

CFAC Working Session

October 22, 2013

Introduction

- Tonight's objective is to initiate a discussion on possible longer-term municipal financial guidelines, policies and procedures
- Focus of last 2 years has been on executing the consolidation
- CFAC Focus:
 - 2013 Budget; tracking projected consolidation savings
 - Newsletter
 - Capital planning
 - Benchmarking; Standard & Poor's
 - Salary & wage analysis; fair share analysis

Observations and Lessons Learned

- Not surprisingly, consolidating the budgets led to a compressed and confusing budget process
- No time for reviews in Joint Meetings, etc.
- Different approaches and policies
 - Open Space, Capital, Construction, benefits accounting
 - Up-to-Cap
 - Surplus
- Base information could be clarified
 - Staffing, S&W
- Capital spending

Observations and Lessons Learned

- Princeton should consider adopting policy guidelines
 - Budgeting
 - Surplus
 - Debt
 - Capital spending
 - Other areas
 - Library, Open Space, Parking Utility, Etc.
- Some of these policies may already be in place
- Policy guidelines can be changed at any time

Guidelines to Consider

- Budgeting
 - What should be the process and timetable?
- Fund Surplus
 - How much to maintain?
 - How to maintain?
- Debt
 - How much should we borrow to finance our capital needs?
- Capital spending
 - How should we prioritize our capital spending?
 - 5-year plan

Why Adopt Policy Guidelines?

- Instills planning discipline across the organization
- Clarifies & communicates expectations
- Keeps everyone informed of the need to make 'big picture' changes and the opportunity to debate those changes beforehand
- Establishes priorities in a transparent manner
- Protects the future from the consequences of many small, one-off decisions
- State guidelines, new Ratings Agency focus

Budget Guidelines

- Financial objectives:
 - Timely adoption after informed evaluation and discussion of options
 - Full understanding of how & where money will be spent, sources and amounts of funding and how our long-term financial position will be effected by actual expected spending
 - Understand what is changing, particularly in relation to expectations
- Establish a process that permits financial objectives to be attained
- An all-inclusive plan to understand the whole picture
 - General & Capital Funds, Parking Utility, Open Space, etc.
 - Anticipated Surplus and future debt service (other L-T impacts?)

Budget Considerations

- Timetable
- Documents and templates to be produced in the process
- Who should be involved at what point in the process
- Availability of information

Proposed Budget Schedule

| | | |
|--|---------------------|---|
| Sep 30 | 5 yr Capital Budget | Templates distributed to Department Directors |
| Oct 1 | Operating Budget | Templates distributed to Department Directors |
| Oct 14 | 5 yr Capital Budget | Dept submissions due |
| Oct 18 | Operating Budget | Dept submissions due |
| Oct 21 (week 4) | Operating Budget | Budget assembled |
| Oct 28 (week 5) | All Budgets | Administration review |
| Mid-November | All Budgets | Draft budget created |
| Dec 2 (week 1) | All Budgets | CFAC review |
| January | All Budgets | Due diligence meetings with Governing Body |
| February | All Budgets | Budget Introduction |
| <i>Ongoing—Policy guidelines discussed & established by Admin / Governing Body</i> | | |

Budget inclusions

- What do we need to see to understand the Budget, particularly what is changing?
- Personnel
 - Staff level (headcount) by Dept (Current Yr/Budget Yr)
 - Baseline S&W by Dept (before discretionary increases)
 - Allocation of staff/dept by Budget (Operating, Capital, Open Space, Parking Utility, etc)
- Departmental expense templates (all Budgets)
- Other Templates
 - Employee benefits
 - Other revenues
 - Changes in Ratables
 - Debt service projections
 - Reserve provisions—Uncollected Taxes, Up to Cap
 - Surplus projections by Fund

Other Budget Considerations

- The earlier timetable will require that we make some preliminary assumptions
 - E.g., State Aid
- The earlier timetable will put us in a good position to evaluate alternatives
- Opportunity / responsibility of Council Committees to have timely input?

