BOROUGH OF

NEW PROVIDENCE

SETTLED IN 1720

2015 FINANCIAL MANAGEMENT PLAN

BOROUGH OF NEW PROVIDENCE
FINANCIAL MANAGEMENT PLAN

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INTRODUCTION

The Mayor and Borough Council directed the preparation of this ***Financial Management Plan*** in order to clearly articulate the many aspects of financial operations.

There are numerous financial policies and procedures that have been approved by the Mayor and Council and are imbedded in the Borough's day-to-day management.

Since members of the governing body and key staff members may change, it is important to document key financial management aspects, in order to maintain the tradition of sound, conservative practices.

This ***Financial Management Plan*** is designed as a dynamic document to be regularly reviewed and updated. It is a management tool that provides an overview of all Borough financial affairs.

I MANAGEMENT

The Borough of New Providence was incorporated in 1869 and today is chartered as a borough form of government. The Borough Council is the official governing body empowered to adopt all ordinances, resolutions, rules and regulations. Additionally, the Borough Council has oversight of numerous boards and committees, which are responsible for planning, land use and special advisory functions.

Borough Council's Administration and Finance Committee provides financial oversight and is responsible for presenting all policy-level business decisions for governing body action. This sub-committee also works closely with the Borough Administrator to develop the annual operating and capital budgets.

The Mayor, while not a member of the governing body, is called upon to cast tie-breaking votes and has veto power on official Council action. All Borough Council meetings are chaired by the Mayor.

The Administrator, as delegated by the Borough Council, is responsible for all day-to-day operations of the Borough and implementing all policies and regulations adopted by Borough Council.

The Borough Administrator, appointed to serve at the discretion of Borough Council, reports directly to the Borough Council. The Administrator manages eleven department heads and works closely with the Mayor and Members of Borough Council to ensure delivery of quality service to all constituents.

The Borough Treasurer is the Chief Financial Officer responsible for all financial operations, reporting directly to the Borough Administrator. As CFO, this position supervises the Finance Officer Manager, Tax Collector, Comptroller and Cash Manager.

Working closely with the Borough Administrator, the CFO develops financial information and analyses required for the preparation of the Annual Operating budget, as well as the Capital Budget & Five-Year Forecast.

The CFO also undertakes the analyses of key financial metrics and cost/benefit studies of various operations and departments.

In accordance with state law, the following officials must be certified (and comply with continuing education requirements to maintain their respective certifications) by the State of New Jersey as follows:

Borough Treasurer	Certified Municipal Finance Officer (CMFO)
Tax Collector	Certified Tax Collector

