

Pennington Borough Council
Budget Work Session – March 15, 2022

Mayor Davy called the Special Meeting of the Borough Council to order at 7:00 pm. The meeting was held via Zoom due to the COVID19 pandemic. Borough Clerk Betty Sterling called the roll with Council Members Angarone, Chandler, Gross, Marciante, and Stern in attendance. Ms. Gnatt was absent.

Also present was Chief Financial Officer Sandra Webb, Borough Engineer Brandon Fetzer, Public Works Superintendent Rick Smith and Police Chief Doug Pinelli.

Mayor Davy stated that this is the first of two work sessions on the 2022 budget. Mayor Davy asked Chief Financial Officer Sandra Webb to lead off the discussion. Mrs. Webb began with a discussion of revenues and stated that currently surplus is up by roughly \$130,000 and we are anticipating an amount pretty close to what we anticipated last year. Mrs. Webb stated that looking back over the last couple years we are keeping our surplus stable. Mrs. Webb explained that in terms of revenue, the State will only allow us to anticipate up to what we collected in the prior year and historically the trend has been to anticipate right up to what was collected in the prior year. Mrs. Webb stated that this is not a great practice because if we don't collect the amount anticipated it is a direct hit to surplus. Ms. Webb reviewed in detail the anticipated revenues. Mr. Marciante asked about the Library Administrative Fee and Ms. Sterling stated that is for payroll and purchasing order processing that we provide for the library. A question was raised about State Aid. Mayor Davy stated that he saw something about a bill in the legislature to increase the State Aid. Mrs. Webb stated that the State Aid numbers were released today and they remain the same but if the bill goes through that would be great. Mrs. Webb stated that Uniform Construction is a concern, she and Betty looked at the collections for January and February and the \$110,000 that is anticipated might be a stretch for this year. Mr. Marciante stated that our prior construction official was raising the question of pulling this out and setting up a trust. Mrs. Webb stated that we have looked at this and that revenues are close to the expenditures but it is something to keep an eye on. Mrs. Webb stated that when Pennington had a bond sale a couple of years ago the Borough received a premium payment of almost \$150,000 that we can bring into the budget as a one-time revenue. Mrs. Webb stated that we have been spreading this out over a few years, but we need to recognize that this is a one-time revenue to offset bond costs and once it is gone it will have to be raised elsewhere. Mrs. Webb stated that we are doing the same with the liquor license revenue and bringing that in over a few years. Mrs. Webb asked if Council wants to reduce these one-time revenue amounts and spread it out over more than three years to ease the hit when these one-time revenues are gone. Mrs. Webb stated that keep in mind if we reduce these two revenues we will likely be using more surplus to off-set and balance the budget. Mrs. Webb stated that these two revenues total about \$110,000 and that is 2 cents on the tax rate so keep in mind when these revenues are gone that will have to be raised in the budget. Mayor Davy stated that 1 cent on the tax rate for Pennington is about \$52,000. Mrs. Webb stated that another revenue in the budget is the American Recovery Act funds of \$134,000. Mrs. Webb stated that there is also an offsetting appropriation. Mrs. Webb stated that the Federal Treasury has changed their thinking and rationale on this revenue and where we previously did not qualify for a loss of revenue which meant that we had to identify where these funds would be spent. Mrs. Webb stated that recently the Federal Treasury has advised that if a municipality is receiving less than \$10 million then the funds can be claimed as lost revenue even if the municipality did not have a revenue loss. Mayor Davy stated when we thought we had to develop a spending plan, we did identify where the funds would be spent which are security upgrades and upgrades to the water / sewer utility. Mrs. Webb stated that it is still good to have a plan and if some of the revenue is going to be used for water/sewer, that portion will be moved to the utility budget. Mrs. Webb briefly explained receipts of delinquent taxes stating that most if not all of this will be collected and if not a lien will be sold at tax sale.