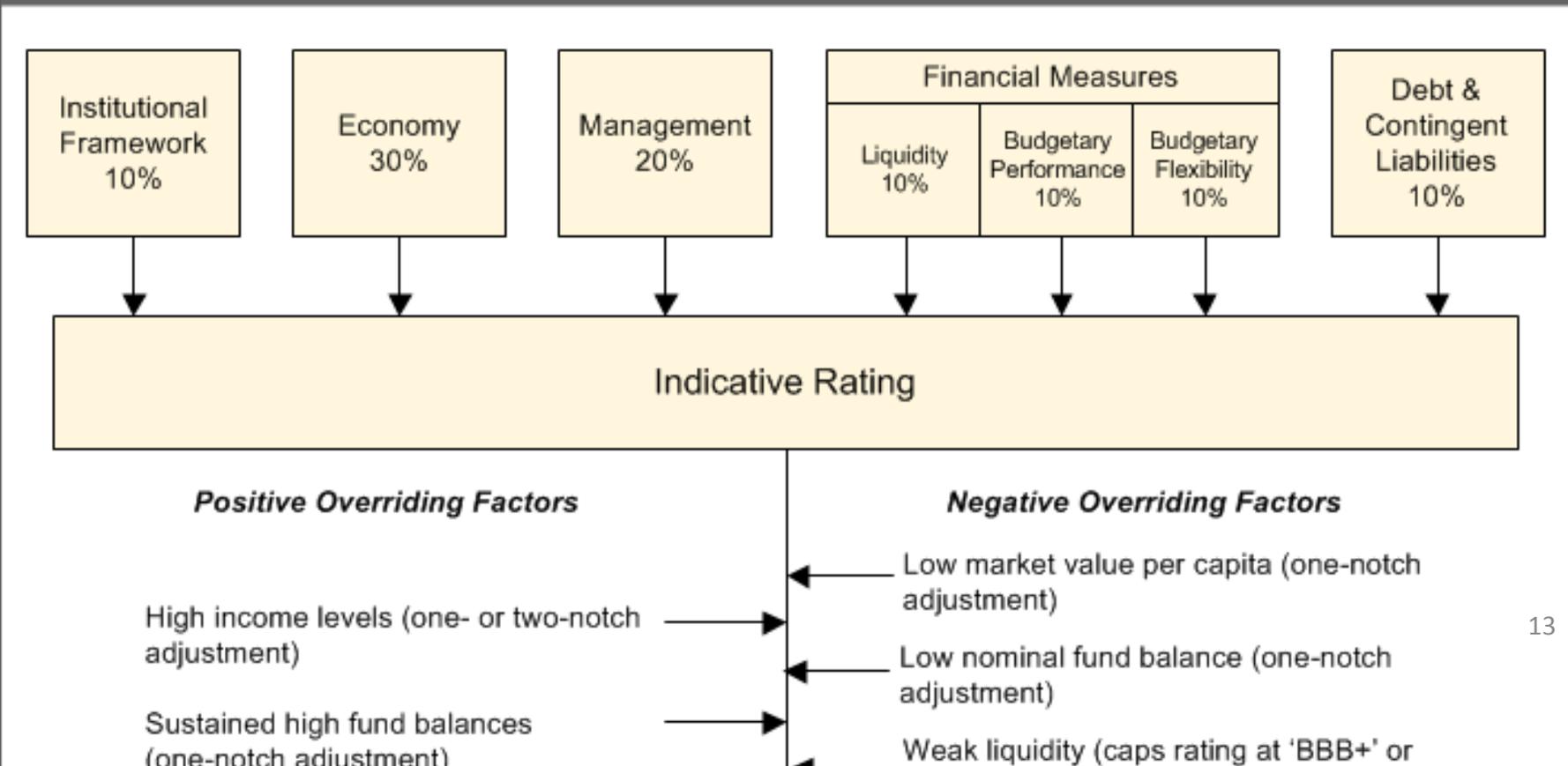
Financial Guidelines

- Surplus, debt & capital spending guidelines
 - All are financial measures that ultimately drive the municipal tax rate
- CFAC has reviewed new Standard & Poor's guidelines
- CFAC has benchmarked Princeton to other AAA rated NJ municipalities

