

*Government that Works!*

**NEW JERSEY DEPARTMENT OF THE TREASURY**

**LOCAL GOVERNMENT BUDGET REVIEW**

**BOROUGH OF PENNINGTON**

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**AUGUST 1998**



## **GOVERNMENT THAT WORKS**

### **OPPORTUNITIES FOR CHANGE**

#### ***The Report of the Borough of Pennington***

New Jerseyans deserve the best government their tax dollars can provide. Governor Whitman is committed to making State Government leaner, smarter and more responsive by bringing a common sense approach to the way government does business. It means taxpayers should get a dollar's worth of service for every dollar they send to government, whether it goes to Trenton, their local town hall or school board. Government on all levels must stop thinking that money is the solution to their problems and start examining how they spend the money they now have. It is time for government to do something different.

Of major concern is the rising cost of local government. There is no doubt that local government costs and the property taxes that pay for them have been rising steadily over the past decade. Prior to Governor Whitman's taking office in 1994, the State had never worked as closely with towns to examine what is behind those costs. That is why she created the Local Government Budget Review (LGBR) program. Its mission is simple: to help local governments and school boards find savings and efficiencies without compromising the delivery of services to the public.

The LGBR program utilizes an innovative approach combining the expertise of professionals primarily from the Departments of Treasury, Community Affairs and Education with team leaders who are experienced local government managers. In effect, it gives local governments a comprehensive management review and consulting service at no cost by the State. To find those "cost drivers" in local government, teams review all aspects of local government operation, looking for ways to improve efficiency and reduce costs.

In addition, teams will also document those State regulations and mandates which place burdens on local governments without value added benefits and suggest, on behalf of local officials, which ones should be modified or eliminated. Teams also look for "best practices" and innovative ideas that deserve recognition and that other communities may want to emulate.

Based upon the dramatic success of the program and the number of requests for review services, in July, 1997, Governor Whitman ordered the expansion of the program tripling its number of teams in an effort to reach more communities and school districts. The ultimate goal is to provide assistance to local government that results in meaningful property tax relief to the citizens of New Jersey.

## THE REVIEW PROCESS

In order for a town, county or school district to participate in the Local Government Budget Review program, a majority of the elected officials must request the help of the Review Team through a resolution. There is a practical reason for this: to participate, the governing body must agree to make all personnel and records available to the Review Team, and agree to an open public presentation and discussion of the Review Team's findings and recommendations.

As part of each review, team members interview each elected official, as well as employees, appointees, members of the public, contractors and any other appropriate individuals. The Review Teams examine current collective bargaining agreements, audit reports, public offering statements, annual financial statements, the municipal code and independent reports and recommendations previously developed for the governmental entities, and other relative information. The Review Team physically visits and observes the work procedures and operations throughout the governmental entity to observe employees in the performance of their duties.

In general, the Review Team received the full cooperation and assistance of all employees and elected officials. That cooperation and assistance was testament to the willingness on the part of most to embrace recommendations for change. Those officials and employees who remain skeptical of the need for change or improvement will present a significant challenge for those committed to embracing the recommendations outlined in this report.

Where possible, the potential financial impact of an issue or recommendation is provided in this report. The recommendations do not all have a direct or immediate impact on the budget or the tax rate. In particular, the productivity enhancement values identified in this report do not necessarily reflect actual cash dollars to the municipality, but do represent the cost of the entity's current operations and an opportunity to define the value of improving upon such operations. The estimates have been developed in an effort to provide the entity an indication of the potential magnitude of each issue and the savings, productivity enhancement, or cost to the community. We recognize that all of these recommendations cannot be accomplished immediately and that some of the savings will occur only in the first year. Many of these suggestions will require negotiations through the collective bargaining process. We believe, however, that these estimates are conservative and achievable.

**LOCAL GOVERNMENT BUDGET REVIEW  
EXECUTIVE SUMMARY  
BOROUGH OF PENNINGTON**

**General Budget**

Consider the use of some additional surplus to reduce property taxes. Estimated reduction in tax levy of \$60,180.

**Police Services**

Contract for Police Services with neighboring municipality. Estimated annual savings of \$114,610.

**Public Works**

Allow the complete privatization of trash collection and disposal. Will remove trash collection from the municipal budget, and the tax rate. Savings on tax bill \$165,350. Savings on taxes will be offset by fees for private service.

**Construction Code**

Contract for Construction Code Services with another municipality. Savings of \$2,410.

**Planning and Zoning Boards**

Consolidate the Planning and Zoning Boards. Estimated savings of \$12,068.

**Personnel Administration**

Adopt a set of personnel policies to address issues that may become costly in the future.

**Court**

Consolidate court operations with Hopewell Borough and/or Hopewell Township. Estimated savings \$20,995 shared with the Borough of Hopewell.

