

Semi-Annual Financial Report

Lower Saucon



July 21, 2021

Presented by Cathy, Director of Finance

Introduction

This document was developed at the request of Council to provide a mid-year status report of the Township's financial condition. The Township's Budget document is a one-year plan of revenues and expenses that are projected during the course of that year, as required by State law. This Semi-Annual Report contains the unaudited actual figures as of June 30th.

During the presentation of this report, we will discuss revenues and expenses that are not within the projected range. In addition, the report will also cover the progress of projects approved during the first half of the year, but were not part of the preceding budgeting process. This information can be used in the upcoming year's budget deliberations. A preview of projects will be provided and will be discussed in greater detail during budget deliberations.

This document compliments the Comprehensive Annual Financial Report (CAFR), which is recommended by the Government Financial Officers Association (GFOA) and will now be referred to as LSTCAFR and is provided to Council in March each year. Much of the financial information in the annual report is prepared by our independent Auditor and submitted to the State by April and to Council by June or July of the following year. This document is condensed for the public, to clearly convey the financial condition of the Township, which presents the net position and the status of the Capital Improvements Plan (CIP) which is required to be presented to Council by September 1st pursuant to the Township Code.

2021 continuation of the COVID 19 Pandemic

Council approved an additional \$1,087,583.71 in funds to be placed in the Operational Reserve Fund, which was funded by revenue that exceeded expenditures. They had the foresight to prepare for potential disastrous events with the creation of the Operational Reserve Fund in 2014. Their area of concern was having insufficient funding to make necessary repairs if there were delays in Federal or State financial assistance. The Operational Reserve Fund became a restricted savings and not a part of the budgetary process unless approved by Resolution. To date, we have not withdrawn from the fund, which currently has a balance of approximately \$5.4 million, while still maintaining the \$3 million in unrestricted funds available in any given year.

The rationale of this financial structure continues to build up reserves and has provided Lower Saucon Council the ability to lower taxes for residents when it was most beneficial. Despite the struggles for moth, the Township continues to be financially prepared for the potential of such disasters and has been able to successfully weather the storm affecting the nation. The Administration continues to maintain review of expenses.

The Federal Government is providing \$1,134,404.92 in disaster relief this year. This funding has limitations; however, most governments will take advantage of their loss of income. The Township was unaffected in this area and therefore, will be able to utilize the funds for other uses permitted under LFRF (Local Fiscal Recovery Funds) guidelines that Council approves.

The Reserve Fund continues as a fund for emergency repairs, but it is also funding to address revenue risk management. The Township budgets revenue conservatively. Every government entity assumes some risk when projecting future incomes. It is becoming more apparent that higher level governments can adversely or positively affect the “bottom line” of any local government. Examples of this are regulations and restrictions, due to a health crisis or just simply the imposition of an unfunded mandate. These can be unplanned and would require modification of any budget if not prepared. The Government Finance Officers Association advocates for municipalities to strengthen their financial structure to address these uncontrollable events. Since the passage of the Budget Advisory Report in 2015, the Township has been fortunate to save enough to prepare for shortfalls that did not occur and, as such, provided the ability for our Council to lessen taxes instead of increasing as many governments were forced to do. Our primary sources of revenue are the Real Estate Tax, Earned Income Tax and the Landfill Host Fees. The Landfill Host Fees generate the largest amount of revenue. In anticipation of the discontinuation of revenue from the Landfill Host Fees, the Administration acted proactively by steadily saving funds from that source of revenue, as to not adversely impact the residents of Lower Saucon financially. The landfill is anticipated to close in about four years. The Bethlehem Landfill has formally requested approval from DEP to continue operations on another portion of their site. This means that the allocations to the Reserve and Capital Funds may continue if this permit modification is approved. Nonetheless, outside of the annual Capital appropriations, we have been able to save the host fees generated in the Operation and Capital Reserves.