New S&P Ratings Criteria

- Metrics-driven & transparent
- Municipalities 'control' 40 – 60% of their destinies

Chart 1
Analytical Framework For Local GO Ratings



S&P Take Away: Important Measures That We Can Control

- Demonstrated commitment to maintaining financial sustainability
 - Real revenues support expenses
 - Willingness to raise taxes in support of expenses and take action on expenses to meet revenues
- Adequate reserves & liquidity; sustainable debt
- Written policies:
 - Surplus
 - Capital spending
 - Debt
 - Others

S&P Key Financial Metrics—10% Each

- Surplus—Available Fund Balance > 15% of Appropriations
- Budgetary Performance—Long-term structural balance (Revenues >= Expenditures)
- Liquidity—Availability of cash to service debt & other expenditures
- Debt—Debt as a % of revenues & debt service as a % of total expenditures

Benchmarking vs Other AAA Rated NJ Municipalities

- CFAC looked across the 20+ NJ towns
 - Focused on 7 most similar to us
 - Very rough-cut exercise; many have different makeup (e.g. prof. fire dept, minimal sewer/garbage), but directionally representative

Benchmarking vs Other AAA Rated NJ Municipalities

| | Princeton | Mahwah Twp | Randolph Twp | Ridgewood Village | Summit | West Windsor |
|---|---------------|---------------|---------------|-------------------|---------------|---------------|
| Market Value | 7,227,209,544 | 6,436,286,945 | 4,440,112,575 | 6,378,217,625 | 7,189,194,980 | 6,206,401,538 |
| Population | 28,572 | 25,890 | 25,734 | 24,958 | 21,457 | 27,165 |
| Fund Balance | 13,040,526 | 5,940,228 | 9,087,660 | 3,988,670 | 8,070,077 | 7,054,421 |
| Fund Balance Utilized | 5,800,000 | 3,825,000 | 3,255,000 | 2,567,129 | 6,250,000 | 4,435,000 |
| % Utilized | 44% | 64% | 36% | 64% | 77% | 63% |
| Total Appropriations | 64,254,270 | 34,923,012 | 35,245,692 | 45,236,956 | 47,073,338 | 37,414,758 |
| Total Revenues, net of Surplus Used | 58,454,270 | 31,098,012 | 31,990,692 | 42,669,827 | 40,823,338 | 32,979,758 |
| Debt Service-2012 Current Fund | 11,190,180 | 3,502,615 | 1,983,106 | 4,042,378 | 7,708,100 | 5,465,353 |
| GI Bonds Outstanding | 78,131,193 | 26,205,000 | 4,165,000 | 39,245,219 | 65,593,500 | 35,840,000 |
| Total Debt Outstanding | 96,941,854 | 26,205,000 | 6,358,614 | 58,786,499 | 65,593,500 | 41,545,100 |
| Summary | | | | | | |
| Total Debt Outstanding | 96,941,854 | 26,205,000 | 6,358,614 | 58,786,499 | 65,593,500 | 41,545,100 |
| Total Appropriations | 64,254,270 | 34,923,012 | 35,245,692 | 45,236,956 | 47,073,338 | 37,414,758 |
| Household EBI as a % of US | 189% | n/a | n/a | 215% | 204% | 251% |
| Per Capita EBI as % of U.S. | 194% | n/a | n/a | 237% | 261% | 227% |
| Per Capita Market Value | 252,947 | 248,601 | 172,539 | 255,558 | 335,051 | 228,471 |
| Fund Balance as a % of Appropriations | 20% | 17% | 26% | 9% | 17% | 19% |
| Available Fund Balance as a % off Approps | 11% | 6% | 17% | 3% | 4% | 7% |
| Debt Service as a % of Approps | 17% | 10% | 6% | 9% | 16% | 15% |
| Total Debt as a % of Net Revenues | 166% | 84% | 20% | 138% | 161% | 126% |
| Total Debt as a % of Total Market Value | 1.34% | 0.41% | 0.14% | 0.92% | 0.91% | 0.67% |

