

FINANCE AND LONG RANGE BUDGET PLANNING COMMITTEE  
MINUTES – MEETING OF DECEMBER 14, 2009

In attendance:

Committee: Mark Miller; Michael Hartline; Jane Schrader Lynch (7:15 PM); Thomas Reinboth (7:50 PM)

Board: Thomas Hezel; Cynthia Mueller; Andrew Pollock

Staff: Timothy Vail; Thomas Turnbaugh; Susan Klyman; Lou Pacchioli

Public: Joseph Faust; Robert Schaffer; Jim Hunt (Berkheimer); Michael Santangelo (Berkheimer); Barbara Loftus; Paul Rokuskie

Press: None

Call to Order:

Mr. Miller called the meeting to order at 7:00 p.m.

Approval of Minutes

Motion to approve the minutes of the November 16, 2009 meeting as submitted by Mr. Hartline. Second by Mr. Miller. Motion Carried 2-0.

Deputy Tax Collector-Warminster Township

Mr. Vail reported that Mrs. Barbara Loftus, Warminster Township Tax Collector, has submitted the form attached to this evening's agenda requesting that all three taxing bodies approve the appointment of Tracy Costello as her Deputy Tax Collector. This item last came forward for Board review and approval in March, 2003. A copy of those minutes is also attached to this evening's agenda. Mrs. Loftus was in attendance and indicated that she would like to have the appointment approved before her new term begins for bonding purposes. She indicated the purpose of appointing a deputy is that there is someone available to make deposits in the event she is ill or incapacitated. Motion to approve moving this item forward to the Board for approval by Mrs. Lynch. Second by Mr. Hartline. Motion Carried 3-0.

ACCESS Contracted Clerical Services-BCIU

Dr. Turnbaugh reported that, per directive at the November Finance Committee meeting, Administration met with representatives of the Bucks County IU to attempt to clarify some of the language contained in the draft agreement. He indicated that BCIU officials have provided these services without formal contracts to a number of districts in the County and suggested we follow the same course of action. He reported they indicated that all clerical costs associated with providing this assistance are deducted from the proceeds realized from securing the fund and that the District would not be directly billed for them. Mr. Miller indicated he feels there should be a memorandum of understanding at a minimum in place on the issue. Dr. Turnbaugh indicated we would be the only district to have such an arrangement and suggested instead that we simply secure a letter from the BCIU outlining the scope of services. This letter could then be the backup for the Board resolution authorizing the arrangement. Mr. Hartline asked if our own employees could be trained as part of the process so that the arrangement with BCIU could eventually be phased out. Dr. Turnbaugh indicated that would indeed be the long term goal. Mrs. Klyman indicated that District employees will be an integral part of making this work. Motion by Mrs. Lynch to move this item forward for Board review and approval upon securing the agreed upon letter from the BCIU. Second by Mr. Hartline. Motion Carried 3-0.

Berkheimer Tax Administrator-Business Privilege Tax Services (BPT)

Mr. Vail reported that per discussion at last month's Finance Committee meeting, he invited representatives from Berkheimer to attend this evening's meeting for an overall discussion on their Business Privilege Tax Collection services, what is required under the current agreement

(copy attached to this evening's agenda) and how the action taken by the Warminster Township Board of Supervisors to hire a third party collector will impact upon their operation. Mr. Hunt from Berkheimer provided Committee members with an overview of Berkheimer's BPT collection services and how the operation works. He indicated he had met with Warminster officials in October when they started talking about hiring a third party collector. He indicated that all tax returns for BPT require proof of receipts. Most returns contain a spreadsheet documenting this required information. He also indicated that the BPT is collected on a fiscal year rather than a calendar year basis which can be somewhat problematic for some taxpayers, but they are required to work that out. Any return that does not file supporting documentation is not considered complete and the taxpayer is contacted for more information periodically until the required information is provided. On occasion Berkheimer has also conducted field audits if deemed necessary, but he added that he finds most information provided by the taxpayer is true and correct – few discrepancies are found when audits are done. Mr. Hunt went on to report that his understanding is that McCarthy & Sons has been retained by Warminster Township to provide "spot check" services. Under this scenario McCarthy would contact the taxpayer and request the same information Berkheimer gets. They also may do on site audits. He indicated he is aware that McCarthy has worked with Lower Moreland Township and Neshaminy School Districts where they chose random taxpayers and performed audits. He indicated that on occasion they have found some additional revenue but out of 100 to 150 audits performed in any given year they may find 15 that owe money, but not in significant amounts. Mr. Hunt indicated Berkheimer is willing to work with McCarthy and they have no issues in doing so.