There are road, building and storm water infrastructure items that we will be covering in our Capital Improvement Plan (CIP) and General Funds. Public Works has completed several important projects so far this year. First is the installation of the waterline at the Town Hall Park which staff received grant funding to complete. They have also completed the Reading Drive stabilization and Mount Pleasant Drive storm water project. We are working on isolating specifically identified projects to fulfill our MS4 (Municipal separate storm sewer system) requirements. We continue to work on more road projects and will be reported in the Capital plan in September. Council has restricted \$5,514,931.23, and currently \$3,891,090.03 is unrestricted. Our policies state that \$3,000,000.00 in unrestricted reserve is our litmus test. The Budget Advisory Committee recommended the \$3,000,000.000 to cover an operational budget. As stated previously, the purpose of these classifications and restrictions was to afford Council time to modify services if needed or desired.

Council was able to lower taxes by 20% from 6.39 to 5.14 to lessen the burden of the Covid 19 pandemic restrictions. This was possible due to the Township’s strong financial position and through sound governance and administrative controls. We are not anticipating utilizing the landfill funding to maintain operations, as we have had significant increases in some revenues that will be discussed.

Revenue:

We have received 61.36% of our budgeted revenue; 95.79% of the 2021 Real Estate Tax revenue; an increase of 1% more than this time last year. The percentage of taxes not received will be proportional to the delinquent amount. We are at the same percentage of receipts in delinquent taxes that we were in 2020. Northampton County sends notices at the end of May, so most receipts come in July, August, and September. We are at the normal level as last year and anticipate minor deviations.

The Township has received 62.56% of the estimated local enabling taxes, which consists of Earned Income Tax, Deed Transfer Tax, and Local Services Tax. This is higher than last year at this time, but the percentage compared to budget is appropriate for the mid-year point. Northampton County TCC reporting states that we are up 19.5% from year to date last year.

On a positive note, real estate sales continue to grow, we continue to reap the benefit of the low mortgage interest rates by receiving over 63% of the budgeted amount in deed transfer tax. Caution must be taken for next year's budget in regards to this, as the housing market may return to a form of normalcy. With that said, the offset could occur when the new housing previously approved, moves forward with construction and sales.

Our Business License Fees received to date are 100.76%, largely due to our Cable Franchise Taxes. The Cable Franchise is a 3% tax on the revenue received by cable providers in Lower Saucon Township's jurisdiction. However, this is slightly more than what was budgeted based on last year's projections. We continue to monitor this revenue source, as there are other options available for residents that are currently not taxed. The revenue received is directly related to the gross income reported by the cable companies. There are still delays in new housing construction and more options available in television and web services. We will take this into account in the 2022 budgeting process.

The Township has received 45.41% of budgeted fines. State Police fines are budgeted based on the previous year's receipts. The next payment is scheduled for December. As more places open, people going out and courts cases are scheduled; we will see this category increase throughout the year.

CD's have closed and been reinvested prompting an increase in interest rates this year, receiving 107.01%. We try to maximize the interest rates amount and work with the banks to secure the best rates possible. Investments follow permitted guidelines.

Grants received will not exceed anticipated amounts, as the majority of grants are for police programming. We have had limited involvement in these areas during the pandemic. The corresponding expense in police overtime will be less as well. We will see some reimbursement grant funding in the second half of the year.

State Shared Revenue is typically received in September or October. We have been paying the MMO (Minimum Municipal Obligation) on a monthly basis prior to receiving the State Aid. The Township will present the 2022 MMO in September once the valuations are complete.

General Government fees are at 67.61%, surpassing the half way mark. Subdivision and Zoning permits will exceed budget assumptions due to the anticipated interest in economic development and home ownership in the Township.