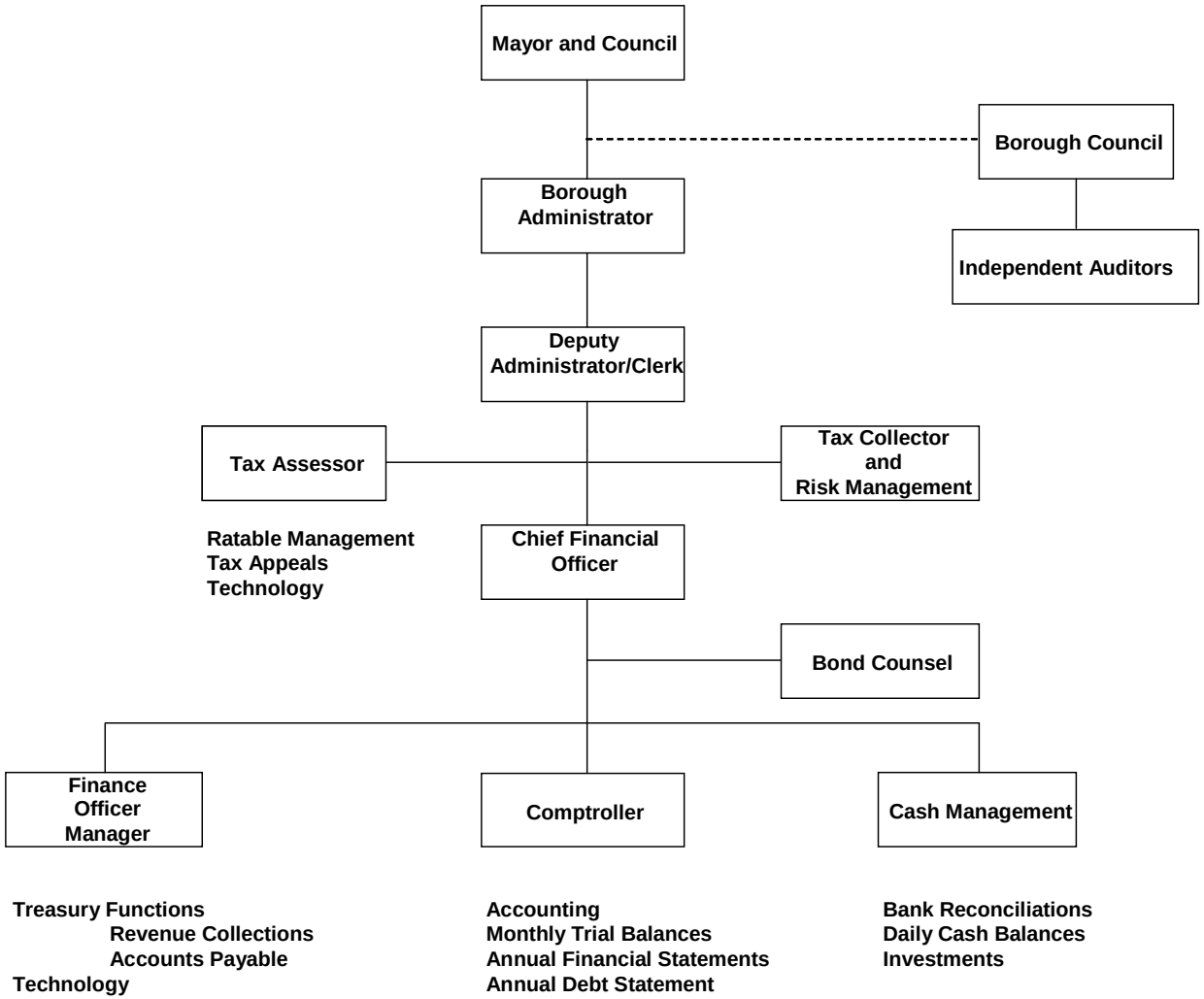
All Risk Management functions are managed by the Borough Administrator and Deputy Borough Administrator.

The Tax Assessor reports directly to the Borough Administrator. However the Tax Assessor works closely with the CFO to coordinate tax ratable management.

Human Resource operations are directly managed by the Borough Administrator who is appointed as the Borough's Personnel Officer. The Deputy Borough Administrator directly supervises the Payroll Manager and oversees payroll processing and all required reporting.

Borough of New Providence, NJ

Finance Department Organization Chart



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II FINANCIAL GOVERNANCE

The structure of the financial management operation has been designed to ensure a system of checks and balances and provide maximum internal control. Highlights of the purposefully designed controls include:

- Payroll operations are supervised by the Deputy Borough Administrator and not the CFO.
- The Cash Manager is the only employee permitted to reconcile bank accounts and prepares a monthly Treasurer's Report delivered directly to Borough Council. All bank accounts are reconciled monthly.
- The Comptroller is the only employee permitted to make journal entries including adjusting entries. The Comptroller prepares a monthly Trial Balance, which includes reconciliation of the Borough's cash position.
- The Finance Officer Manager is the only employee permitted to record monthly payroll charges against each department budget.
- The Budget Management System (software application) is designed with varying levels of approval authority for different actions. The system does not permit users to encumber funds that can result in an over-expenditure of a budget line item. The Chief Financial Officer sets approval authority levels in the system. The CFO and Finance Officer Manager have the highest approval authority level.
- The Borough Administrator authorizes all vouchers for payment prior to processing.
- All vouchers must be signed by either a Council member or the Mayor prior to payment, which enables a final, granular review of disbursements by the governing body. Borough Council then approves all vouchers.
- Neither the Comptroller nor Cash Manager is permitted to participate in any portion of the Accounts Payable process.
- Borough Council selects and appoints an independent auditor to conduct a full examination of the Borough's financial affairs, in conformance with state law.
- The independent auditor meets directly with Borough Council's Administration and Finance Committee to discuss the findings and recommendations contained in the annual audit report.
- Council's Administration and Finance Committee oversees the preparation of the annual operating and capital budgets.
- All non-routine proposed purchases and contracts in excess of $2,625 must first be approved by a resolution of the governing body prior to the issuance of a Purchase Order. This procedure provides an opportunity (beyond budget review) for the Mayor and Council to closely examine, monitor and control costs before funds are committed.

The Financial Governance goal is to receive no more than two formal recommendations in the annual independent audit report.

