

*Comprehensive Annual Financial Report*

*2021*

*Lower Saucon Township*



*March 16, 2022*

*Presented by Cathy Gorman, Director of Finance*

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## Introduction

This document was created upon the recommendation of the Budget Advisory Committee. The intent is to provide Council a year end status report of the Township's financial condition. This report will be included in the Township's annual report.

The Township's Budget document is a one-year plan of revenues and expenses that are projected to occur during that year. This LSTCAFR (Lower Saucon Township's Comprehensive Annual Finance Report) contains the audited actual figures as of December 31, 2021. This report is presented to Council after the audit is complete but before the appointed auditors complete the DCED financial reports, which are due by April. Their formal financial report is typically presented in June and published on the website once presented to Council.

This report will cover the progress of any agreements or projects that were not completed at year end as anticipated. These items will require possible budget modifications during the current year, and we will provide Council information that can be used in the upcoming year's budget deliberations.

The LSTCAFR is recommended by the Government Financial Officers Association (GFOA). Much of the financial information in the LSTCAFR is information that is also found in the Auditor's financial reports. The enclosed information presents the net position of the Township and encompasses the General Fund assets, Special Taxes, and the Capital Fund. The Capital Improvements Plan (CIP) is presented to Council before September 1<sup>st</sup> of each year pursuant to the Township Code. The total of all funds at the conclusion of 2021 are \$31,081,171.04; \$4,992,550.73 more than reported last year.

One of the major sources of revenue is the landfill tipping fees. We budget \$265,000.00 annually to go directly to our Capital Plans which was done in 2021. Receipts are directed to our savings account to be utilized when necessary. In 2021 we received \$2,181,231.56. We have \$4,918,462.90 in that specific account.

We also received half of the ARPA federal emergency relief funding which totals \$424,726.74 at the end of 2021. Council approved \$145,500.00 in expenses to date. This is listed as restricted and will be utilized as Council directs; in compliance with federal regulations regarding the use of the funds.

In 2021, Lower Saucon Fire Rescue merged with Southeastern Fire Company and started the process of merging with Steel City. LSFRR received their allocation for 2021, funding for their ladder truck purchase, funds to assist in a promotional event at Steel City and funding from the ARPA monies to help with capital needs. All totaling, Lower Saucon Township provided \$336,413.35 to Lower Saucon Fire Rescue. The Fire tax account at year end totals \$916,988.07.

2021 was also the final year for earned income tax revenue to fund the Open Space Program. Township Council purchased another 8.9 acres now over 750 acres preserved under this program. The remaining funds total \$10,819,221.13 which can be used for future purchases or maintenance of those properties. The Township will receive the 4<sup>th</sup> quarter receipts of 2021 in the 1st quarter of 2022.

At the end of 2021, Lower Saucon Township had \$13,704,201.77 in unrestricted, restricted, assigned and unassigned in the General funds. \$6,183,942.55 of those funds are restricted or assigned for a specific purpose and \$6,372,443.55 is not. According to the fund balance policy adopted by Council, the Township continues to be in a good financial position with funds exceeding the minimum fund balance requirement. Council has historically have appropriated \$265,000.00 annually for the Capital Funds (\$225,000.00 General Capital; \$20,000.00 Park Capital and \$20,000.00 for the Historical Capital). This is identified in the CIP (Capital Improvement Plan) as funding needed to sustain the plan. Since the implementation of the Budget Advisory Report's recommendations; not only have we budgeted for the \$265,000.00 with the projected revenue but have also appropriated additional funding when the LSTCAFR is presented to Council. In layman's terms, when management advises Council of revenue over expenditures; Council decides where that excess revenue is applied. The fire tax is in place for ongoing apparatus needs and we currently have no debt. Our options would be to add any revenues over expenses to the Township's reserves or the Capital Funds. Our Capital Plan is for one-time purchases and projects that are in excess of \$30,000.00. Historically these were the items in tight general operating budgets that were typically cut; IT updates, vehicles and other similar expenses. It became necessary to plan for these items as to just cut from a tight budget may not be prudent. Due to the pricing index and increased bidding threshold amounts, Council approved increasing the threshold amount to \$30,000.00. With the process implemented from the Budget Advisory recommendations in the last two years Council has appropriated an additional \$1,700,000.00 towards future Capital expenses outside of the \$265,000.00 traditionally budgeted. Last year \$700,000.00 was earmarked for projects identified in the Township's MS4 application. We apply for grants for some of these items such community buildings, park and road infrastructure improvements. If awarded, the funding set aside can be allocated elsewhere in the Capital fund 5-year planning model. Our office aggressively looks for funding from County, State or Federal sources to offset most of the costs assumed. In the past three years we have been successful in receiving \$856,000 in grant funding for infrastructure improvements; over \$3,000,000 in grant funding over the past 10 years.