**Library Services**

Contract with Hopewell Borough to provide library services to the borough and/or consolidate with the county library. Savings to be determined by contract.

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## COMMUNITY OVERVIEW

Written accounts of the history of Mercer County refer to Pennington Borough and Hopewell Borough as two of the “original, distant crossroads in the area.” Where once they were distant enclaves, they are now fully developed communities working to retain their character and charm while simultaneously providing modern municipal services.

The historical rates of growth and development of these “distant crossroads” were much faster than in the area that is known today as Hopewell Township. While rapid residential development is occurring in the township, both Hopewell Borough and Pennington have very little undeveloped land. Both of these established communities are undergoing a significant transformation of a different type as business sites are being revitalized and homes are re-sold to a younger generation. The two municipalities requested that a team from the local government budget review program complete a performance review of each municipality and identify ways in which they may be able to reduce the cost of government.

Elected officials, staff members and citizens in both communities readily acknowledged that in the long term their ability to maintain the character and identity of Hopewell Borough and Pennington Borough is directly dependent upon their ability to mitigate, if not reverse the trend of rising costs of local government. This report does not contain any recommendation suggesting the complete consolidation of municipalities; however, this report does acknowledge that this option may have to be given serious consideration in the future, particularly if there is little success in mitigating the cost of local government services.

The first section of the report, “Best Practices of Hopewell and Pennington,” contains a brief discussion of two unique practices that were found in both communities. There are actions being taken to revitalize the business properties and actions being taken to provide a mix of housing opportunities. It is hoped that other municipalities throughout New Jersey will be able to learn and benefit from the best practices found in all of the municipalities visited by local government budget review teams.

The second section of each report contains “Observations and Recommendations That Are Unique to Hopewell” or “Pennington.” This section is different in the reports presented to the governing bodies of the two communities.

Section Three, “Statutory and Regulatory Reform,” identifies State mandates that adversely impact the cost of local government with little or no value to local government operations.

A fourth section is included that focuses on “Special Opportunities for Local Cooperation.” The review team identified a number of functions where the local preference to minimize the costs outweighed the desire or need for each community to retain its own independent function. There were other instances where the reorganization of existing personnel could lead to a significant improvement in the quantity and quality of work being done without incurring additional cost.

Where possible, an estimate of the financial impact of a recommendation is presented. These estimates have been carefully prepared. They are intended as measures of the relative magnitude of a potential change. Past clients have found them to be useful to prioritize the recommendations they wish to pursue.

In general, each recommendation falls into one of three broad categories. First, there are recommendations for improving the value of the expenditures being made on behalf of the public. Second, there are recommendations for reducing the overall cost of providing basic governmental services to the public. Third, there are recommendations for addressing the public policy issue of the appropriate balance between local fees and tax support for optional governmental services. In these cases, the overall cost of a service may not decrease, but the cost to the taxpayer can be reduced.

In this report “savings” can take the form of reduction of costs, a shift in the funding to a non-tax source, or the avoidance of cost increases.

Implementation of some recommendations will have an impact in only one fiscal year, i.e., the closing of a dedicated account, while others will have a recurring fiscal impact such as enhanced interest income resulting from improved banking contracts. The recurring or non-recurring nature of the impact of a recommendation is identified in the body of the report. The value assigned to recurring events is the estimated impact for one year only.

It is unreasonable for a council, the staff or the public to expect that all of the recommendations can be accomplished in one year or that the entire estimated fiscal impact will occur at once. Many of the recommendations address the organizational and structural issues which often take more than one year to implement. It is also common to see that the favorable fiscal impact of a change tends to lag until at least the next budget cycle.

It is to the credit of the elected leadership of both communities that they actively sought the identification of options and ideas to ensure the continued health of their respective municipal operations. Their interest indicates their commitment to providing the best possible services to the taxpayers at the lowest possible price.

The review team found most of the individuals who were interviewed to be genuinely interested in considering new methods and constructive change, particularly if the recommended changes would help protect and retain the identity and character of their community. It is with this “greater goal” in mind that the recommendations of the local government budget review team are presented.

## I. BEST PRACTICES

A very important part of each Local Government Budget Review report is the Best Practices section. During the course of every review each review team identifies procedures, programs, and practices which are noteworthy and deserving of recognition. Best practices are presented to encourage replication in communities and schools throughout the state. By implementing these practices, municipalities and school districts can benefit from the Local Government Budget Review process and possibly save considerable expense on their own.

Just as we are not able to identify every area of potential cost savings, the review team cannot cite every area of effective effort. The following are those best practices recognized by the team for their cost and/or service delivery effectiveness.

### **Business Revitalization Efforts**

Pennington has remarkably few, if any, vacant storefronts or businesses. This was not the case a few years ago. Indeed, finding sufficient parking for the business patrons and employees is a current issue. The revitalization of the business community is the direct result of an active volunteer committee.

