

City Of Perth Amboy
County of Middlesex

CY 2011 Local Municipal Budget

TABLE OF CONTENTS

BUDGET MESSAGE..... 2

INTRODUCTION 2

 OVERVIEW..... 2

FINANCIAL OBJECTIVES..... 3

OPERATIONAL OBJECTIVES..... 4

Past is Prologue..... 5

Alternative Strategies and Approaches..... 6

 BUDGET LIMITATIONS (CAPS)..... 6

Appropriations Cap 6

Tax Levy Cap 7

BUDGETARY ELEMENTS 8

 COST DRIVERS 8

 ANTICIPATED REVENUES..... 9

Surplus (Fund Balance)..... 9

State (Transfer Payments) Aid 9

User Fees 11

Revenue Offsets..... 11

 APPROPRIATIONS..... 12

Accumulated Leave Reserve..... 12

Salaries and Wages..... 13

Incorporated Budget Reductions 13

 MAJOR LONG TERM CONCERNS 13

Tax Appeals Liabilities 13

Severance Liabilities (Accumulated Leave)..... 14

OPEB (Governmental Accounting Standards Board Rule 45)..... 14

2009 Postponed Pension Liability 15

Outstanding Debt..... 15

 CONCLUSIONS 18

 LOOKING AHEAD..... 19

 BUDGET REVIEW MEETINGS 20

Budget Message

Introduction

The Mayor herewith presents to the City Council the Calendar Year 2011 municipal budget.

N.J.S.A. 40:69A-44 states:

The department [of administration], under the direction and supervision of the Mayor shall

(a) Assist in the preparation of the budget...

N.J.S.A. 40:69A-45 states:

The municipal budget shall be prepared by the mayor with the assistance of the business administrator...

“In the third year of recession, all mayors and business managers report that they have employed traditional cost cutting strategies to the point of diminishing returns. The local officials used line item reductions, across the board program cuts and service contract revisions in the first and second years of the recession to deal with lower revenues. The traditional tools used by all administrators and politicians looked the same...”

(“Management Challenges Strategies for Municipalities,” New Jersey Municipalities, February 2011)

This budget does not do what I, as the Mayor, want done for the City of Perth Amboy. It does not improve public works, police or fire services. It does not hold the line on property taxes. It does not permit the City to pursue all of the capital projects that are so desperately needed. It does not guarantee better snow and ice control, parks and athletic field conditions, greater patrols of our neighborhoods, more fire personnel to respond to life threatening fires, nor does it guarantee all of the improvements needed in the water and waste water utility and the parking utility. It attempts to achieve a **delicate balance** between service demands and financial resources and attack as best as possible the capital weaknesses that are rampant in this City.

Overview

The following are relevant facts about the recommended budget:

- From FY 2010 to CY 2011, the State has reduced their transfer and aid payments to the City by \$5.2 million or a reduction of about 7% of all revenues.

- The proposed CY 2011 municipal budget is in the total amount of \$72,068,042 which is \$3,097,101 less than the FY 2010 adopted budget which was in the total amount of \$75, 165,143.
- This is a decrease in appropriations of 4.12%.
- Increases occur primarily in mandated expenses such as the costs to maintain the public safety complex, pension payments, in the funding of known liabilities and obligations such as tax appeals and defense of litigation.
- The proposed CY 2011 municipal budget's tax levy is estimated to be \$57,364,304 which is \$2,149,998 more than the FY 2010 adopted budget's levy of \$55,214,307. (This amount can only be reduced if specific services are eliminated.)
- The tax levy increase is 3.8%, due to:
 - A significant loss in non-property tax revenues of about \$5.3 million.
 - Most of this loss is reduced state transfer and aid payments of \$5.2 million which is primarily the loss of extraordinary aid.
 - Increased pension payments, primarily PFRS, required by the Division of Pensions.
- Each penny on the tax rate is equal to about \$350,412. This down from \$364,007 in FY 2010 due to successful tax appeals which resulted from mismanagement of the 2006 Revaluation by the prior administration. The overall tax ratable loss is (\$3,640,074,451- \$3,504,124,404) \$135,950,047.
- The new municipal tax rate would then be \$1.637, up 12.1 cents from the 2010 rate of \$1.516, resulting in **an average property tax increase on an average assessed home assessed at \$273,400 of \$82.70 per quarter.**
- While the budget **appropriations decrease** by 4.12%, the tax **levy rises** by 3.89% and the property tax rate rises by 7.98%.