The other option would be to place the money in our reserve funds which at the end of 2021 we have \$5,417,237.29 identified as restricted. This funding or "savings" can only be withdrawn by Council Resolution. We also have \$3,000,000.00 unrestricted. This is to be maintained at \$3,000,000.00 to manage budgetary revenue risk. If at any given budget deliberation, we advise Council that we will not meet our thresholds of cash flow requirements of the next fiscal year, Council has enough time to make necessary budgetary adjustments.

### **General Fund (1)**

Despite ongoing pandemic and economic issues, the Township has fared well. The Township received \$9,887,546.29 in revenue (including ARPA funding) and spent \$7,644,325.21 netting \$2,243,221.08 in receipts over expenditures. The Township received 109.77% of the total budgeted receipts.

## **Revenue:**

We received 100.39% or \$1,998,738.64 in real estate tax for General Fund purposes indicating our estimated projections were on target. We continue to see higher amounts received in delinquent taxes which may be due to the increase in Deed Transfer Tax as will be discuss. We received 122.05% of the enabling tax revenue projected. In two consecutive years of reporting higher returns despite the pandemic and economic issues, we made the budgetary correction in the 2022 budget. The deed transfer tax did extraordinarily well again. We received \$551,057.47 which is indicative to the active housing market sustaining another year. Due to those properties selling, we have recovered delinquent taxes. This should not be considered the norm. As interest rates increase, we will see this amount proportionally decrease from what was received going back to the \$325,000 average we typically receive. We will continue to monitor for any deviations in these areas and expect we will be able to foresee trends based on the demographic census and additional development. We were in line for the local services tax which suggests that employment in the Township is steady. This tax was increased in 2018 to the maximum of \$52.00; we have now stabilized to the estimate amount projected when this tax was initially increased. For the Township, however, we still estimate conservatively as these amounts can fluctuate from one year to the next. We will know more by the semi-annual report if these projections are accurate.

We only received an estimate of 79.1% of police fines, which is 4% more than last year. We have not reached our budgetary projections the last couple of years. The motor vehicle infractions projected revenue significantly dropped. Officers still patrol and do take time to make more of a presence in the community.

Investment earnings are also higher as we have made efforts to diversify our investments to reach the investment policy recommendations approved by Council. Our rate of return on our investments are currently low. We have reached out to check other opportunities within the financial institutions permitted and all have very low rates. We do expect the Federal Reserve to increase rates in 2022 so interest income will slightly increase and we will continue to review maturity dates to optimize the rates projected.

Filing for grants to offset the costs incurred is a priority for this administration and we strive to secure as much funding as possible for the projects Council wish to address. This is more so an effort in our capital plan as grants do not typically cover general operating expenses. The grants received in the general fund were from FEMA application for Steel City Fire Company and some COVID funds to offset more expenses incurred. The landfill inspection grants covering 50% of the amount spent for the Township's HMI (Host Municipal Inspector), and various police grants for extra duty programs such as DUI checkpoints and Aggressive Driving details.

We received slightly higher amount of funding from State of Pennsylvania to help with the costs of our pension plan and slightly less funding provided to the Lower Saucon Fire Relief Fund. The pension aid and volunteer firefighter funding come from a two percent state tax on casualty and fire insurance premiums paid to out-of-state insurance companies. We will be discussing more of that in the expense reporting portion of this document. The funding received is consistent but not guaranteed.

General Government and Public Safety charges were more than anticipated for various reasons. We have made appropriate changes to our fee schedule and will continue to work on addressing some of the shortfall items. The escrowing for our SEO (Sewage Enforcement Officer) has been successful. Some of these revenues are tied directly to an incurred expense so if we received less in revenue, we paid less in the expense. For instance, police services we received \$9,049.79 which is higher than last year due to schools opening up but not as high as reported in the past and our billable overtime is less than projected.

