

## **Finance Advisory Committee Minutes – 1/18/2023**

Attendees: Mike Albanese, Lauren Barnett, Bob Dewing, Monica Goscicki, John Kaplan (minutes), Khizar Sheikh and Mitchell Stern

Absent: Jim Murphy, Chris Richter

1. Approval of 11/2/22 minutes (Sheikh abstaining).
2. **First draft of budget.** M. Stern and M. Goscicki provided a first draft of the 2023 Budget to FAC, with details of projected Revenues and Appropriations:
  - The first draft of the budget included a \$828,909 (12.28%) increase in the amount to be raised by taxation. This number does not include corrections or revisions noted by meeting participants to be factored into the next draft. For example, M. Stern noted that the Capital Improvement Fund was overstated by \$100k.
  - The first draft also includes a \$134mm (10.48%) increase in the ratable tax base. FAC discussed obtaining the details behind the \$134mm increase to help understand the actual tax impact on the average home.
  - The first draft of the budget included a \$85,739 increase in total revenues, net of the \$828,909 increase in the amount to be raised by taxation, primarily driven by an increase in the anticipated surplus and receipts for delinquent taxes offset by a decrease in trash bag receipts and utility fund balance.
  - The first draft of the budget included a \$914,648 (9.23%) increase in total expenditures primarily driven by nine expenditure line items: new solid waste contract, group insurance, workers comp, park maintenance, aid to the library, reserve for salary adjustment, PFRS contribution, capital improvement fund, and the RUT.
  - FAC discussed maintaining the Reserve for Tax Appeals at \$100k to continue to seek to settle outstanding appeals in an appropriate manner.
  - **Follow up items:**
    - i. Determine what drove the \$134million increase in the ratable tax base, i.e., breakdown between new ratables and revaluations.
    - ii. Review detailed expense line items to determine if there are any areas that can be reduced.
    - iii. Confirm accuracy of the 132.5% increase in Workers Comp premium.
    - iv. Review potential adjustment to the Anticipated Surplus. This should tie in to discussions related to reducing our current fund balance to bring the surplus closer to target levels. Requires further evaluation of fund balance projections (See To Dos).
3. **RUT discussion:** The RUT mechanism currently in place was established to protect against a significant tax collection disruption ensuring we had adequate cash on hand. Collections over the last 25 years have averaged 98.5% with a low of 95.5% in 1993 and a high of 99.5% in 2005. Based on historical collection rates, the FAC discussed whether the RUT should be increased

from the current level of 95.5%. There was also continued discussion whether the 95.5% RUT has been the reason for the increase in fund balance since 2020. Increasing the RUT to a 96.5% fixed rate was suggested. A variable rate versus fixed rate was also discussed. Several FAC members expressed disfavor to a variable rate. The suggestion was made to get input from our Auditor. The FAC was reminded that we discussed the RUT with our auditor at the June 2022 meeting and the auditor recommended that we maintain a fixed rate RUT. The FAC agreed that RUT policy should be completely independent of the budget process and further discussion was required.

4. **Fund Balance (Surplus) discussion:** Fund Balance at year-end 2022 was approximately \$4.2mm. This surplus includes \$250k from the Enclave Developers Agreement received in 2021 and \$100k from Enclave sewer hook ups transferred to the Current fund from the Sewer Utility Fund in 2022. The FAC discussed alternatives for returning some of the existing surplus to taxpayers including one-off current year expenditures, managing debt service growth, tax appeal settlements and funding capital expenditures which could not be financed for more than 5 years. Several FAC members raised questions whether it was appropriate to use surplus to fund capital expenditures that are eligible for longer term financing to spread the capital cost to current and future beneficiaries (taxpayers). Further discussion is necessary including evaluating all factors impacting the fund balance in addition to the RUT.
5. Next meeting: Tuesday, January 31 at 7:45pm Zoom mtg.

**To Dos:**

- Distribute second budget draft after incorporating discussions from this meeting and the upcoming Borough Council 1/25/23 budget workshop meeting – M. Stern.
- Distribute preliminary Water & Sewer Budgets – M. Stern.
- Update and distribute Surplus Account / Fund Balance Forecast analysis – M. Goscicki.
- FAC Councilmembers, borough manager, and CFO to meet with Borough assessor to discuss increase in ratable tax base.
- Put FAC policies together into one document for easy reference – M. Stern.
- Prepare for follow up discussions noted above.