Mrs. Webb stated that in 2021 the municipal tax rate was .49 cents and this budget represents a 1 cent tax increase. Mrs. Webb stated that the finance committee was recommending that we do not have a tax rate increase but the only way to bring this down would be to take more out of surplus. Mrs. Webb stated that we have had the conversation that the tax rate should be raised one or two cents per year, but we recognize that it is hard to do especially in the environment we are in now. Mrs. Webb cautioned that if the State does come down with increased State Aid and we have put through a zero increase it would be difficult to meet the requirement of using the additional funds for tax relief. Mr. Gross asked what the increase was for 2021 and Mrs. Webb stated that it went up 2 cents in 2021 for .47 to .49. Mrs. Webb stated that it is up to Council to decide how to proceed with this but we need to know so that we can introduce the budget at the April meeting. Mrs. Chandler asked if there was a "sweet spot" for amount of surplus. Mrs. Webb stated that a lot of municipalities try to stay around 15 to 20% of the annual budget. Mrs. Webb stated that Council should keep in mind that we are using 50 percent of the available surplus with a 1 cent tax increase.

Mrs. Webb stated that the couple decisions for Council are how to handle the one-time revenues and what the tax increase should be but she is concerned about the year after next where we will lose the one-time revenues.

Mayor Davy stated that there are some items to be added to the expenditures so maybe we should move on to that.

Mrs. Webb briefly went over the water/sewer revenues and stated that right now rents are down and even though revenues equal appropriations, there has not been a rate increase since 2017 and depending on time for tonight that might be a discussion for the next meeting. Mrs. Webb stated that she understands that she is talking about a tax increase and a water/sewer rate increase and that is a lot to consider, but we really need

some direction for Council on how to proceed so that the budget is ready for introduction at the April meeting.

Mr. Marciante questioned the need for a tax increase if the budget is balanced. Mrs. Webb pointed out that a 1 cent increase brings in about \$52,700 and would be about \$50.00 per year for the average tax payer. Mayor Davy stated that Sandy is not asking for a tax increase for no reason, she is looking to future years where there will be revenues that will be falling off and stressing the need to regenerate the surplus to help mitigate the loss of those revenues. Mr. Gross stated that the next step is to look at the expenditures and if Council can find cuts in the budget that might eliminate the need for a tax increase.

Mrs. Webb moved on to the budget appropriations. Mayor Davy stated that Council made a decision to litigate the PILOT agreement in Hopewell Township and our share of that is \$30,000 which is not currently in the budget and also there is a master plan update in the works which may not be in the current budget.

Mrs. Webb stated that this budget maxes out all of the revenues and uses 50% of the surplus and if we do not regenerate some surplus that is a situation we do not want to be in and that is something to think about as we look at the appropriations. Mrs. Webb stated that each year we tighten up the budget a little more and that does not leave a lot of room to regenerate surplus and it makes it harder and harder to manage the budget. Mrs. Webb went through the budget appropriations beginning with the Office of the Business Administrator where there is a salary budgeted of \$88,000 and we need some direction from Council on what the plan is for this position. Mr. Marciante asked how the salaries are allocated. Mayor Davy stated that he does not think that the salary in the budget would be enough to attract a full-time administrator. Mayor Davy stated that the Personnel Committee is researching the position and coming up with a job description. Mrs. Webb asked if this line needs to be increased. Mrs. Webb stated that included in the other expense line is payroll software which could be pulled out and anticipated next year. Mrs. Webb went through each appropriation explaining where there are increases and where there are decreases. Mrs. Webb explained that this budget includes an expenditure to upgrade our requisition process which is currently a very timely process. Mrs. Sterling stated that each department will also be able to keep track of their budget as requisitions are entered. Mrs. Webb stated that the Borough Clerk other expense includes an agenda and meeting software. Ms. Stern stated that if Council is on board with this it will eliminate costs for paper and time spent by the office staff and the police. Mr. Gross stated that the Finance and Technology committee discussed this and thought it was a good idea. Mrs. Webb stated that she is aware that legal services needs to be increased. Mayor Davy stated that Council should consider that now. Mayor Davy stated that the amount that needs to be added is \$30,000 which will also include a financial expert. Council agreed that \$30,000 should be added to the legal budget.

Mrs. Webb stated that next is the Engineering budget which is currently at \$25,000 for a list of projects provided by the Borough Engineer, Brandon Fetzer who is on the meeting tonight. Mrs. Webb stated that there were two capital projects that were originally in the budget but that have been moved to capital which will require bond ordinances. Mrs. Webb stated that the \$25,000 budgeted amount does not leave any room for contingencies.