Benchmarking vs Other AAA Rated NJ Municipalities

| | Princeton Rank | Princeton | Median |
|--|-----------------------|------------------|---------------|
| Equalized Taxable Property Values | Greatest | 7,227,209,544 | 6,407,252,285 |
| Population | Largest | 28,572 | 25,812 |
| Total Appropriations | Greatest | 64,254,270 | 41,325,857 |
| Fund Balance | Greatest | 13,040,526 | 7,562,249 |
| % Utilized | 3rd least | 44% | 64% |
| Total Debt Outstanding | Greatest | 96,941,854 | 50,165,799 |
| Per Capita EBI | Least | 194% | 232% |
| Per Capita Market Value | 4th greatest | 252,947 | 250,774 |
| Available Fund Balance as a % of Approps | 4th greatest | 11% | 7% |
| Fund Balance as a % of Approps | 3rd greatest | 20% | 18% |
| Debt Service as a % of Approps | Highest | 17% | 12% |
| Total Debt as a % of Net Revenues | 2nd Highest | 166% | 132% |
| Total Debt as a % of Total Market Value | Highest | 1.34% | 0.79% |

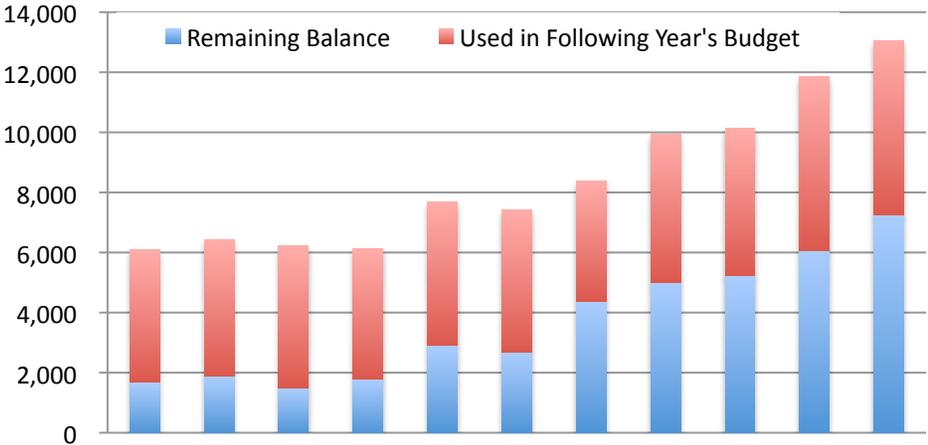
Observations

- Princeton's utilization of 44% of its surplus as revenues is not unusual (5 of 7 use more)
- 'Managing' surplus appears to be common
 - Conservatively budget appropriations
 - Fund conservative aspect of appropriations with surplus
 - Maintain surplus levels over time through budget process to ensure sustainability
- Princeton's debt levels are high on a relative basis (but remember that this was already taken into account in our AAA/AA+ ratings)