Public Safety also is currently beyond the mid-year levels anticipated at 63.72%. Police Services tie directly to Police overtime. Our Police Department offers coverage for graduations and other events with the entity sponsoring the event paying for those services. Since the pandemic, large graduations were not held along with many limiting the size of the event, and we do not expect to meet our target amount

budgeted. However, we will also not be spending the amount in Police overtime, which will be addressed later in this report. Accident reports and alarm fees are on the rise as more people are out more often increasing the probability of accidents or false alarms. Building permits remain in range as we will see the spikes in good weather conditions. Sanitation permits have an expense offset in Line Item 01.408.314. We are closing out the remaining permits on file from our old method. We confirmed with our **SEO** that there is a little over \$20,000.00 in anticipated expenses outstanding and we will receive the fees from our previously adopted fee schedule when billed.

The Township has received 44.46% of the budgeted Landfill Host Fees based on what we assumed to receive. The 2020 receipts over expenditures were allocated to reserves and the Capital Fund in April. Management will recommend at the CAFR reporting in March 2022 where excess funds should be applied, in accordance with Township policies. The Township has received the gas royalty fees from **BRE** in the amount of \$3,077.96. We assumed no receipts as the renewable energy facility has been shut down. We will review the budget for these fees as the facility is selling their product.

Health care costs is a pass through as we bill the Authority for their employees on our medical and other insurance plans.

Recreational pavilion fees are more in line with projections since the lifting of some of the COVID 19 restrictions.

Miscellaneous income is income that does not apply to any other account and typically money we receive from insurance claims and other small amounts. \$23,010.75 was the legal settlement received from the Boucher & James legal action. These funds continue to be disbursed to the appropriate parties, while all the Township funds will remain in a separate bank account until Council directs otherwise. Funds were received from our insurance company and other insurance companies for damage claims.

Our expectations were on our dividend returns for our self-insured medical, Workers Compensation and general liability coverages. We had a good year due to fewer claims filed. Our Workers Compensation insurance, barring any exceedingly large claims, will most likely result in higher dividends next year. We received a \$58,367.23 dividend on our Workers' Compensation agreement. Our expense this year is over \$145,667.00 so the net effect is that our insurance coverage this year was \$87,299.77. We also received \$199,252.64 from our medical self-insurance fund.

All other revenues received remain on target. Overall revenue received is 61.36% of the amount budgeted.

Expenses:

To date, the Township has paid 47.53% of its expenses budgeted.

Budgeted line items that have monthly distributions are consistent with our benchmarks. Departmentally we are on track with our budgets. There are a few minor overages but overall, we are in line with amounts budgeted in each department.

- Council - General Government – All expenses are within range. No reportable issues. PSATS Convention was cancelled saving fees.
- Executive – All expenses are within range, 47.22%. Staff reviews all expenditures.
- Finance – All expenses are within range, 55.23%. IT is slightly higher due to computer upgrades
- Legal – At 36.16%. We are on target for the year. Anticipated needs regarding the landfill have not yet materialized and **we still are in negotiations with the Police Union.**
- Data Processing 12.97% – All expenses within range. We upgraded computers to NUCs which are an environmentally sound practice and are upgrading software when required to ensure program performance and IT security and safety. Funding is available for server or computer replacements in the event of a failure.
- Engineering – Expenses are at 56.72%. Expenses for the Lower Saucon Bridge are more than anticipated as we are waiting on PP&L to design a plan for the utility pole replacement. Some funds were approved for engineering through the grant and state funding approvals. We will be utilizing that approved funding for the inspection process. Hanover Engineering finished work for the Reading Dr. stabilization, work continues on Old Philadelphia Pike Bridge and the bridge inspections, and the Reading Drive culvert. Covered under this is also the landfill inspections, MS4 permitting work and the SEO. We have and will exceed the SEO budget as prior to the establishment of the escrow method transition, there were several permits still remaining. After speaking with the SEO 47 active permits have been identified under the old system, potentially costing an additional \$21,100.00 to complete. We will budget more in the 2022 budget to recognize these expenses.
- Buildings and Grounds - Within mid-year range at 43.18%. We stopped the COVID 19 cleanings once we received the spray units that were purchased under the grant we filed with Northampton County. These units are currently used to clean vehicles, but will also be utilized once the buildings are opened to the public in July. The funding for the janitorial service is being paid out of the line item for compensation. We will be categorizing this expense to contracted services for 2022. It is expected that we will be within budget for fuel, based on anticipated use and anticipated increases due to the national change in policy. For 2022 we will need to presume the probability of a higher cost depending on their methods of taxation and how the vendors will absorb that cost in their bid submissions. We continue to look at agreements set to expire to review alternative options to maximize savings.
- Police Department – Funding is in range with 48.21% expended. We are saving significant funding in payroll due to unforeseen circumstances. All other expenses in range. The new uniforms have been received and paid for.
- Fire Department – 48.92% expenses paid after Council approved the full allocation to Lower Saucon Fire and Rescue after receipt of their required documentation and their efforts in complying with Council’s request.
- Planning and Zoning – We are at 49.21%. All expenses within range.
- Emergency Management – All expenses within range.
- Crossing Guards – All expenses within range.
- Dog Control - All expenses within range.