III TAX ASSESSMENT DEPARTMENT

The function of the Assessor's Office is to place a fair and equitable assessment on each parcel for taxing purposes. This office is also responsible for maintaining precise records, including all details such as property ownership, deductions for senior citizens and veterans, and exemptions for charitable organizations. The Tax Assessor also defends property tax appeals before either the County Tax Board or the state's Tax Court.

In order to ensure an equitable and fair defense, Borough Council annually appoints a Property Tax Counsel who has distinguished expertise in managing such legal matters. When necessary, Borough Council also appoints an appraisal firm skilled in complex commercial valuations, to support the Tax Assessor and Special Property Tax Counsel.

The Assessor's Office also conducts inspections on all building improvements that impact assessed value.

This division is supported by a computer system designed by MicroSystems-NJ, LLC. All property record cards are digitally stored, enabling desktop retrieval of all relevant information. All information is subject to review by the County Tax Board.

Each year the Tax Assessor supplies the County Tax Board with a certified copy of the tax roll.

The goal of this division is to maintain fair and equitable valuations on all parcels supported by an accurate information database.

IV TREASURY MANAGEMENT DIVISION

This division is managed by the Finance Manager. The business in this division includes:

Revenue Collection – all revenue is collected and recorded for appropriate credit to the respective revenue account/fund. This division ensures that all borough funds are deposited within 48 hours.

Purchase Orders – each Department Head is connected to the Budget/Revenue Management system, which enables them to digitally process requisitions for Purchase Orders. The Treasury Management Division formally reviews, and then certifies, all requisitions in order to ascertain adequate availability of funding. Once requisitions are encumbered and certified, this division then issues Purchase Orders.

Accounts Payable – all Purchase Orders are initially encumbered. Once the goods have been delivered or the services rendered, this division processes all vouchers for payment.

Budget Management – each month the Finance Manager reviews all budget line items, including all sub-accounts, to identify any potential problems or looming shortfalls. Detailed monthly budget reports are provided to each department head as a management tool.

This division is supported by a licensed software program designed by First Byte Corporation that exceeds all of the requirements imposed by the State of New Jersey. This Budget/Revenue Management system integrates information from the Tax Collection system and the accounting/general ledger system.

The goal of this division is to avoid the over-expenditure of any budget line item. By working closely with department heads and sharing timely information, a further goal is to keep transfers within budget line items to a minimum – unless necessitated by completely unforeseen circumstances. As required by state law, all budget transfers must be approved by a resolution of the Borough Council.

V TAX COLLECTION DIVISION

The Tax Collector is responsible for annually billing and quarterly collecting taxes from each property owner. In addition to property taxes, the Tax Collector:

- Bills and collects for added assessments resulting from property improvements
- Bills and collects for special assessments such as new sidewalks, curbs, etc.
- Assists property owners with the various state tax rebate programs:
  - Property Tax Reimbursement Program (the Senior Freeze Program)
  - Fair Rebate (combination of the previous Homestead Rebate and the NJ Saver Rebate programs)
  - Property Tax Deductions/Credits, such as:
    - Senior Citizen deductions
    - Veteran deductions
    - Disabled Veteran deductions

The office is supported by a computer system licensed by First Byte Corporation. This system is custom-designed to support all legal and regulatory requirements mandated by the State of New Jersey. It has been further customized to interface between the Tax Assessor's computer program and the Budget/Revenue Management program.

The goal of this division is to maintain accurate records and comply with all legal and regulatory requirements.

VI ACCOUNTING DIVISION

The Comptroller is responsible for all accounting, and maintains all ledgers and journals in accordance with New Jersey's statutory accounting principles. Each month, the Comptroller prepares a Trial Balance Sheet of all accounts to ensure that accurate balances are maintained. The Comptroller prepares monthly revenue reports for distribution to the Mayor & Council

The Comptroller coordinates with the independent auditors to make certain all information is clearly and accurately recorded.

Each year this division prepares the Annual Financial Statements and the Annual Debt Statements.

The Accounting Division also maintains a Fixed Asset Inventory, which is reflected in financial statements and used for liability insurance purposes. The Fixed Asset Inventory is regularly updated and maintained through American Appraisal, a third party appraisal service using a computerized database management system.

This division is supported by custom accounting software licensed by The First Byte Corporation and is fully integrated with all other financial management software applications. All journals and ledgers are digitally managed. Information produced by this program enables management to view and analyze information in a variety of formats.