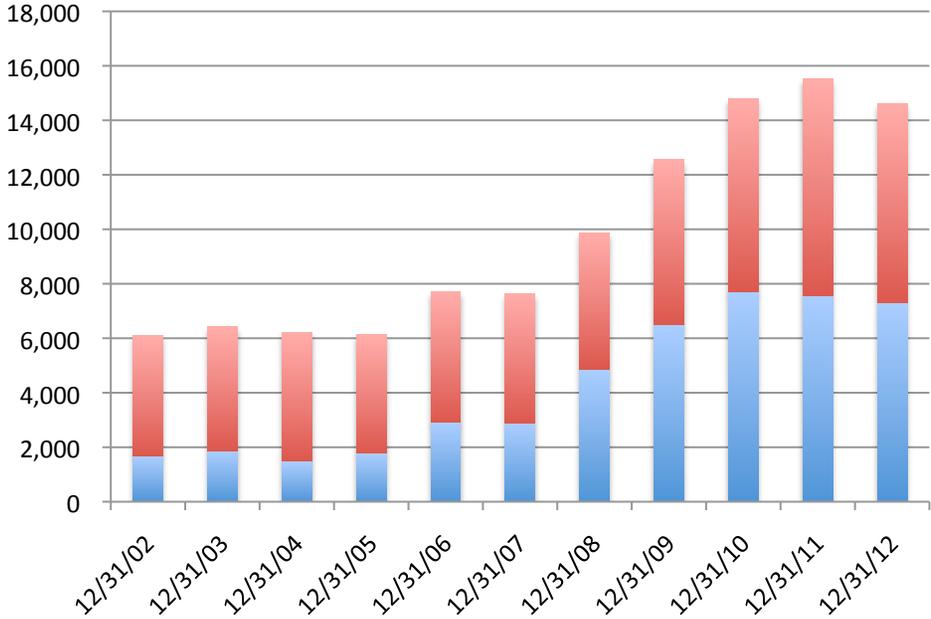
Surplus Budgeting

Princeton's Surplus: Improved and At Healthy Level

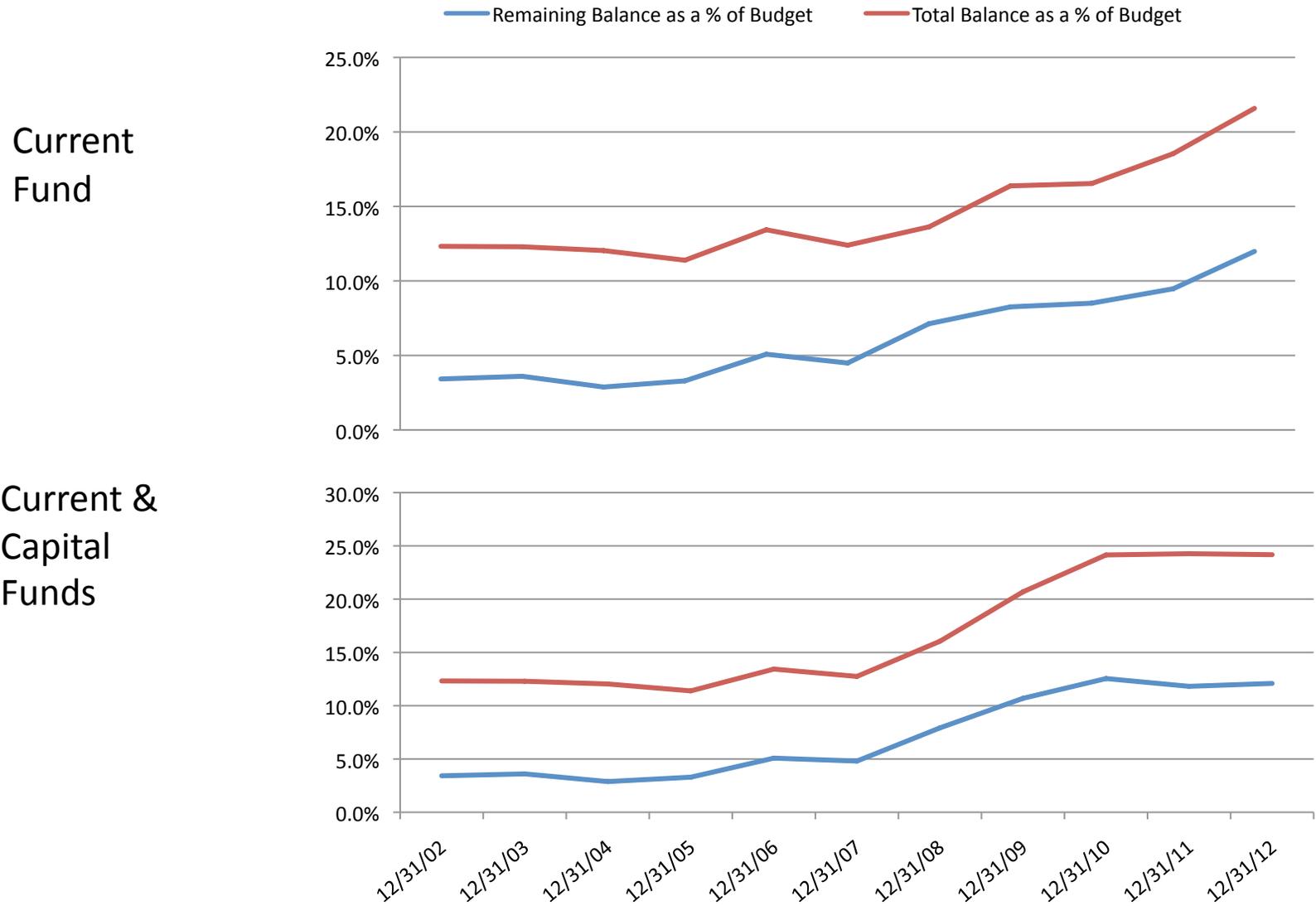
Current Fund



Current & Capital Funds



Capital Surplus: Consumed as Planned; No Longer Available



Factors Driving Current Fund Surplus

| | 2013 | | 2012 Combined | |
|-------------------------------|------------------|-----------------|----------------------|-----------------|
| | Projected | Budget | Unaudited | Budget |
| Revenue: | | | | |
| Budget Anticipated | | | | |
| Fund Balance Approp | 5,800.0 | 5,800.0 | 5,800.0 | 5,800.0 |
| Misc. Revenues | 22,420.0 | 22,481.1 | 25,363.3 | 25,133.8 |
| Non-anticipated revenues | 811.4 | | 811.4 | |
| Receipts from taxes: | | | | |
| Current (Munic. Portion) | 28,713.8 | 30,513.8 | 30,627.2 | 31,824.5 |
| Delinquent | 1,500.0 | 1,553.0 | 1,406.9 | 1,496.1 |
| Other credits to income: | | | | |
| Lapsed approp reserve | 3,827.9 | | 3,827.9 | |
| Misc | | | 394.5 | |
| Total Revenue | 63,073.1 | 60,347.9 | 68,231.2 | 64,254.4 |
| Expenditures: | | | | |
| Budget Expenditures | 56,784.7 | 60,347.9 | 61,256.7 | 64,254.4 |
| Misc | | | - | |
| Total Expenditures | 56,784.7 | 60,347.9 | 61,256.7 | 64,254.4 |
| Excess to Fund Balance | 6,288.4 | | 6,974.5 | |
| Less: Used as Budget Revenue | (5,800.0) | | (5,800.0) | |
| Change in Fund Balance | 488.4 | | 1,174.5 | |
| Balance on January 1 | 13,040.5 | | 11,866.0 | |
| Balance December 31 | 13,528.9 | | 13,040.5 | |