- Recycling – All expenses in range. Currently the center is not charging for mulch material, as we have excessive amounts at the site that need to be transitioned out.
- Public Works – 42% expended; all expenses within range. Road Material/Maintenance will meet budgeted expectations if weather and time permits. The Public Works Department does as many road(s) within their budgeted amount if the material is available and weather conditions permit.
- Parks and Recreation - All expenses within range. The children’s summer program is in progress for 2021 and the senior program is scheduled to resume in September, so there will be less funding required due to the shortened program period. We received \$5,000.00 grant for resurfacing the Rail Trail. That work will be completed when time permits with our Public Works Department. The expenses for this project is less than \$30,000.00.
- Libraries – All expenses within range. Monthly appropriations made.
- Conservation – No expenses
- Debt – No debt.
- Intergovernmental Expense – This line item is over budget due to COVID 19 funding and the Grant award to Steel City Fire Company for the airpaks, which the revenue is listed under Federal Grant Funding – (\$66,667.00).
- Insurance – We will need to review insurance coverages as we build to cover potential losses. We will need to increase coverage amounts in 2022 as recommended by our insurance agent. We will continue to evaluate the workers compensation coverage to see if the self-funded program remains purposeful
- Employee Benefits – There is revenue to offset this expense. This is a pass through for the Lower Saucon Authority employees.
- Prior year items–Itemized expenses in this category will be posted to the corresponding account in this year’s budget after the audit as expenses were for 2020. As we are on a modified cash basis of reporting, this line item is necessary for expenses that should have been paid in 2020, but we were billed in 2021.
- Transfers – Budgeted Capital transfers have not yet been done . We will be transferring the 2021 budgeted allocations to Capital (\$225,000.00) Park Capital (\$20,000.00) and Historical Capital (\$20,000.00).

Items to note for the 2022 budget:

Engineering continues to be an issue, due to the extensive review of storm water issues throughout the Township, and reviewing the Township’s bridge infrastructure. Once these have all been identified, we can estimate probable costs for repairs. The majority of the construction of these items are funded by the General Fund. The larger cost construction projects will come from the Capital Plan. MS4 reviews will be paid for from the General Fund. We also have the option of applying for grants that would require some additional reviews from Hanover Engineering, as these grants require DEP and Conservation District reviews.

We will also be negotiating the Non Uniform employment agreement which is set to expire the end of 2022.

The Pension Advisory Committee has recently reviewed the assumptions and the changes requested at tonight's meeting that potentially save the Township some funding moving forward. The valuation has been completed, and our MMO presentation in September will be reflective of the newest evaluation. The actual unfunded liability for both plans is \$1,092,043.00, based on the newest valuation. A decrease of \$704,520.00 was identified from the last valuation. The realized gains are smoothed over a period of time to offset future losses. We continue to pay the MMO's in monthly installment payments throughout the year to try to take advantage of high return rates. The valuation for this year will set the MMO payments for 2022 and 2023.