Hopewell has embarked on a similar project - strengthening and diversifying the retail and support services offered in the community. The starting point in both projects was a candid evaluation of the available land, buildings and businesses within the municipality as well as an assessment of what types of businesses are needed. "Need" was defined in terms of an appropriate mix of businesses as well as the community's preferences.

Although at different stages in the process, both communities are excellent examples of successful renewal of a small town "Main Street."

### **Mix of Housing Opportunities**

In Pennington, a development dedicated to housing senior citizens has become a catalyst for improving the community. This alternative permitted approximately 100 dwelling units to be built, allowing senior citizens to relocate into smaller living quarters while still remaining in their hometown. The sale of their former homes appears to have resulted in an influx of new families committed to the value of living in a small town atmosphere.

The existence of attractive housing opportunities for both seniors and young families permitted Pennington to strengthen its already strong tradition of voluntarism. The number of active volunteers in Pennington is roughly equal to 10 percent of the community's population. By itself, the library has approximately 70 active volunteers.

In Hopewell Borough the Council on Affordable Housing (COAH) increased the borough's affordable housing obligation from 0 to 37 units. Many citizens and officials found this increase to be undesirable; however, the municipality prepared an aggressive fair share plan that relies

heavily on the renovation of existing, eligible housing stock and the identification of accessory units. The community is also considering the approval of a limited number of dedicated senior housing units.

Addressing the need for a change in the mix of housing opportunities will give both communities the opportunity retain their small town identity while at the same time providing the vitality and diversity that is needed in every town.

**Contracted Police Services**

Hopewell Borough contracts for all of its police services with Hopewell Township. The increase in the cost of the annual contract has been considerably less than the statewide average increase in police budgets. Based upon comments made during interviews and observations made by members of the review team, Hopewell Township is sensitive to the borough's desire to get to know and trust "their" officers.

Given the relatively low cost overall, the slower rate of growth in the cost of services and the level of public satisfaction that has been maintained, the contracted police services in Hopewell Borough is recognized as a unique best practice deserving to be considered and repeated throughout the state, particularly where a small municipality is adjacent to a large municipality.

## II. OPPORTUNITIES FOR CHANGE/FINDINGS AND RECOMMENDATIONS

The purpose of this section of the review report is to identify opportunities for change and to make recommendations that will result in more efficient operations and financial savings or enhancements for the municipality and its taxpayers.

In its study, the review team found the municipality has made a conscious effort to control costs and to explore areas of cost saving efficiencies in its operations. Many of these are identified in the Best Practices section of this report. Others will be noted as appropriate in the findings to follow. The municipality is to be commended for its efforts. The review team did find areas where additional savings could be generated and has made recommendations for change that will result in reduced costs or increased revenue.

Where possible, a dollar value has been assigned to each recommendation to provide a measure of importance to illustrate cost savings. The time it will take to implement each recommendation will vary. It is not possible to expect the total projected savings to be achieved in a short period of time. Nevertheless, the total savings and revenue enhancements should be viewed as an attainable goal. The impact will be reflected in the immediate budget, future budgets, and the tax rate(s). Some recommendations may be subject to collective bargaining considerations and, therefore, may not be implemented until the next round of negotiations. The total savings will lead to a reduction in tax rates resulting from improvements in budgeting, cash management, cost control and revenue enhancement.

Rising governmental costs and taxpayer concern in Pennington is hardly new. The borough has studied this issue twice before in the past decade. In the May, 1987 report titled "An Evaluation of Options Which Might Improve the Effectiveness of Pennington Government," the volunteer committee reported to the borough council that

**The expanded complexity of our municipal government can be measured, in part, by the growth of the municipal budget. From 1977 to 1987 the municipal budget increased from \$266,000 to \$958,000. During the same ten year period growth occurred in every area of municipal government. For instance, general government expenditures increased from \$57,000 to \$151,000, public safety from \$53,000 to \$152,000 and public works from \$107,000 to \$327,000. During the same ten year period annual debt payments increased from \$46,000 to \$173,000. (P. 3-4)**

The report also noted that "The community now shares a number of services with other municipalities in the valley. There is a need to work with the adjacent municipalities and the school district to provide appropriate services for our community" (P. 3). The committee "also unanimously agreed that it would be inappropriate for the Borough of Pennington to consider merger or consolidation . . . . The most important reason for recommending against a merger, however, is the desire of the public to maintain our separate identity" (P. 4).

Ten years after the observations and conclusions cited above were drawn, circumstances did not appear to be strikingly different. The cost of government has continued to climb, although at a slower rate. The importance of maintaining a separate local identity continues to exist although now it is more accurately described as a preference rather than a prerequisite. Where ten years ago the cost of government did not outweigh the importance of local identity, it now appears the gap between these two criteria is closing.

