

## Police Referendum Financial Explanation

10/5/2017

On Tues Nov 7<sup>th</sup>, West Amwell Township residents will be voting on a non-binding referendum presenting tax payers with an opportunity to provide the township with direction on certain budget items and the related impact on their municipal taxes. The specific question asks if the township should consider contracting police services with another municipality to avoid significantly increasing municipal property taxes OR increase taxes in order to retain our local Police Department and the related costs, both now and in future periods. Despite significant reductions in annual state aid nearly a decade ago, local municipal tax increases have been kept to a minimum. Municipal budgets have been balanced through ongoing cost cutting measures, utilizing reserve funds, providing services to neighboring townships and taking on debt. However, maintaining the township budget while retaining current levels of service is no longer sustainable without additional revenue, and/or by securing lower cost alternatives to those services.

The Township is required to provide certain services and elects to provide others. Given that Police Department is an elective service and that department's costs are nearly one third of the Township budget, exploring a lower cost alternative for police services presented the best option for savings. If the referendum passes (majority YES votes), the Township Committee would research police service alternatives that would represent material savings to keep municipal tax increases as low as possible and below the state mandated 2% cap. If the referendum fails (majority NO votes), and no other cost savings can be found, significant increases in municipal taxes are expected in order to maintain a balanced budget within state mandated budget caps.

Additional details and background to the referendum can be found below.

What are voters being asked to vote on?

On Nov 7<sup>th</sup>, West Amwell Township voters will be asked the following question at the voting booth:

“Should the Township Committee pursue a Contract with neighboring municipalities to provide Police Services to West Amwell?”

Through this non-binding referendum, voters will have an opportunity to voice their opinion whether to continue maintaining our local police force or investigate alternatives to providing police services to our community.

Why are residents being asked to vote on this referendum?

The township's current 2017 budget includes expenses that exceed revenues by \$200K and the 2018 budget is anticipated to be further out of balance. Expenses continue to rise due to inflation, union contracts and other State mandated expenses. Options are to cut services/costs, incur more debt or raise municipal property taxes. ***The referendum primarily is to ensure that citizens have a say on what may be significant changes impacting either services or taxes.***

What led to the need for a referendum?

Prior to 2009, 25% of our Township budget was funded by municipal (local) property taxes, while the remaining revenue came from other sources, the majority of which originally came from Gross Receipts and Franchise Tax, appropriated by the State and now redistributed in lesser amounts as State aid. In 2008, we received \$1.5M in State aid, funding 44% of the budget. The majority of State aid came from monies collected for West Amwell from certain utility companies who owned assets located within our borders. Our ability to balance budgets, maintain surplus funds for emergency needs, complete needed projects and limit property tax increases, was critically dependent on this revenue.

As noted in a white paper titled "The History of Energy Utility Taxation in New Jersey" presented by the New Jersey League of Municipalities (found here at <http://www.njslom.org/energy-tax-paper.html>):

"The history of Public Utility/Energy Taxes is clear. These taxes were imposed to compensate municipalities for the benefits that the utilities derived from their use of the public's rights of way. In lieu of other taxes, the proceeds are supposed to flow into municipal budgets to reduce the amounts that would need to be raised through property taxation. This is not "aid" provided by the "State." It is – or, at least, it is meant to be – just compensation provided by certain utilities to municipal property taxpayers for the economic benefits that those utilities derive from the use of public rights of way.

Diversion of these property tax relief revenues to fulfill other State needs had become common practice for a couple of decades leading up to 2009. But some towns like ours continued to receive our fair share of compensation through diligent efforts of our town leaders with support from many residents. Sadly, beginning in 2009, despite those continued efforts, West Amwell along with other towns, incurred significant reductions in this so called State aid. In 2009, West Amwell received a \$248K reduction in state aid, followed by an additional reduction of \$306K in 2010. State aid has held at these levels since then, resulting in a cumulative \$4.5M loss of revenue over the past 9 years!

So now, only 25% of our municipal budget is funded through state aid, while property taxes fund 37% of the budget. Through aggressive and diligent cost containment efforts by the Township Committee since the loss of State aid, the budget has only increased by \$342K or 1% per year on average. Township services have been maintained but continuously evaluated and adjusted as necessary to minimize rising costs. Over the past several years, with the assistance and recommendations from the township Finance Advisory committee, significant cost savings have been identified and implemented. Debt service costs have been reduced due to refinancing efforts, changes to the Road Department paving program resulting in an 80% reduction of original costs and the Police Department's use of part time officers to reduce overtime costs are just a few examples.