Mr. Miller questioned if there are non-filers from whom we are getting nothing. Mr. Hunt indicated that Berkheimer files civil complaints against non filers. He indicated that one civil complaint had been filed in the last 2 years as most taxpayers, given the 30 day notice that a suit will be filed, settle before the complaint needs to be filed. Mrs. Lynch asked how many returns are filed annually to which Mr. Hunt replied approximately 1,000 for all 3 municipalities. Mrs. Lynch expressed concern that Warminster Township officials feel there are businesses that are not paying the tax because they have not been identified by Berkheimer and notified that taxes are due. Mr. Hunt explained that the primary source of information on new businesses in all municipalities comes from municipal records which are the most reliable source of information. He indicated that his firm works very closely with municipalities in all cases to identify new taxpayers. Mrs. Lynch questioned how often Warminster Township provides information and do they provide info on home businesses. Mr. Hunt replied reports are received monthly and that home businesses, when known, are included in the reports. Mrs. Lynch indicated it is important to ascertain why the Township feels they are not getting their money. Mr. Hunt indicated that his understanding is that Township officials feel that some of the business of concern have receipts in excess of what they are reporting. Mr. Miller indicated that the Committee needs some assurances that we are getting all we are entitled to. He questioned if we would owe Berkheimer a fee for any revenues McCarthy identifies. Mr. Hunt indicated that no Berkheimer fee would be assessed in those cases. Mr. Miller expressed concern that the McCarthy services seem to be for items we have contracted with Berkheimer to perform and asked if Berkheimer would be willing to subsidize the McCarthy charges. Mr. Hunt indicated that Berkheimer would not be in a position to do this. Mr. Vail questioned how the dollars in unpaid taxes identified by McCarthy would be remitted. Mr. Hunt indicated that McCarthy has no authority to collect the taxes. These taxes would be remitted directly to the Township and/or District directly by the taxpayer. However, the District portion of the taxes due would be somewhat more problematic to collect if the District is not part of the agreement with McCarthy. That would need to be negotiated with the taxpayer in each case. Mr. Miller indicated that the Committee needs clarification of how dollars due to the District would be remitted and requested that this be brought up at the next Township meeting with McCarthy. Dr. Turnbaugh asked Mr. Hunt if

Berkheimer has a recommendation on the use of a third party. Mr. Hunt responded that Berkheimer is contracted to do the job. He indicated they are willing to perform the audits as well, but that Warminster Township wants greater assurance that a third set of eyes is looking out for their interests. He indicated that the District needs to weigh the additional cost of hiring a 3<sup>rd</sup> party against the outstanding collections out there to be had. Mr. Miller questions that if the District gives direction for Berkheimer to be more diligent would you do this for us? Mr. Hunt indicated that Berkheimer would be committed to do so. Mr. Hartline inquired on the percentage of delinquencies. Mr. Hunt responded that annually about 5% of taxpayers are delinquent. He indicated in those cases civil complaints must be filed and as such an additional amount due must be claimed to cover costs. He also indicated that when a business is discovered who has not been remitting that they typically go back no more than 3 years. He indicated that 99% of delinquents are failure to file. Once identified and the back taxes due are determined the majority set up a payment plan.