The Township also received an additional \$181,231.56 in Landfill Host fees; the total amount collected was \$2,545,992.47. As we are aware this will not be a steady source of anticipated income, future funds will be placed in reserves for future use and funding the Township's long-term Capital Improvement funds. We also received \$459,615.00 in our self-insurance programs; \$259,615.00 more than anticipated. Part of the reason for the medical reimbursement is a calendar year with low claims. Also, most of our post-employment or cobra covered employees have reached the age to be removed from our policy, therefore our actuarial demographic counts have been modified to reflect that we do not have as many high-risk previous employees on our plan. These are not guaranteed revenues and should not be assumed as definitive revenue every year. Increased claims and claim costs will reduce the amount received from the self-insurance program. With a new federal administration, we may see previously held requirements under the Affordable Health Care Act come back into discussion. We will keep our attention to any ACA law changes and advise Council when or if any changes are made. When the time comes where it does not benefit to be in the self-insured programs, we will research other options.

Miscellaneous income is higher as this is where we report revenue received from the insurance company from insurance claims filed due to damage to township property. We do not offset revenue to the expense in our financials so the expense would be reported in the appropriate category.

As reported previously, revenues are budgeted on the low side of expectations to fiscally position the Township in the event of unexpected events. If we exceed revenue projections, the Township is in a better position going into the next year.

### **Expenses:**

The Township spent 84.87% of budgeted expenses including an additional \$700,000.00 allocated to the Capital Plan from revenue received in 2020. This is approximately 3% less than what was spent last year and illustrates the efforts made by staff to control spending. The remaining \$1,087,496.55 of the 2020 revenue receipts were placed in restricted Operational Reserves.

The funding listed under Council expenses were not fully expended due to 2 Council members declining their compensation, limited PSATS expenses and not all entities submitting documents for their appropriated donations.

In 2021, the Administration was under budget by \$61,478.23 primarily due to personnel changes and newsletter printing delays. There are still items that will need to be done such as codifying ordinances in a timely basis. Also, community events were modified or limited due to the pandemic.

The Finance Dept. expenses came under budget by 3.67%, or \$9,839.08. Our tax bill preparation for estimated reminder notices came under budget. Bank charges were mitigated by Council's approval of utilizing the Money Market Sweep product offered by our banking representatives.

Legal expenses were 69.60% of what was budgeted. If you remember Council previously increased the budget amount due to the extent of services provided. Legal consists of the Township solicitor, the Zoning Hearing Board Solicitor and any specialized counsel if needed.

Data processing was under budget in 2021 however a concerted effort has been made to bolster our software and security. We will be reviewing this in 2022 as we may need to make additional improvements. The insurance claim discussed with Council will be settled in 2022. Expenses and revenues related to that will be recognized this year.

We were within budgetary thresholds (less than 1% over) for engineering for several reason. Hanover Engineering continues to work on the Lower Saucon Road Bridge replacement, the rehabilitation of the pervious path at Polk Valley, Reading Drive culvert among others. There are other improvements scheduled for 2022 that will require engineering assistance as well. As for Sewage Enforcement, we are still closing out old permits from prior to our escrowing system. These should be phased out over the next year or two.

Under Buildings and Grounds, we spent 71.07% of the budget. We saved a great deal under fuels, electric and gas as the prices. We purchase our electricity generation costs through a State approved procurement contract where we received a fixed rate over the next 5 years. We continue to review energy efficient modifications when available. Many improvements such as expenses related to Seidersville Hall have been delayed due to the improvements scheduled that are tied to a grant application. We will bring those expenses to Council's attention when ready.

The Police Department spent 92.23% of their budget. The Police Department had personnel changes where part time officers were utilized when available. Overtime was over the amount budgeted due to personnel reasons but did not exceed the Department's allocation. The uniform expense from last year was reallocated from prior year to its appropriate category. There was some damage done to vehicles that increased the vehicle maintenance line item. We do have the revenue offsets from insurance companies. We foresee this line item increasing due to the delays in receiving vehicles ordered.

Expenses for the Fire and EMS services are also under budget. Steel City did not receive their allocation due to the department's transition and lack of submitting the required documents. Lower Saucon Fire Rescue also did not need funding for the recruitment program as they received a federal grant to cover those costs. The \$66,666.00 expense we received a revenue offset in Federal Grants. This was for a grant submission approved by Council.