Two primary factors appear to be influencing this slow, but openly discussed change in preferences. First, during the period addressed in the 1987 study the borough was "fortunate in realizing a substantial increase in total property value from \$36,000,000 to \$85,000,000. Thus municipal property tax rates fell from '0.48%' to '0.39%' during that period" (P. 4). This clearly has not been the case during the last several years. Second, the demographic profile of the community has changed with the influx of new residents over recent years. The extent to which either these changes has affected the importance of autonomy is not known; however, there is a noticeable difference in the balance between the two views.

The net result of this shift is that every year the council appears to face increased pressure to ensure that the costs of government are minimized and that every dollar spent on behalf of the taxpayer is used not only prudently but efficiently. Outlined in the ensuing subsections are a series of recommendations and observations intended to help identify some of the existing causes of the pressure.

## REDUCTION OF TAX BURDEN

### Revenue Projections

Based on an analysis of the projected and actual revenues for 1991 and 1993 through 1996 the review team did not identify any trends or recurring patterns that suggest the estimates presented in the annual budget were disproportionately conservative. The revenue actually collected exceeded the projected amount by an average of 7.4 percent for the five years studied. The annual differences ranged from a low of 1.2 percent in 1994 to a high of 14.1 percent in 1995. The high mark of 1995 was followed by a 6.3 percent difference in 1996.

### Utilization and Retention of the Unrestricted Surplus

In the years analyzed, there was only one fiscal year in which it was not necessary to appropriate surplus funds to balance the budget. Should the borough find, in retrospect, that the sum of all other revenues is meeting or exceeding the sum of all expenditures on a recurring basis, the governing body can become more aggressive in using the unrestricted surplus to lower the municipal tax rate.

The second factor affecting the ability of a governing body to utilize its unrestricted surplus to lower the municipal tax rate is the size of the unallocated or remaining unrestricted fund balance. School districts in New Jersey may not retain an unrestricted fund balance in excess of six percent of their budget.

Every year the "Appendix to Budget Statement" in the annual budget document contains a synopsis of the change in the unrestricted fund balance. This data can be compared to the total authorized appropriation in order to determine whether the size of the remaining unrestricted surplus is appropriate.

**TABLE ONE  
A COMPARISON OF SURPLUS BALANCE, SURPLUS BUDGETED AND SURPLUS  
REMAINING**

	YEAR				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Beginning Balance	\$ 341,553	\$ 352,984	\$ 251,890	\$ 81,718	\$ 356,148
Surplus Budgeted	\$ 71,578	\$ 240,000	\$ 200,000	-0-	\$ 183,275
Remaining Surplus	\$ 169,975	\$ 112,984	\$ 51,890	\$ 81,718	\$ 172,873
Total Budget	\$1,281,072	\$1,563,249	\$1,591,830	\$1,738,756	\$1,878,206
% Surplus Remaining	13%	7%	3%	5%	9%

On average, the remaining surplus was approximately 1.5 percent higher than the benchmark used for school districts. If the six percent had been applied in 1997, the borough would have had to include an additional \$60,180 in surplus funds in the 1997 estimate of revenues. Based on the net taxable valuation of approximately \$213,922,645, the municipal tax rate could have been lowered by approximately 2.8 cents per \$100 assessed valuation.

### Recommendation:

**It is recommended that the governing body of the Borough of Pennington adopt a resolution outlining the preferred amount that is to be retained in the unrestricted fund balance.**

This policy statement, which can be reviewed every year, would enable the finance officer to prepare the budget using known amount of the surplus as a revenue. The council should note that available interest earnings will be affected by a reduction in funds retained as surplus since there will be less available to invest.

**Limits of Authorized Appropriations**

A comparison of the authorized appropriation to the expenditures for 1993, 1994 and 1995 shows that in the aggregate the borough stays within its budget and that funds reserved at year end ranged from 107,000 to \$200,000. During the subsequent year the reserve budget expended sums ranging from \$16,000 to \$129,000. These figures indicate that the borough prepares an accurate budget, and that overall compliance is good. The compliance of individual departments was not reviewed. The council should ensure that ongoing compliance is effective for each budget account.

**OPERATING AND NON-OPERATING EXPENDITURES**

**Non-Operating Expenses**

As shown in Table Two, the non-operating expenses constitute approximately one quarter of the average annual budget. Table Five contains a summary of these expenditures. The ability of the governing body to make a significant change in these budget lines is limited. Debt service payments, which constitute the bulk of the increase, are set for the life of the loan at the time the debt is incurred. There is little flexibility in the reserve for uncollected tax line. The need to maintain the municipal infrastructure normally warrants an annual capital improvement allocation.

The Local Budget Law provides that a municipality may not project a tax collection rate in a budget that is higher than the average collection rate of the prior three years. Municipalities may, and often do, project a rate that is lower. This can have a significant impact on the municipal tax rate. The size of the reserve for uncollected taxes is determined, in part, by the gap between the total tax levy and the actual collection rate. The tendency to be conservative in projecting the collection rate is driven by the fact that an overzealous projection can lead to significant financial difficulties since the county and the school district must be paid 100 percent of their tax levy.