Once the Berkheimer officials left the meeting Mr. Vail reported that also attached to this evening's agenda is a recap of the meeting with McCarthy & Sons held on December 9 at the Township building. That meeting covered the following issues:

- The need to confirm with Berkheimer their application of the tax law – mostly in regards to apportionment of gross receipts – how this has been handled – solicitor input required.
- Discussed the creation of an appeals board – may consist of members of Warminster Township's Finance and Budget Committee – solicitor input required.
- Discussed look back period for non-filers – recommended a 10 year window. Filers under audit are subject to an initial 3 year window with an additional 2 years if discrepancies uncovered.
- Discussed imposition of penalties and interest.
- Discussed process of audit notification, assessment notification and coordination with Township for tracking, compliance and reporting back to auditor for follow-up – solicitor input required.
- Discussed fees and billing process.

No firm decisions or commitments were made at that meeting. The next meeting with McCarthy & Sons will be in early January at a date to be determined. Berkheimer will be invited to attend as well. Committee members agreed that no action should be taken at this time and directed that Administration report back as more information becomes available from subsequent meetings with Warminster Township officials, McCarthy & Sons and Berkheimer.

#### Real Estate Tax Assessment Reduction Appeals

Mr. Vail reported that, based upon consultation with Mr. Reinboth, Administration directed Solicitor Jeff Garton to file tax assessment appeals on any assessment reduction in excess of \$100,000 prior to the deadline date of 12/8/09. He also reported that an appeal on the tax exempt status of the Warminster Hospital parcels will need to be filed as well by 12/16/09. The list of the affected properties is attached to this evening's agenda along with a letter from Mr. Garton indicating how the Board resolution should be worded. Also attached is a recap of all properties that were approved for assessment reduction and the amount of each. Mr. Vail indicated that the

District, in cooperation with Warminster Township, Lansdale Borough and North Penn School District, will be pursuing a PILOT arrangement with Abington Hospital on the Warminster Hospital property. Mr. Miller questioned how much it costs to file each appeal and suggested that, if cheap enough, perhaps the threshold for filing appeals be lowered to \$50,000. This course of action may win the District some default awards when taxpayers fail to follow up and respond to the appeal process. Mrs. Lynch indicated she would like to see a sampling of the arguments used by residential taxpayers who successfully had their assessments lowered. Mr. Vail indicated he would make inquiry to the Bucks County Assessment Office on this. After some discussion Administration was directed to get clarification from Mr. Garton on the cost of filing appeals as well as inquiring if Begley Carlin would do the work on a lump sum rather than an itemized basis per appeal. Motion to recommend that the Board ratify the action taken by Solicitor Jeff Garton to file the above referenced appeals by Mrs. Lynch. Second by Mr. Hartline. Motion Carried 3-0.

#### Blanket Grant Approval Resolution

Dr. Turnbaugh indicated that Administration is recommending that the Board adopt a resolution for the remainder of the 2009-10 year and annually each year thereafter to give blanket authorization to apply for all entitlement and discretionary grant applications that can or must be completed on behalf of the District. Grant awards would be reported quarterly to the Board. Mr. Hartline questioned if this action would violate any existing Board policy. Mr. Miller indicated that it would not violate any existing policy. Mr. Reinboth indicated that he has concerns that the present way of doing things might cause missing an application deadline. This blanket approval would eliminate that as a concern. Motion by Mr. Miller to recommend this item be moved forward for Board approval. Second by Mr. Hartline. Motion Carried 3-0,