The Zoning Department also came under budget by 10.74%. We did not utilize much funding for consultants other than the approved engineer for the Walk Works grant.

Emergency Management incurred the stipend for the EMC for the year and the Township paid for a spill which we received insurance funding from the individual who caused the incident.

Crossing Guards came in at 46.90% as we pay 1/3 of the costs of the crossing guards located within Saucon Valley School District jurisdiction. This is done through an inter-municipal agreement by Lower Saucon, Hellertown, and the Saucon Valley School District.

Dog Control expenses were 79.19% of the program costs. Expenses covered the DCO's stipend, dog food, and other items needed for the program. We have been fortunate that the dogs found have been reunited with their owners and we have not incurred emergency medical expenses in 2021.

The recycling program costs are inter-municipal with Hellertown and Lower Saucon. Lower Saucon handles the finances for the program and the expenses incurred are done by subcommittee. This came close to the budget approved.

The Public Works Dept. spent 87.65% of their budget. The Public Works budget included compensation, funds for maintenance of garage equipment, vehicles and supplies needed for the department. Compensation is low as the department is currently down an employee. We also budget more for the removal of trees when our Department cannot perform the work. This also did not occur in 2021. Seasonal employees were also down because there was not enough interest and many already committed to other employment. We will be reviewing this with the Public Works Director.

The Parks Department also came under budget, at 74.17%. The summer program was successful and came under budget. The Senior program did not pick up until December. We are requesting that Council consider approval of a prorated amount of \$1,156.50 for that program. The minor purchases line item increase is specifically for park memorial benches that were ordered and paid for by the families of those memorialized.

Insurances fell below budget but we increased our amount of coverage. We communicate with our agent frequently regarding coverages and exposure.

We utilize a modified cash basis accounting method reporting, so items under 01.491.280 were re-coded at the end of the year to the expense the items would have normally been paid. We use this line item to identify certain items that were paid in one year but were to be in the prior year's budget. This is limited to items purchased and expensed that should have been accounted for in the year prior but billed for in the current year.

### Special Taxes (2)

The ending fund balance for the Special Tax Funds are \$13,377,112.60; \$11,639,221.73 in Open Space funding, \$1,640,902.80 in Liquid Fuel funding and \$916,988.07 in funding left from the Fire Tax fund.

### **Revenue:**

#### Fire Funding

The .75 mill Tax Funding for Fire equipment resulted in receiving \$343,069.23 which is consistent with the projected amount to be allocated to the Fire Equipment Fund, this is 103.96% of the amount budgeted. Also reported in this line item was the correct proportioned amount of delinquent taxes from previous years.

#### Open Space Funding

Earned Income Tax for Open Space was \$302,280.85 more the revenue budget. This is the final year of the EIT referendum and the Township received \$1,547,280.85 in 2021.

#### Liquid Fuel Funding

State Liquid Fuel funding also came in higher than expected by \$12,271.35 which is due to the state gasoline tax (Act 89) imposed in 2013. As developments finish, new roads that are municipally maintained are reported to PennDot to potentially increase the amount received. The amount received from the state is based on a formula utilizing miles of Township roads and population. The \$54,102.43 reported is part of the funds provided by UGI to repave the Lower Saucon roads they opened to replace gas lines. These roads were identified in our Penndot project report, as they required listing due to the depth of the road repaving required. This necessitated a transfer of funds from Capital into the State Fund budget.

### **Expenses:**

#### Fire Expenses

Council approved the donation payment to Lower Saucon Fire Rescue to help pay their loan for the Ladder Truck and the initial payment to the grant writer. We are requesting the balance of what we owe for grant writing to be paid to the LSFRR so they can pay the grant writer as it will be easier for them to properly file ongoing reports.

#### Open Space Expenses

Open Space payments are under professional fees of 02 404 and 02 408 as well as actual purchases and easements under 02 461, consistent with PA DGS general ledger reporting listing. We spent \$6,260.00 on legal fees, 1,170.01 in planning or consulting fees and \$6,200.00 in appraisal fees. We purchased property costing \$436,592.30 and maintenance of open space properties totaled \$32,350.00.

## Liquid Fuel Expenses

The Township utilized Liquid Fuel funding to pay for public works vehicles pursuant to the 15-year capital plan, snow removal expenses, street lighting and road construction, as well as other permitted expenses. We fell under budget in all areas of use of this funding. Within the amount received each year 20% of that funding is required to be used to purchase major equipment for the public works department.