It is to the credit of the community that the projected tax collection rates used for the purpose of preparing each new budget have been very close the actual collection rates of prior years. This is all that a governing body can presently do to control the reserve for uncollected taxes.

An increase in the reserve for uncollected taxes can also be caused by an increase in the county and/or school district taxes. The budget decisions of two completely separate agencies have a direct impact on the municipal tax rate. Between 1991 and 1995 Pennington’s reserve for uncollected taxes increased approximately eight percent.

**TABLE TWO  
A SUMMARY OF NON-OPERATING EXPENDITURES**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997(*)</u>
<b>Capital Improvements</b>	\$ 20,000	\$103,643	\$75,860	\$122,000	\$155,000
% of Total Expense	9%	23%	17%	25%	27%
% Incr. - Prior Yr.	518%	<27%>	61%	27%	
<b>Debt Service</b>	\$ 16,100	\$173,725	\$169,788	\$198,269	\$229,070
% of Total Expense	8%	39%	38%	41%	41%
% Incr. - Prior Yr.	1,079%	<2%>	17%	16%	
<b>Reserve for Uncollected Taxes</b>	\$180,997	\$168,335	\$198,388	\$162,780	\$181,301
% of Total Expense	83%	38%	45%	34%	32%
% Incr. - Prior Yr.	<7%>	18%	<18%>	11%	

<b>TOTAL</b>	<b>\$217,997</b>	<b>\$445,703</b>	<b>\$444,036</b>	<b>\$483,049</b>	<b>\$565,371</b>
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**Operating Expenses**

Similar to the non-operating budget expenses, a local governing body does have the ability to make significant changes in many of the budget lines covering the operating expenses. The extent to which these changes can be made without altering the level of type of service being provided is often a result of the total size of the budget and the suitability of the authorized appropriations.

It has already been noted that the authorized expenditures do not appear to be excessive. This conclusion is based on the difference between the authorized and expended amounts as well as an evaluation of the purchases that were made, particularly near the end of the fiscal year.

Excluding the non-operating budget lines, the five largest budget lines in the 1997 Pennington budget were:

1. Police salaries and wages	\$239,902
2. Garbage & trash removal - other expense	\$165,350
3. Streets & road salaries and wages	\$ 99,600
4. Police other expenses	\$ 95,998
5. Maintenance of free public library	<u>\$ 75,180</u>
<b>TOTAL</b>	<b>\$676,030</b>

This represents approximately 51 percent of the operating expenses for 1997. If all of the budget lines containing similar expenses, such as the “outside cap” salaries and wages for police and the salary and wage lines for other public works functions were included the total would be approximately \$757,037.

The salaries and wages for police and public works services, two of the services listed in the “top five,” are approximately \$420,500 or nearly 90 percent of the salary and wage expense charged to the current fund. When the cost of benefits and payroll taxes paid by the borough is added, the expense rises to approximately \$507,353 or nearly 39 percent of the total operating expense.

When all of the related “other expense” budget lines are added to the salaries, wages and benefits for the police and public works functions, the total increases to approximately \$877,351 or 67 percent of the total operating expense. If a sizable difference is going to occur in the operating expenses of the borough, changes would have to be made in the police and/or public works functions.

**POLICE SERVICES**

Discussions and decisions regarding the level and type of police services are not new to the borough. A decision was made in mid 1997 to expand police coverage from 16 hours per day with State Police assistance to 24 hours per day on a trial basis. The primary concerns related to this experiment are the total recurring cost as well as the benefits resulting from the additional expense. In past years consideration has been given to contracting for all police services.

Table Three, which also appears in the Borough of Hopewell report as that report’s Table Three, compares three unit measures of cost for police services. The effort to equalize these expenses on a “per unit” basis yields radically different results; however, it is reasonable to conclude that Pennington is paying considerably more than Hopewell Borough.

**TABLE THREE  
UNIT COMPARISONS OF POLICE SERVICE COSTS**

COST PER:

<u>Municipality</u>	<u>Day</u>	<u>Resident</u>	<u>Square Mile</u>
Hopewell Borough	\$671	\$118	\$ 326,595
Loch Arbour	\$395	\$415	\$1,440,000
Pennington	\$985	\$142	\$ 363,595

(Loch Arbour’s contract is new. Experience with the contract may result in significant revisions to the services and price upon renewal.)

If Pennington were able to achieve the same “per day” cost as the Borough of Hopewell the annual savings would be approximately \$114,610. This equates to approximately 5.38 cents per 100 dollars assessed valuation. The projected savings does not consider the increased cost resulting from the extension of police coverage to 24 hours on a trial basis. As such, the estimate is sure to be conservative, particularly since the cost for Hopewell already includes round-the-clock coverage.