#### Purchase Indoor batting Cage-WTHS Capital Reserve Fund

Mr. Vail reported that due to the WTHS renovation of the weight room the auxiliary gym is being used as the weight room making it unavailable for softball/baseball practice this coming winter/spring. Mr. Pacchioli has researched the situation and has found a ceiling-mounted batting cage for use in the main gym. This equipment can be raised and lowered as needed to accommodate our teams. We have received two quotes, which (with and without net), are below the \$10,000 bidding threshold. Administration is recommending that this purchase be authorized and made with Capital Reserve Funds. The Baseball Boosters have indicated they will contribute \$1,000 toward the purchase and the Athletic Council will contribute \$1,500. Mr. Miller expressed the concern that the main gym may not be the best location for this. He asked if the old shooting gallery in the auditorium area might not be a better location. Mr. Pacchioli indicated the ceiling in that area might not provide for sufficient height clearance. Dr. Pollock asked if perhaps we could get some of the outside groups who use out facilities to make sufficient donations to cover the full price at no expense to the taxpayers. Mrs. Mueller expressed concern that use of the main gym by other groups may result in significant scheduling conflicts and questioned if it is a realistic plan. She suggested that early morning in the pre-school hours may turn out to be the only realistic time this can be made available if the main gym is used. Dr. Turnbaugh asked if Vic Lasher had been involved in the process and had seen the plans. Mr. Pacchioli indicated that Mr. Lasher was aware of the situation but was not sure if he had seen the actual plans. Dr. Turnbaugh suggested that this item be tabled pending research of other potential locations before a decision is made. Finance Committee members agreed and the item was tabled until after the beginning of new year.

2010-2011 Draft Budget

Mr. Vail reported that the initial run of the 2010-11 general fund proposed preliminary budget indicates the following:

<b>Projected Revenues</b>	<b>\$95,169,171</b>
<b>Projected Expenditures</b>	<b>\$95,169,171</b>

At this point expenses equal revenues assuming a 2.98 mill tax increase per the Act 1 index level of 2.9% and the additional millage permitted under the grandfathered debt and retirement exceptions. Total millage increase permitted under Act 1 (with exceptions included) is 5.12 mills. Some of the factors driving this budget include the following:

**EXPENDITURES**

- Salaries are projected to increase by \$1,152,803. This increase represents a combination of anticipated salary increases at the index level of 2.9% an additional \$132,166 in new positions and classification changes. There are also \$468,514 in staffing cuts contained in the budget as well. Both the new staffing requests and the positions being considered for elimination are itemized on the salmon sheet in front of the full budget report in the budget binder attached to this agenda.
- Overall fringe benefit costs are projected to increase by \$2,860,938 as the employer share of retirement contributions was budgeted to increase from the current rate of 4.78% to 8.4%. We have also been told there will be an increase in the District's share of employee medical insurance of 16.13% based on the "first look" calculated by Independence Blue Cross and an anticipated increase in the District's share of employee prescription rates of 2.9%.
- Requests for books and supplies are increasing by \$46,673. This figure does not include the initiatives budgeted for in the Education Initiative Fund which adds an additional \$418,012 to the equation.
- Utility and fuel budget requests from the Facilities and Transportation Departments are budgeted to increase by \$348,650 over 09-10 budgeted levels. Existing utility and fuel costs coupled with electricity deregulation are driving this large increase.
- Fund transfers to the Education Initiative Fund and the Technology Reserve Fund are budgeted at \$1,431,881. Capital requests as outlined on the lilac sheet at the very back of the budget binder are recommended to come from surplus funds already transferred into the Capital Reserve Fund rather than the traditional annual contribution from the general fund in order to keep the budget within the 2.9% index limit. The \$2.4 million transfer to the Capital Reserve Fund authorized by the Board in June, 2009 is more than sufficient to cover the \$692,000 requested for 2010-11. The request for Technology Reserve funding was cut to \$1,013,869 from the original request of \$1,338,146 in order to stay within the index. Technology supply and equipment requests were limited and phased where possible to stay within budget guidelines. Likewise, the original request for Education Initiative funding of \$498,012 was cut to \$418,012 to stay within budget parameters.
- The final tax impact of the 2009 General Obligation Bond issue will hit with the 2010-11 budget. However, the anticipated impact is only .32 mills as the majority of the debt was already funded in prior budgets.

- We were also not able to set aside sufficient funds to place adequate dollars in reserve for 4 new full size (traditional 65 or 84 passenger) vehicles put on hold until alternative fuels analysis is complete. Only an additional \$100,000 could be set aside for this purpose in the proposed 2010-11 budget within the limitations imposed by the 2.9% index level. This will have major implications in future years as our traditional 12-year vehicle replacement cycle cannot be fully funded at this time.
- Overall 2009-10 expenses are increasing by \$2,522,154 (2.72%) in the proposed 2010-2011 budget.