We receive some funding from the State in the General Fund, such as pension and fire department aid. We must be prepared that these amounts may be temporarily reduced, as the revenue received by the State has reportedly dropped.

Special Taxes (2)

Special Taxes – The Township has received 72.19% of budgeted revenue and has expended 5.34% of the budget.

- The Township has received \$820,902.00 in Earned Income Tax for Open Space purposes, which is slightly more than last year at this time. As budgeted, maintenance towards properties purchased through the Open Space Act is now being paid from the fund.
- The Township has received \$311,036.00 of the estimated \$330,000.00 in taxes for Fire Equipment and the fund currently has \$1,020,191.91. Lower Saucon Fire Rescue (LSFR) will be anticipating the requested \$187,126.51 from their 2020 grant application for the payment due on their ladder truck.
- The Township received an additional \$12,271.35 in State Funding and the Public Works Department is in process of starting this year's road maintenance project.

We are on target for all expenses for Open Space and State Liquid Fuel for the year.

- Penn DOT road project will soon be approved and a listing of scheduled roads will be worked on (State Fund).
- Public Works backhoe purchase was approved this year, in addition to a new mower attachment.
- Funding is still allocated to the Lower Saucon Rd Bridge. We can utilize these funds for construction and engineering costs as permitted. The remainder will be out of the Capital Fund and reimbursed by a grant awarded by Penn Dot.
- Funding from the Open Space accounts has been appropriated for the maintenance, and purchase of properties, in addition to, consultation fees associated with the acquisitions.

Capital (3)

The Capital Plan is for large expenses that would present difficulty in appropriating funding in any given annual budget. We make an effort to use both State and Capital Funding for permitted expenses. Based on a recommendation made during the 2020 Lower Saucon Annual Comprehensive Report, we increased

the estimated cost of a Capital expense to \$30,000.00. Also, incorporated in the plan is the Township's 10-year vehicle replacement schedule. The 10-year model is reviewed annually, as vehicles are exceeding the 10-year life cycle. Revenue consists solely from interest received, proceeds from the sale of equipment, issuance of debt, grant reimbursements and Council allocations. We continue to make improvements to our park infrastructure. Staff is still working on some items that are tied to grant awards. These include:

- Special Needs Play equipment – Scheduled for the end of June however due to a shortage in workers, there is a delay in shipment. Anticipation of completion remains in 2021.
- Lower Saucon Road Bridge replacement – Currently working with PP&L for their pole relocation plan. Once approved by Penn Dot, bid specifications can be reviewed and advertised.
- Water Line – Town Hall – completed and grant funding received.
- Seidersville Hall upgrades – Completed and grant funding received.
- Reading Dr. – Dirt & Gravel – Approved funding. Waiting on contract agreement to commence with required work. - \$268,453.00
- Radios – Grant completed; funds received.
- Police Body Cameras – Grant completed; funds received.
- Historical Fund – Window replacement at the Heller Homestead Widow's House – currently advertising for bid; \$50,000.00
- Received grant for pervious trail work scheduling for 2022 - \$96,200.00
- Received grant for more interior work at Seidersville Hall; \$75,562.00

Expenses paid to date \$164,695.60

- \$57,995.08 for the final payments for the Seidersville Hall Bathroom renovations
- \$71,129.28 for the police equipment budgeted in 2021; including the Body Cameras
- \$23,883.18 for the Road Mower attachment needed.
- \$11,688.06 for storm water repairs
- \$30,416.88 encumbered for the playground equipment and rubber mulch purchase

We continue to for grant funding for specific projects that would benefit the Township.

Council approved a \$700,000.00 allocation from last year coupled with the budgeted appropriations for 2021. When we present the 5 year Capital Plan in September, we will likely address some of the infrastructure needs of the Township.