**Recommendation:**

**While we recognize the professionalism of the existing department and the civic identity associated with a police department, we recommend that the borough council actively explore the feasibility of contracting for all police services.**

**PUBLIC WORKS SERVICES**

In the ensuing section of this report recommendations are offered to restructure the public works and utility functions as part of an inter-local agreement with the Borough of Hopewell.

The 1997 budget contains a \$165,350 appropriation for “Garbage and Trash Removal: Other Expense.” With minor exceptions, this appropriation is earmarked for tipping fees. This equates to approximately 7.7 cents of the municipal tax rate.

The salary, wage and benefit expense associated with refuse collection equates to another 2.6 cents of the municipal tax rate. Overall, the owner of a property assessed at \$200,000 is paying at least \$206 per year for refuse collection services, which is approximately \$20 less than their counterpart in the Borough of Hopewell.

Additional comparison with other publicly operated and privately contracted refuse collection and disposal systems confirmed that the costs incurred in Pennington are compatible with existing market rates. As such, it would appear there is no need to consider a change.

As a result of court decisions, the use of in-county or regional transfer or final disposal facilities is no longer mandated by the state.

If the experience of other states is an accurate indicator, as an unrestricted market develops for the collection and disposal of refuse there will be greater demand to tailor these services to the needs of the customer. The number of pick-ups that occur each week and the volume of material collected will become a function of the price the consumer is willing to pay. The demand for these customized arrangements will make it very difficult to have a cost effective collection and disposal system operated by a municipality, particularly in the smaller communities.

**Recommendation:**

**Accordingly, it is recommended that Pennington Borough consider removing itself from the refuse business entirely.**

The number of refuse collection stops and the total tonnage collected is relatively small. In an industry where volume and efficiencies resulting from economies of scale can be crucial, the individual customer is more likely to be able to take advantage of the market place competition. This also moves the service to a system based on user fees which is more equitable given the diversity of the populace. Implementing this options would yield a \$226 reduction in the tax bill for a property assessed at \$200,000. We recognize that this tax reduction would be offset in large part by a new bill from the provider. One may anticipate that if trash collection and disposal becomes a 'private' activity, some individuals may choose not to purchase the service. Sanitation issues such as roadside dumping and illegal use of other dumpster service may occur.

Additionally, it is impractical for a small municipality using a contracted service to adequately assure itself that the tipping fee the vendor passes on is for trash generated in the municipality. Contractors must make use of the capacity of their trucks in order to achieve optimal profits. Small communities usually do not generate enough volume to warrant one or more trucks being assigned exclusively to their routes. When routes cross political boundaries there is no effective way to prorate the tipping fees. This is not a problem for individual customer contracts.

### **CONSTRUCTION CODE OFFICE**

In 1996 the sum of the paid and reserve expenditures was approximately \$24,450. This total does not include the cost of payroll taxes borne by the borough or the cost of any benefits. As such, it is a conservative estimate of the expenses related to the enforcement of the building codes. The revenue collected from permit fees totaled approximately \$22,040. The borough lost at least \$2,410. When the same comparison was made for 1995, revenues exceeded expenditures by approximately \$51,766.

In each of three comparisons, the factor that changed radically was the amount of revenue that was received. Given the fact that there is little opportunity for new construction in Pennington, the primary source of permit revenue will be renovation or expansion projects. These tend to be much more unpredictable.

#### **Recommendation:**

**Accordingly, it is recommended that the borough council give consideration to foregoing local control of the inspection process, particularly if chances for losing money are eliminated while the opportunities for some revenues are guaranteed.**

### **PLANNING AND ZONING BOARDS**

#### **Recommendation:**

**Given the population, total area, and the amount of undeveloped land, it is recommended that the planning and zoning boards be consolidated.**

The combined appropriation in 1997 for the two separate boards is approximately \$30,170. If the consolidation resulted in net reduction of only 40 percent, the savings to the taxpayer would be \$12,068, or slightly more than one half of a penny on the municipal tax rate.

### **PERSONNEL**

In addition to the cost reductions outlined above, the borough may wish to consider mechanisms to ensure that inappropriate cost increases do not occur.

**Recommendation:**

**It is strongly recommended that the borough adopt a set of personnel policies and practices that address the following:**

- 1. Eligibility for overtime**
- 2. Authorization for overtime**
- 3. Authorization for compensatory time**
- 4. Table of Organization (and related responsibilities)**
- 5. Job descriptions**
- 6. Compensation schedules and plans**
- 7. Eligibility criteria for optional benefits**
- 8. Severance policies upon retirement, termination or a reduction in positions**

The small size of the community and the municipal staff lends itself to a relatively informal arrangement ; however, the need for basic personnel rules is a necessity.