As successful as cost saving measures have been, maintaining Township services as they currently are, has become unsustainable without additional revenue to cover the loss in State aid. Inflation, cost of living increases associated with union contracts and health insurance, guarantees that expenses will only increase in the future. Opportunities for additional non-tax revenues are limited as the township has

already engaged in shared services that has brought additional non-tax revenue to the township (Construction Department and some police services). In addition, several much needed projects have been on hold for lack of funding that have now become critical to complete. They include for example, much needed repairs and improvements to our roads and municipal buildings, as the township has no surplus funds for such projects.

As a requisite to approving the current 2017 budget, and in preparation to eventually developing a balanced 2018 budget next year, the Township Committee agreed to continue pursuing and identifying cost cutting measures with a target budget reduction. After an exhaustive investigation working with the Finance Advisory committee and the various Township departments, it became apparent that significant cost cuts were not achievable without a reduction/elimination of services or securing lower cost alternatives to those services.

If further cost savings cannot be found, the Township could increase debt or property taxes. The Township Committee has long been against increasing debt without a certainty for repayment. The Township Committee does have the ability and authorization to raise property taxes but does not want to materially increase taxes without input from the taxpayers. By law, towns are only allowed to increase municipal taxes up to 2% that are used to fund the "Operating" costs of a budget, excluding taxes used to pay back debt (aka Debt Service).

The Township Committee has acknowledged that an outright reduction/elimination of services was not in the best interest of our community. This left them with two options to pursue. Either further reduce the cost of existing services via alternative solutions OR significantly increase municipal taxes going forward.

What led to the proposal to pursue alternative approaches to police services rather than pursuing alternatives for other services?

The township spends nearly a third of its operating budget to provide current police services to our community. Our Road Department and General Administration each accounts for 20% of the operating budget. The remaining operating budget is spent on mandated emergency services (such as Fire, First Aid, Office of Emergency Management), Construction Department, Township Court, funds for Emergency Authorizations, Land Use Boards, other committees and Affordable Housing, and finally reserve monies to compensate for uncollected taxes.

Accordingly, all departments were asked to review their respective budgets to find savings. Despite representing the largest budget expense item, the Police were unable to identify any significant savings. Since cost reductions were deemed unachievable across multiple individual expense areas as they are currently structured, the Township Committee evaluated lower cost alternatives for delivering services to the community.

With police services being the major single budget expense and considering that our Police Department is somewhat an entity of its own, contracting police services out to another municipality had the best chance of success for freeing up funds to make up for the revenue short fall.

What are the anticipated cost benefits of outsourcing Police Services?

Current Police Department costs exceed \$1M, including salaries, overtime, benefits, equipment and maintenance, fuel, etc. Based on the experiences of other municipalities who implemented alternative approaches to their local police force and achieved significant cost savings (Lake Como, City of Camden, Swedesboro), a cost reduction of \$500K-\$600K is being targeted.

This reduction would have a two-fold benefit. It would enable the budget to continue funding other existing services without significantly increasing municipal taxes, as well as freeing up monies to fund the much needed projects noted above.

What are the anticipated tax benefits to property owners if the referendum passes?

If the referendum passes (majority YES votes), the Township Committee would research police service alternatives that would represent material savings.

What are the anticipated tax impacts if the referendum fails?

If the referendum fails (majority NO votes), and no other cost savings can be found, the Township Committee would be obligated to significantly increase municipal taxes beginning with the 2018 tax year in order to maintain a balanced budget within state mandated budget caps. Based on current data, the anticipated tax increase would range between \$300-\$400 per average homeowner (\$70-\$90 per \$100K of assessment), likely spread out over several years. Subsequent years could also be impacted by the then current budget, related costs, and any further reductions in state aid.

What would be the anticipated timeline for implementation of either outcome?

If the referendum passes, investigation into police service alternatives would begin immediately. However, the process is complicated and timeframes beyond that would be unknown until an alternative was identified. It would be premature to estimate an implementation timeframe at this time.

If the referendum fails, municipal taxes would be increased as necessary in 2018.

What if the referendum passes, but no alternative is eventually available that results in significant savings?

If the referendum passes and the Township Committee is unable to identify and secure an acceptable alternative for police services that would result in significant cost savings, municipal taxes would need to be increased as necessary to retain our Police Department as it exists today. The impact would be identical as if the referendum had failed.