Mr. Fetzer stated that a contract has already been awarded for East Welling and if we don't move forward we will likely lose the grant funding. Mayor Davy stated that the intention is to continue with the project but the funding will come from capital. Mr. Fetzer stated that West Franklin and Knowles needs to be awarded in November of this year. Mr. Fetzer stated that several years ago the Borough was backed up on projects and got to a place where we construct one project and design one project each year so that we don't get backed up again. Mr. Fetzer stated that delaying a project to save money only makes things worse down the road. Mrs. Chandler asked looking down the road could public works limit awarding a project one year to that we can only be doing one project per year. Mr. Marciante stated that we should be almost to a point where we can mill and overlay instead of reconstructing a road. Mrs. Chandler asked again if there is a way to do a project every other year or one project per year so that we can better manage these projects. Mr. Marciante stated that public works will review the road list at the next meeting. Mr. Fetzer stated that the only way to get there is so to skip applying for a grant one year. Mrs. Chandler asked if public works can review the list and identify whether we can apply every other year. Mayor Davy stated that if the engineering has been moved to capital would we need to do a capital ordinance just for the engineering. Mrs. Webb stated that it would be for the entire cost of the project and the East Welling Ordinance would need to be amended to use some of the construction costs for Section 20 to cover the engineering. A brief discussion took place about a contribution from American Properties towards the West Franklin and Knowles project. Mrs. Webb stated that could be included when the ordinance is done.

Mrs. Webb continued going through the budget line items. Mrs. Webb stated that planning board salaries have been brought back up to account for the hiring of a full time person in the office and planning board other expenses have been increased by \$10,350 to begin the update of the Master Plan. Mrs. Chandler stated that she hopes that the whole report is being redone and not just updated. Mrs. Sterling stated that the funds this year are just to start the process and they are also going to request \$30,000 in next year's budget. Mrs. Webb stated that the shade tree budget has been increased to allow for removal of trees that have been damaged by bacterial leaf scorch. Mrs. Webb stated that group insurance is tight and it doesn't take much for that to go up, addition of new employees, marriages or birth of a child. Mr. Marciante questioned workers compensation, but then questioned why employees do not participate in state disability. Ms. Stern asked if the group insurance contemplates the hiring of a full time administrator. Mrs. Sterling stated that there is not a lot of wiggle room in the budget for these additions. Mrs. Chandler spoke briefly on the police budget. Mrs. Webb stated that she and Betty looked at the salary numbers for public works, some are up and some are down, but we are comfortable with the allocations for the public works employees. Mrs. Chandler stated

that one thing that Council needs to talk about is celebration of public events. Mrs. Chandler asked if anything has been included for Halloween or the Holiday Walk. Mrs. Sterling stated that the \$1,500 that is budgeted is strictly for Memorial Day. Mrs. Chandler asked that \$1,500 for Halloween and \$1,500 for the Holiday Walk be added to this line. Mrs. Chandler asked that \$3,000 be added to this budget line. Mrs. Webb pointed out the construction code expenses which ties into the revenue that was discussed earlier and we can close the gap between what was anticipated as revenue and what is budgeted. Mrs. Webb briefly spoke about expenditures that we have no control over such as pension costs, library and debt service. Mrs. Webb stated that the library is set by statute and there is an offsetting revenue for this. Mrs. Chandler stated that the library tax is lower than what we would pay if we got rid of the library and had to pay Mercer County. Mrs. Webb briefly touched on interlocal agreements which have been approved by resolution. Mr. Marciante questioned the LOSAP contribution. Mrs. Sterling explained for new Council Members what the LOSAP program is. Mr. Marciante questioned how this would work if the first aid squad became a paid squad. Mrs. Webb stated that the capital improvement line is for down payments for bonds and as new bonds are issued it stays in the capital improvement fund for future projects. Mrs. Webb talked about the allocation for bond ordinances which is the balance of a bond ordinance for police equipment that was done last year, this fully funds that ordinance. Mrs. Webb explained the reserve for uncollected taxes for new council members.