## REVENUES

- The draft budget includes a line item which assumes that the Board will raise the millage to the level of the State-wide index as imposed under Act 1. The Index for 2010-11 has been set at 2.9% which, in Centennial's case, allows for a millage increase of 2.98 mills. This translates to \$1,535,250 in additional real estate revenues. Taxable real estate assessments for 2010 are available in preliminary form from Bucks County and indicate a decrease in assessments due to a significant number of assessment appeals this year and the decision to make the Warminster Hospital property largely tax exempt. Rate of collection was budgeted at 96.5%.
- The draft revenues were changed to better reflect the decrease in collection levels due to the economic downturn we have experienced over the past year. This may need to be revisited later in the year as the full picture of the impact becomes fully known.
- State subsidy revenue was estimated in the absence of the Governor's proposed budget which will not be released until February. Based on past history, a very conservative 2% in each subsidy source was incorporated into the draft budget with the exception of the Accountability Block Grant where no increase is anticipated. The PSERS Board of Trustees is scheduled to meet early in December and will set the rate of employer contribution for FY 2010-11 at that time. The draft budget presently sets this rate at 8.4% based on an earlier estimate provided by PSERS, but the budget will be adjusted once the actual rate is known if necessary.
- The budget also anticipates \$300,000 in 2010-2011 revenues from the ACCESS medical reimbursement program we are presently instituting.
- No non-recurring fund balance dollars were used to balance the 2010-2011 budget. This was made possible largely due to the fact that very modest increases in salaries were budgeted due to the absence of contracts and agreements with the teaching, administrative and support staff. If settlements occur prior to enacting the final 2010-11 budget the actual number would be incorporated and recommendations made on funding levels necessary to pay them made at that time.

Mr. Vail indicated that a copy of the detailed budget is attached to this evening's agenda. He indicated that the budget calendar adopted in August, 2009 per the requirements set forth in Act 1 mandates that the Proposed Preliminary Budget be adopted by February 9, 2010. Details on the major spending portions of the budget will be presented at the January, 2010 Finance Committee meeting.

Committee members indicated that the increase in the PSERS retirement rate will have significant millage impact on all districts throughout the state. The state legislature continues to

delay taking action to restructure the program to address the long term (and significant) financial impacts that are beginning to hit with the 2010-11 budget. Dr. Turnbaugh indicated that we are going to be forced to look at what have historically been “untouchable items” in order to stay within the spending limitations imposed under Act 1. He indicated that increased taxes from the retirement spike alone could be \$1,500 per household. Dr. Pollock indicated that money we didn’t spend last year went to reserve retirement and capital reserve accounts in anticipation of these anticipated increases. He suggested we could consider that again if surplus funds remain in the current budget. Dr. Turnbaugh also indicated his concern that this proposed budget does not fully fund the revolving bus replacement program. He cautioned against getting into a cycle of not replacing our aging fleet of vehicles. Mr. Miller suggested that the position of elementary assistant superintendent not be filled at this time given the budget constraints we are facing. Dr. Turnbaugh indicated that the matter needs to be looked at more globally and since this involves specific personnel issues would best be addressed in executive session. Mrs. Lynch indicated she is concerned with the recommendation within the budget to eliminate a number of instructional positions. She indicated this needs to be looked at in detail. Dr. Pollock suggested the proper forum for looking at those recommendations would be in the education committee. A brief discussion was also held on the loan payback to the general fund on the stadium project. Dr. Pollock indicated that attempts to promote marketing in order to retire this liability have gone too far.

#### Solicitor Fees

A brief discussion was held on the information letter from Levin Legal Group indicating that their hourly fees will be increasing effective July 1, 2010. Mr. Hezel indicated that he would like to see a two year breakdown by firm on legal fees paid. Committee indicated there is time to review this in more detail since the rates will not increase until July. Administration was directed to prepare a report for a future meeting.

#### Adjournment

Meeting was adjourned at 9:45 p.m.

Respectfully submitted,

Timothy E. Vail