Factors Driving Current Fund Surplus

\$ in 000's

| | | |
|--|-----------------------------|---|
| Fund Balance Appropriated | \$ (5,800) | |
| <i>Variances that contribute to Surplus:</i> | | |
| Lapsed Appropriation Reserves | 3,827.9 | Unspent 2012 appropriations |
| Rcpts from taxes - current | (1,800.0) | Actual coll. vs 100% of amnts billed |
| Reserve for Uncollected Taxes | 3,483.2 | Expense budgeted for shortfall in colls |
| Non-antic revenues | 811.4 | Unforeseen or precluded by state regs |
| Other budgeted revenue variance | (114.1) | |
| Other budgeted approp variances | <u>80.0</u> | |
| Total Variances | <u>6,288.4</u> | |
| | | |
| Change to Surplus | <u><u>\$ 488</u></u> | |

- Our budgeting practices have made it more difficult to forecast surplus
 - Up to Cap, other reserves hard to track
 - Reliability of current year's spending estimates at budget time

Surplus Status

- Surplus anticipated during 2013 budget review

| \$ in 000's | <u>Current Fund</u> | <u>Capital Fund</u> | <u>Combined Funds</u> | % of Budget <u>Approps</u> |
|--|-------------------------|-------------------------|---------------------------|----------------------------------|
| Beginniing Fund Balance * | 13,040.5 | 1,563.7 | 14,604.2 | 24% |
| Less: Appropriated Fund Balance | <u>(5,800.0)</u> | <u>(1,500.0)</u> | <u>(7,300.0)</u> | |
| Available Fund Balance | 7,240.5 | 63.7 | 7,304.2 | 12% |
| * Excluding reserve adjustments | | | | |
| memo: Ending Fund Bal. Projected during Budget review | 13,528.9 | 63.7 | 13,592.6 | 22% |