Mrs. Webb briefly reviewed the expenditures for water and sewer. Mayor Davy stated that we have to consider the deficit in the utility in terms of it being self-liquidating. Mrs. Webb stated that right now revenues equal expenditures, but the surplus is down \$120,000 from the prior year and we are using an additional \$30,000 of surplus to balance the budget. Mrs. Webb stated that she and Betty have talked at length about the decrease in rents and this is somewhat related to COVID, but mostly related to the change in the billing cycle and in 2021 due to the shift in the billing dates, we collected three quarters as opposed to four quarters in 2021. Mrs. Chandler stated that the rates have not been increased since 2017 and that may also be a factor. Mrs. Webb displayed a summary of minimum charge rates for surrounding utility companies and Pennington is significantly lower on the minimum charge. Mr. Gross asked if we know what percentage only pays the minimum. Ms. Angarone stated that our rates are very low for the amount of work that is required, but we should also be comparing to other ground water systems. Some discussion took place as to what other utilities charge compared to our utility. Mrs. Webb briefly reviewed the increase that was put in place in 2017 which historically has been to hit the high end users with a higher percentage. Mrs. Chandler stated that even if we can't identify a comparable utility our rates are still too low. Mr. Marciante asked if the budget is balanced why we need to increase the rates just because they are too low. Mayor Davy stated that we are not meeting our expenses. Mrs. Webb stated that revenues equal expenses right now but that is because we are using more surplus. Mrs. Webb stated that when the auditor did his presentation he indicated that even though revenue equaled expenses we were not self-liquidating. Mrs. Webb stated that what that means is that revenues are not covering the expenses in the utility and that can ultimately affect the debt ratio and the utility debt could at some point be absorbed by the current fund. Mrs. Chandler stated that people are being more conservative and replacing toilets with more efficient equipment and that also affects the revenue.

Mr. Gross stated that keep in mind we just added money to the expenditures in the operating budget which puts us at a 2 cent increase on the taxes. Ms. Stern stated that she is also concerned about the fact that there is not breathing room in the current budget. Mrs. Webb stated that it is a struggle to do transfers at the end of the year to cover expenditures that are not budgeted throughout the year. Mrs. Webb stated that there are limited ways to spend money, one is through the budget, one is through a capital ordinance and one is through an emergency appropriation. Mrs. Webb stated that emergency appropriations have to be funded in the next year's budget and the State does look at towns that do a lot of emergency appropriations. Ms. Stern stated that it is important for new council members to understand because she is looking into some technology items that we may not have prices for prior to introducing the budget. Ms. Stern stated that it sounds like there is no room in the budget for anything that we don't already know about. Mrs. Chandler stated that the legal budget and the master plan are two big items that are likely driving this tax increase. Council briefly discussed the inflexibility of the budget and tough choices that have to be made. Ms. Angarone stated that it doesn't help to defer things because they end up costing more later.

Mayor Davy asked Mrs. Webb to go over the Capital Budget. Mrs. Webb stated that the items included are a supervisor vehicle for the police department, a vehicle and landscape trailer for public works, security for Borough buildings, engineering for East Welling and West Franklin and Knowles. Mrs. Chandler stated that the security should come out of the American Recovery Act funding. Mr. Smith briefly explained the need for the landscape trailer but stated that it is up to Council. Mrs. Webb briefly explained how these capital purchases would affect the budget down the road.

Mayor Davy asked Sandy and Betty to come up with a model of what a rate increase would generate in income for the next budget work session. Mayor Davy recommended a one cent increase on the budget and working on increasing the water/sewer rates to compensate for the loss of surplus. Ms. Angarone asked if Ms. Stern will have a quote for hybrid meetings for the next budget work session. Mrs. Sterling stated that she would reach out to the vendor. Ms. Stern stated that she is looking into what it would cost to offer a hybrid meeting option so that people can attend meetings in person or virtually. Ms. Stern stated that Council needs to decide whether they even want to offer this option for residents. Ms. Stern stated that this came up during a discussion regarding returning to in person meetings and if Council is not in favor of considering a hybrid solution then now is the time to say something and we will stop spending time and effort to look into it. Ms. Angarone and Mr. Marciante were in favor of continuing to look into hybrid

meetings.

Mayor Davy asked if Council wanted to consider spreading out the one-time revenues or leave them alone. Council Members felt they should be left as is.

At 8:51 pm, after a brief review of the items that need to be addressed for the next work session the meeting was adjourned.

Respectfully submitted,

Elizabeth Sterling
Borough Clerk