### **III. SHARED SERVICES**

Tremendous potential for cost savings and operational efficiencies exists through the implementation of shared, cooperative services between local government entities. In every review, Local Government Budget Review strives to identify and quantify the existing and potential efficiencies available through the collaborative efforts of local officials in service delivery in an effort to highlight shared services already in place and opportunities for their implementation.

#### **The Basis for Additional Cooperation**

Cooperation in the delivery of services is hardly new in the Hopewell Valley. Both Pennington and Hopewell Boroughs have contracted for all of their public health services with Hopewell Township for many years. The contract for police services between Hopewell Borough and Hopewell Township has already been noted in this report.

Many officials and citizens in both communities expressed more concern with the quality and cost of a public service than the organization or origin of the service. There appeared to be a greater concern over controlling the quality of a service than controlling the service itself.

Contractual relationships for the delivery of a public service can provide the framework for a regularly scheduled critique of the quality and cost of the service being delivered. The comparison of cost to quality may not occur as frankly or objectively when a service is provided by an existing municipal department.

#### **A Consolidated or Joint Court**

While the team recognizes the separate authority and responsibility of the judicial branch of government, we have made the following comments and recommendations in an effort to provide the borough with information on current and potential operations, procedures and programs

available to the court. Recommendations are made with the knowledge that further review and approval will be required by appropriate judiciary personnel.

Both communities currently retain the services of a court administrator, prosecutor and a municipal court judge. The dockets of both courts are remarkably short. A significant portion of the citizens appearing in court are not residents of either Hopewell or Pennington. As such, the court's "clientele" have no association or affinity with the host town.

**Recommendation:**

**It is recommended that Hopewell and Pennington establish a joint court, the scheduling of which could rotate between sites if necessary.**

In 1996, the combined salary and wage expense of the two courts was approximately \$41,990. In Hopewell the cost per session was approximately \$716 whereas in Pennington the cost per session was approximately \$1,034. The combined total of "charges disposed" was approximately \$2,061. It is important to point out that the vast majority of these were resolved without a court appearance. Each municipality had 24 court dates in 1996. It was reported that few, if any, of these sessions exceeded 90 minutes in length.

It does not appear that the volume of work warrants the existence of two separate court structures. If the personnel expense were reduced by approximately 50 percent then the burden on the taxpayers would be reduced by approximately \$20,995. This change would not affect collection or disposition of the fines or fees imposed by the court.

The pro-ration of the budget of a consolidated court would have to be addressed by the municipalities in accordance with N.J.S.A.2B:12-1. The basis for cost allocation could include, but not be limited to, a per charge cost based upon the number cases placed on the docket, the ratio of total summons processed, or the ratio of ratio of full trials heard in each jurisdiction.

It may also be useful to consider a joint or consolidated court with Hopewell Township. Because the dockets in Pennington and Hopewell Boroughs are quite light the further consolidation may be cost effective.

We suggest both communities seek further information and guidance on this issue from the Administrative Office of the Courts.

**Utilization of Public Works and Utility Crews**

Hopewell Borough contracts for the collection of refuse while Pennington continues to provide this service directly to its businesses and residents. Both communities have additional personnel that are assigned to other common public works functions such as park maintenance, road and sign maintenance, etc. Both communities also have personnel assigned to operate and maintain their respective water systems.

While both communities indicate they are satisfied with the public works and utility departments, it was evident to the review team that the small number of personnel prevented either department from doing anything other than responding to immediate issues or problems. The phrase “putting out fires” was used by several field employees to describe the nature of their work.

**Recommendations:**

**It is recommended that Hopewell and Pennington consider reorganizing the existing public works and utility personnel using one or more of the following options:**

- A. Contract with each other for the provision of one or more of the public works and utility functions.**
- B. Consolidate the utility crews and the public works crews to permit greater use of the existing personnel and permit more opportunities for preventive maintenance.**
- C. Coordinate and/or consolidate the meter reading and billing functions. It may be possible to pursue a cost effective contract for an outside agency to do this work, thereby creating more available work time for the existing personnel.**

With the exception of the elimination of some redundant costs, the advantage to considering a reorganization would be to achieve a major improvement in the overall quality of the service that would result from improved economies of scale. The optimal use of the existing employees should yield greater productivity, particularly in the areas of preventive maintenance.

**Overlapping Roles of the Municipal Clerk and Municipal Finance Officer**

In both communities the role of the municipal clerk and finance officer are part time positions. They are combined to create one full time position in each borough. Throughout New Jersey it is quite common to find that one individual performs a number of different municipal functions in the interest of minimizing costs. The tacit trade-off that occurs is that these organizations forego some of the standard checks and balances or internal controls. They must rely on the professionalism and integrity of the individuals filling these joint positions. Conversely, the individuals must rely on good will rather than internal controls to avoid the appearance of inappropriate transactions.