The goal of this department is to maintain all information on a timely and accurate basis and to avoid, to the greatest extent possible, any formal recommendations in the annual report from the independent auditors.

VII CASH MANAGEMENT DIVISION

The Cash Management Division is responsible for accurately and precisely monitoring all cash-related transactions. The Manager reviews and reconciles all bank accounts monthly. These reconciliations must tie into monthly revenue collections and disbursements.

The Manager regularly reviews cash balances to ensure all available funds are invested and earning interest income. Also, the Manager reviews monthly bank statements to make certain they are in compliance with agreed upon banking services.

Each month the Manager prepares a report to the Borough Council detailing the liquidity of the Borough and summarizing all accounts, including balances and current interest rates.

Borough Council annually adopts a cash management policy.

The goal of this department is to maintain all information on a timely and accurate basis and to avoid any formal recommendations in the annual report from the independent auditors.

VIII RISK MANAGEMENT

The Mayor and Council have placed greater emphasis on liability management and have taken a number of steps to ensure optimal protection, including:

- Insurance Advisory Board – Comprised of residents with senior-level insurance industry experience, the IAB reviews all insurance policies to ensure proper coverage and limits of liability. This group also reviews alternative forms of protection, including Joint Insurance Funds. The IAB provides recommendations to Borough Council regarding annual renewal pricing and policy adjustments.
- Claims Review – The IAB periodically reviews all claims and the appropriateness of reserves established by the third party insurance carrier.

- Contracts & Leases – The Borough Attorney reviews the liability clauses in all Borough contract and lease documents for optimum protection. When appropriate, counterparties are required to add the Borough as "additional named insured" to their liability insurance.
- Fixed Asset Inventory – is regularly maintained and updated with current values as calculated by an independent appraisal company.
- Safety Inspections and Liability Assessments – are routinely reviewed by the Borough Administrator and Deputy Borough Administrator with safety engineers from the third party insurance carrier.
- Employee Safety Committee – meets regularly to review safety procedures, devise training programs and analyze all on-the-job accidents.
- Emergency Services Personnel (Police, Fire and Rescue) – receive regular training on the latest tactics, strategies and practices, in order to maintain a safe work environment.
- Personnel Policy – has been completely revamped and updated to reflect all federal and state requirements. Mandatory harassment training is provided to all employees. The policy and training programs are continuously reviewed by the Borough's Labor Counsel.

IX MUNICIPAL BUDGET

The Municipal Budget reflects the annual operating plan for the Borough.

The approach embraced by the Mayor and Council begins with the following understanding:

- The Borough of New Providence is a service business
- This business is labor intensive. Nearly half of the budget is comprised of labor costs (salaries, benefits, etc.)
- The budget contains a significant amount of uncontrollable and mandated costs.
- Unconditionally rejects the notion that, given the above assumptions, little can be done in the way of controlling and reducing costs.

Accordingly, the Borough adopted the following approach for preparation of the Municipal Budget:

- Strive to maintain all services at current delivery levels
- Any proposal for a new initiative, service or program must contain a stringent cost/benefit analysis to support the incremental cost
- Where possible and reasonable, user fees are charged to cover service costs
- All revenue structures are periodically reviewed to make certain they maintain relative value
- Where possible, technology will be used to not only increase efficiency but also lead toward a path of reducing costs
- Focus intently on two key areas to control spending:
    - Labor costs – examples include: A) restructuring the workforce replacing full-time employees with less costly part-time employees; B) identifying opportunities for shared services with neighboring communities; and C) outsourcing services to the private sector

- Uncontrollable & mandated expenses – examples include: A) focusing efforts to increase recycling resulting in lower garbage disposal costs; B) improving energy efficiency to lower utility costs; and C) reducing leaf collection costs while complying with more stringent state regulations and improving service delivery

- Incorporate Short Term Goals from each department as part of the budget process, in order to regularly measure department performance and production
- Use long-term strategic planning to develop new ideas and fresh approaches to maintaining a balanced quality of life in the community.

Each Borough Council Committee and/or Liaison works closely with the Borough Administrator and their respective Department Heads to gain in depth insight into each department's operations. This approach enables Borough Council to work as a team to manage this most important process.

Borough Council's Administration and Finance Committee oversees the preparation of the annual operating and capital budgets. Working closely with the Borough Administrator and CFO to fine-tune the budget, this sub-committee formally presents their collective recommendations to the governing body at the annual budget workshop meeting. The annual budget workshop is a special meeting of the governing body focusing solely on the budget and resultant impact on the local property tax.