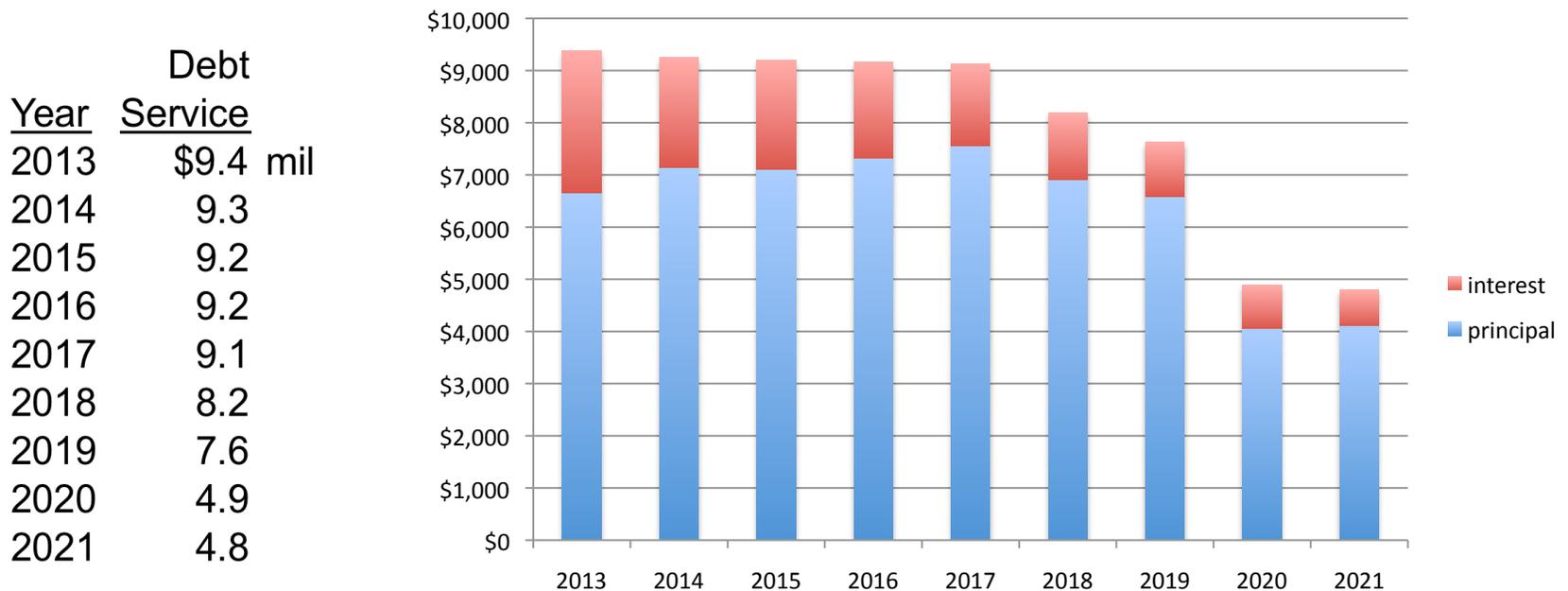
Possible Surplus Guidelines

- Target a Fund Balance objective as part of the Budget
- Establish mechanism to adjust for variances in Fund Balance
- CFAC tasks
 - Evaluate ranges to recommend
 - Discuss timing of availability of ‘final’ information

Debt and Capital Budgeting

Debt and Capital Budgeting: Current Debt Picture

- Same debt issues exist today as those outlined in the July CFAC Presentation.
- Even with the anticipated November debt refunding, existing general obligation debt service costs will be relatively flat for the foreseeable future. Substantial debt service relief will begin to fall off sharply only in 2020.



Future Capital Expenditure Impact on Debt Service Burden

- Debt service projections on previous slide exclude a projected \$6.5 million in bond anticipation notes (BANs) at yearend 2013. We began the year with \$4.0 million in bond anticipation notes.
- Phoenix Advisors estimates that funding these notes in the long term markets would raise our debt service costs an additional \$500 thousand per year over the next 15 years.
- Any new capital expenditures over the next several years, be they recurring in nature, or special one time “big ticket” / discretionary projects, will raise our debt service costs, and put pressure on our revenue base.
- Debt service costs (all types) accounted for 18% of our Appropriations in the 2013 Budget, the highest percentage among other AAA rated NJ municipalities.
- Debt service costs will rise even if we hold general obligation debt obligations flat over the next six years.
- As a rule of thumb, each \$5 million of debt adds \$430,000 of annual debt service (assuming 3.5%, 15 yr amortization)

Possible Guidelines to Manage Our Debt Burden

- Should maintenance of our AAA rating be a guideline shaping all capital and operating budget decisions?
- Ceiling for Debt Service as % of Appropriations (Current Value: 17%)
- Ceiling for Total Debt as % of Net Revenues (Current Value: 166%)
- Ceiling for Total Debt as % of Total Market Value (Current Value: 1.34%)

Recommended Capital Budgeting Procedures Going Forward

- Timely integration of capital and operating budget preparation to assess impact on absolute debt levels and rating agency views. This is reflected in current schedule.
- Prioritization of capital projects should be conducted at 3 levels: first, by department directors, distinguishing between recurring items and “big ticket”/ discretionary projects; second, by Administration and Finance, to insure ROI and capital structure impact has been analyzed; and lastly, by Mayor/Council.
- Annual review by Administration and Finance of the Infrastructure and Engineering capital expenditure projections, to weigh necessity and scheduling flexibility.
- Finance: One time clean up of all Authorized But Not Issued Improvements by prior Township and Borough. This project will be completed by yearend 2013. Going forward, as projects are bid and awarded, Finance to expunge remaining differences in accounting.
- Lastly, review of second ordinance to be introduced October 28. Importance of reviewing project merits against all alternative uses of capital.

Recommended Next Steps

- Establish budget schedule & guidelines
- Council consider & adopt written guidelines for Surplus, Capital & Debt
- Surplus
 - CFAC / Administration recommend range of Surplus guidelines for Council to consider in conjunction with 2014 Budget
- Capital
 - Staff incorporate recommendations into 2014 Budget process
- Other policy guidelines
 - Identify & document as part of the Budget process
 - Library, Open Space, etc.
 - Keep them simple & straightforward