruck, which is scheduled for sometime within 1,000 days of the first payment.

The next major purchases to be charged to this fund are scheduled for 2026, when both fire companies (Nancy Run and Bethlehem Township Volunteer) are each planning to purchase new firetrucks, with an anticipated combined cost over \$2 million. Another significant apparatus purchase is tentatively scheduled for 2031. At the current fire tax rate, the fund will not be close to covering the planned 2026 purchases at any point in the near future, so it’s anticipated the township will have to borrow money that year against the fire tax fund to pay for the next round of new firetrucks.

**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 2024 budget proposes a \$640,000 paving project, all paid for by liquid fuels funds, on portions of the following roads: Clifton Avenue, Millstone Drive, Lowell Place,



Whitehall Street, Elder Street, Chalfont Avenue, Fairway Drive, Westwood Drive, Magnolia Drive, and Knollcroft Avenue.

Based on this proposal, the 2025 paving budget will likely have to be decreased so as not to deplete the liquid fuels fund – or, alternatively, other sources of funding will have to be used.

The condition of Church Road continues to be a concern. The large commercial development (Penn Center 33, formerly known as Mill Creek) is currently not moving forward. That development calls for widening and storm sewer work on Church Road. Without this outstanding work being completed, the township cannot schedule its reconstruction of Church Road.

**10. Stormwater fund:** As mentioned, this budget proposes no change to the stormwater fee. When the stormwater fund was created in late 2021, the board based the fee on a four-year financial model, with revenues set at approximately \$2.1 million per year and expenses increasing over four years as pollutant reduction and flood mitigation construction projects began. This budget projects stormwater revenues and expenses to run about even in 2024 and for expenses to increase significantly in 2025 as construction debt service payments begin.

In 2021, the board pledged publicly to hold the stormwater fee at a level rate for the first four years (2022-2025) of the program. When year five (2026) of the program comes along, the board will almost certainly have to revisit that fee, based on the aggressive construction schedule approved by the board and the municipal authority in the capital improvement plan.

**11. Public works master plan:** The board received in early 2023 a study prepared by MKSD Architects about whether to renovate the existing public works facility or to build a new facility. Cost estimates ranged from \$10 million for on-site renovation to \$15 million for construction of a new building at the township's Hope Road property. The proposed 2024 budget does not include any capital spending related to this master plan. At this time and until the board directs otherwise, the staff and I will plan on utilizing the existing facility and proposing any improvements/upgrades on an as-needed basis. The condition of the salt shed and the municipal fuel pumps appear to be the items most in need of attention in the near future.

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