We incurred less expenses due to the road project was not completed. The Lower Saucon Bridge funds are also carried over as the project is scheduled for bid in 2022. Snow removal expenses and general road expenses that are permitted all fell below budget.

## Capital (3)

The Capital Plan is for large expenses that would be difficult to appropriate funding within the annual budget. These are now items or projects in excess of \$30,000.00. Also incorporated in the Plan is the Township's 15-year vehicle replacement schedule. Revenue consists solely from interest received, proceeds from the sale of equipment, proceeds from the issuance of debt, grant funding and Council allocations. Council approved the \$265,000.00 appropriation to the fund, as well as appropriated an additional \$700,000.00 from revenue over expenditure in the general fund in April of last year. The UGI contact agreement was deposited in the Capital account until the roads are ready to be paved. We received \$393,703.82 in grants from previous awards and we sold the backhoe that was replaced. The total amount of expenses paid in 2021 is \$274,474.73 and comprised of:

- \$57,995.08 for the water line replacement behind the public works building.
- \$88,172.27 in police equipment; new computers for vehicles.
- \$83,662.18 for the new backhoe, scanning equipment and road mower upgrade; \$75,000.00 was used from the State Aid fund.
- \$50,000.00 for purchase of a skid steer which was partially paid for under State Fund.
- \$14,528.32 to help with storm water issues; Mt. Pleasant Dr.
- \$30,116.68 for the disability friendly playground amenities at Town Hall Park and Polk Valley Park.

The Fund balance for all Capital funds is \$3,999,856.67 for the beginning of 2022.

Following is a list of projects previously approved with expenses recognized in, or carried over into 2022:

- Improvements to the interior of Seidersville Hall
- Police cruisers approved but not delivered in 2021. Expense will be recognized in 2022.
- We will be bidding for the window replacement at the Heller Homestead Widows House shortly. We recently received the executed contract agreement for \$50,000.00
- Lower Saucon Road Bridge Replacement
- Public Works chipper replacement

***At this time, we still have \$507,961.01 of the debt proceeds for the storm water issue at Fire Lane & Black River Road. We also have to discuss for the 2022 budget MS4 requirements and timelines as to completion dates.***

We also are partnering with Northampton County Conservation District to remove and replace the culvert on Reading Drive. They will be submitting a contract to the Township to provide funding assistance and our Public Works Department will do the installation work.

***In conclusion:***

Pursuant to the Fund Balance Policy adopted by Council in 2017, we ended 2021 with \$1,918,462.90 in excess of what is required as a minimum available in unrestricted in our General Savings Account. We did not need to utilize any of the landfill funding to add to the general operation fund balance in 2021.

We are recommending that \$1,000,000.00, to be allocated to the Capital Fund for future infrastructure needs such as bridges and initial funding needed for the Active Transportation Plan implementation. Expenses tied to these projects may be increased by more than 8% to adjust for inflation. This allocation will increase our Capital fund to close to \$3,500,000.00 by year end. We are also recommending the remaining \$918,462.90 to be placed in the Operational reserve fund. This will bring our restricted Operational reserve savings to \$6,335,700.19, maintaining the \$3,000,000.00 in unrestricted. We will know later in 2022, during the 2023 budget deliberations, if the Township's projected beginning balance needs are within the acceptable limits for cash flow purposes going into 2023.

We are recommending paying Lower Saucon Fire Rescue the balance amount due for the grant consultant as it was prudent to have the grant filed under the department as opposed to the Township.

We are requesting Council to consider paying the Saucon Valley Community Center \$1,156.50 as a prorated amount for the 2021 year as they opened their program in December.

Along with budgetary appropriations; staff will recommend with the future CAFR's where to direct actual receipts over expenditures to the Capital or Operational Reserve funds. We will also be presenting to

Council at a later date requirement for the unfunded federal mandate, MS4. Hanover Engineering is preparing cost projections and target areas to satisfy our obligations under the Act. This will not be inexpensive and will require both the services of our engineer and solicitor to remain in compliance and to provide options for funding this mandate. We have also taken into account the culvert replacement work at Reading Drive and Black River Road. The allocation would provide sufficient funds available for when these projects are ready to proceed.

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