The review team found absolutely no indication whatsoever of any problem regarding the professional conduct of these employees in either community. In the long run, however, it would be in the best interests of the taxpayers, the elected officials and the employees to develop an organizational structure that did not rely on personal integrity as its primary if not sole form of internal control.

**Recommendation:**

**It is recommended that Hopewell and Pennington work with the existing tenured personnel to create one full time finance position and one full time municipal clerk position, both of which would be shared equally.**

The separation of duties should facilitate an improvement in the purchasing and bidding procedures in that the CFO would certify the availability of funds while the clerk ensures that all purchasing procedures have been properly followed. Both communities would also need a formal back-up system to cover vacations, etc.

### **Uniform Construction Code Enforcement**

Much like the enforcement of the health and sanitation codes, enforcement of the construction codes is guided by statewide standards and regulations. Hopewell Township currently provides all of the health and sanitation inspections through an inter-local agreement.

### **Recommendation:**

**It is recommended that consideration be given to establishing a similar arrangement for the enforcement of the uniform construction code.**

Middletown Township, Atlantic Highlands and Keansburg participate in a cooperative agreement in which applications and permits are obtained at the local borough hall but all inspections are conducted out of the Middletown office. There is a uniform schedule of fees. The two smaller boroughs collect and share the permits fees with Middletown. This arrangement provides for a greater degree of consistency in the application and interpretation of the codes and it takes advantage of an economy of scale that tends to balance the staffing requirements with the work load as well as the staffing expenses with the program revenues.

### **Property Assessment and Tax Appeal Functions**

There may be some benefit for Hopewell and Pennington jointly to appoint counsel for tax appeals. Comparison of property values in similar towns are often key elements to the argument presented by the petitioner. Presumably there should be some advantage to having the same individual or firm responding to the petitioners' arguments.

### **Preparation of Standard Bid Documents and Bidding Strategies**

The standard "boiler-plate" sections of every bid package are the same due to the requirements to satisfy affirmative action, anti-collusion and advertising requirements. It is possible to build a template or model that can be used repeatedly for the remaining sections of a bid package. Simply put, the preparation of competitive bid packages, which are often perceived to be difficult, can be streamlined without sacrificing any legal protection or requirement. The same template could be used by both municipalities.

There are also a number of bid items used by both municipalities. Some of these include asphalt, stationery, fuel, general maintenance contracts and banking services. Many of these items can be bid in bulk or on a "per unit" basis. It is recommended that both communities make greater use of the competitive bid process through the use of common documents, joint purchasing, and state or county contracts.

### **Public Library Services**

Currently, library membership in one library provides access to both the other municipal library as well as the Hopewell Branch of the Mercer County Library. Each municipal library has developed collections of specific interest to clients within their respective municipality.

### **Recommendation:**

**We commend the libraries for making their collections available and useful to their clients. The need for facility improvement in Hopewell Borough (discussed in the Hopewell report) and the proximity of all three libraries results in the recommendation that the Hopewell Borough library be merged with the Pennington Library at the Pennington location either through an interlocal service agreement or establishment of a joint library.**

A consolidated library can preserve the unique local focus of the respective collections. Currently, statute requires a referendum approved by both municipalities to approve a joint library. Municipal officials may wish to review N.J.S.A. 40:54-29.1 and 29.3 concerning municipal library services, and N.J.S.A. 40:33-1 et seq. concerning county library options.

## IV. STATUTORY AND REGULATORY REFORM

The fourth and final section of the report, Statutory and Regulatory Reform, attempts to identify those areas where existing State regulations or statutory mandates are brought to the attention of the LGBR review team by local officials which appear to have an adverse effect on efficient and cost effective local operations. It is common for local officials to attribute high costs and increased taxes to “state mandates.” Each review team is then charged with reporting those areas in this section of the report. The findings summarized below will be reviewed by the appropriate state agency for the purpose of initiating constructive change at the state level.

### **Maintaining the Equity of Regional School District Funding Formulas**

The municipal tax burden in Hopewell and Pennington Boroughs is practically inconsequential, particularly when it is compared to the school tax rate. N.J.S.A. 18A:13-23.3 provides for the periodic reconsideration of a regional schools systems school funding formula. Funding formulas must be based on either the ratio of the assessed values of each constituent municipality or on the ratio of the students contributed to the regional system. Our review indicates that both Hopewell Borough and Pennington Borough taxpayer are paying a disproportionate amount of the regional school tax levy. The question of revising the funding formula to be more equitable must be submitted to the voters of each town in the regional district. Because the redistribution of the tax burden will cause an increased burden in other member towns, it appears unlikely that a small town with an inequitable burden could ever obtain votes to alter the apportionment.

### **Recommendation:**

**We recommend that benchmarks be established to define the existence of funding inequity and that the authority to implement a revised funding formula be established at an appropriate level of government.**

## **LOCAL GOVERNMENT BUDGET REVIEW**

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