Monthly budget reports are distributed to Council Committees for review. The Borough Administrator carefully examines each budget report to make certain departments are on track to run their department within their budget resources.

The goal toward creating a responsible operating budget includes:

- Revenue projections – avoid shortfalls in actual collections versus what was anticipated in the budget
- Nonrecurring Revenues – require a two-thirds special approval vote by the governing body for inclusion in a budget
- Budget Line Item Transfers – keep to an absolute minimum (legally allowable after November 1st)
- Emergency Appropriations – reasonably contemplate all requirements during the budget process and limit the use of Emergency Appropriations solely for true emergency situations.
- Property Tax – keep the Municipal Tax Rate competitive with peer communities in Union County (Berkeley Heights, Cranford, Mountainside, Scotch Plains, Summit and Westfield).

X CAPITAL BUDGET & DEBT MANAGEMENT

The Capital Budget and 5-Year Forecast is a critical planning tool for properly maintaining the Borough's infrastructure, facilities and major equipment.

The goal of the Mayor and Council is to maintain stable debt service (year over year) while responsibly addressing capital needs.

During the budget process, each department head reviews their needs first with the Borough Administrator and then with their Council Committee/Liaison. Requesting departments must submit justification to support each item.

The Mayor and Council have established the following financial management guidelines to ensure that conservative and responsible practices guide capital spending:

1. Fund capital costs with a 5-year legal life through the current operating budget, amortized over a five-year period. It may not be possible or practical in some years to fund this requirement in full. However, it is the desire of the Mayor and Council to reasonably fund as much as possible using current funding while reducing the amount of long-term bond funding for 5-year items. Short-term Bond Anticipation Notes may be used to provide the cash to fund these items.
2. All capital costs with a greater than 5-year legal life will be funded through long-term bond financing.

For all long-term bond financing, the Mayor and Council agree to comply with the following policy:

1. The Borough pledges to comply with all continuing disclosure requirements and will annually submit information to the municipal bond repositories.
2. The Mayor and Council will strive to keep the debt limit to less than 1% of equalized valuation despite being legally allowed 3.5% of equalized valuation.
3. All bond issues will be structured to comply with the following constraints:
    a. The final term will not exceed 80% of the average useful life of the underlying capital items
    b. At least 60% of the principal will be paid off within 10 years
    c. Annual increases in total debt service will not exceed 5% (year over year)

XI SURPLUS & KEY RESERVE FUNDS

Each year one of the single largest revenue items in the municipal budget is the use of surplus funds.

Excess funds in the Reserve for Uncollected Taxes annually lapse into surplus, which provides a consistent foundation for regenerating a dependable surplus position at year-end. (The Borough is legally required to collect and transmit 100% of the annual tax levy to the New Providence School District and Union County. Since not all taxpayers pay their taxes on a timely basis, the Borough is legally required to build in a reserve for uncollected tax payments)

The Borough's financial management practices include setting the Reserve for Uncollected Taxes and anticipating budget revenues so that there will be a reasonably predictable surplus balance at the end of the year. In addition, the Mayor and Council establish Key Reserve Funds to cover unusual events and non-typical costs. Examples of Key Reserves include:

Snow Removal Reserve – each year the budget appropriations for snow removal are transferred into a special trust reserve fund. Unspent balances are available to cover

costs in succeeding years. This enables the Borough to stabilize budgeting for snow removal, yet have funds available to cover periods of excessive snowfalls and snowfall events.

Reserve for Property Tax Appeals – each year funding is placed in the budget to cover anticipated refunds for tax appeals. Recently the Borough established a Reserve Trust Fund to capture unspent balances in order to build-up this fund to cover tax appeals. This helps to provide stable budget impact.

The goal established by the Mayor and Council is to continue to build year-end surplus and key reserve balances. This promotes better budgeting practices and fosters reasonable tax rate management. The target is to have at least $750,000 of Surplus and Key Reserves on hand (after transferring surplus funds to reduce taxes).

XII ANNUAL REVIEW

The Borough Administrator and CFO will annually review this Financial Management Plan to:

- Update and improve practices
- Identify new issues and policies
- Identify issues and policies needing enhancement
- Ensure the plan reflects all key financial management practices

The Borough Administrator will present findings and recommendations to Borough Council's Administration and Finance Committee annually.

Borough Council will annually adopt the Financial Management Plan at their annual organization meeting held each January.