The Mayor's CY 2011 budget objectives and goals include the following:

FINANCIAL OBJECTIVES

- Pursue fiscal stability so the city can stand on its own without special assistance from other levels of government
- Obtain an upgrade in the City bond rating from rating agencies to reduce the cost of future debt that will be required to improve the City's infrastructure
- Wean off dependence on state aid
- Stabilize personnel and personnel related costs within the authorities that remain for the City's management, subject to uncontrollable external forces of
 - Binding interest arbitration
 - State pension bills
 - Contractual obligations for severance liabilities and provisions of benefits to employees
 - Claims incurred by city employees and retirees under current health insurance plan

- Reduce expenses wherever possible through means such as more aggressive shopping and buying less materials and supplies, subject to external forces
 - Increases due to cost of materials
 - Weather conditions
 - Extraordinary maintenance demands of the public safety complex
 - Public Safety Complex litigation
 - YMCA service agreement obligations
 - Other Pending Litigations
 - Resolution of complicated tax appeals for residential, commercial and industrial property owners
- Manage the cost and impact of assessment appeals
- Begin to fund severance or accumulated leave liabilities
- Pursue alternative funding sources to achieve an aggressive capital improvement program
- Impose the least onerous tax levy on taxpayers to pursue these objectives

OPERATIONAL OBJECTIVES

- Continue to set a standard for clean, open and professional government for the residents and taxpayers of our City
- Continue to examine every appointment and every contract based on the benefits that will be in the City's overall best interests
- Make every effort to maintain services at current levels
- Pursue more clean city streets and public parks
- Pursue minor improvements to parks
- Pursue aggressive time table to repair both ongoing and 3/13/10 storm damage to shoreline
- Sufficiently fund operating departments for operating and capital resources necessary to permit them to pursue excellence in service to city residents
- Pursue capital improvements that are vital to the city's future:
 - Capital equipment in department of public works
 - Develop plan of action to improve city streets and other infrastructure
 - Initiate capital campaign to improve the city's water and waste water system
 - Develop revenue base to support improvements to Jefferson Street Parking Deck and various parking utility lots
- Develop management capabilities in the Parking Utility to maximize revenues to provide for necessary improvements and develop long term plans to support the Downtown Business District
- Maintain current recreational opportunities for residents without significant reductions

This budget will permit the City to fill vacant positions to provide services demanded and required by city residents:

- Replace three (3) firefighters to be funded through savings in overtime expended in FY 2010

- Replace one (1) additional firefighter to bring the department compliment to 50 uniformed firefighters and officers
- Replace three (3) police officers to be funded through savings in overtime expended in FY 2010
- Replace six (6) additional police officers to bring the department compliment to 115 uniformed police officers and superiors
- Replace seven (7) department of public works employees to bring the total department staff compliment to 69 (plus seasonal employees)
- The City stabilized services in 2010 by using seasonal employees to cover gaps in public works staffing. This was a short term measure that will continue to be used sparingly in 2011
- Hold all other positions in city departments stable to the extent possible
- Note that these compliments are far below those that existed in early 2008

When reviewing this budget, readers will see that these understandings and objectives drove the design of this budget.

Past is Prologue

The fiscal health of the City is better at the beginning of 2011 than during the past three years. However, this does not mean that the City is financially stable. Many factors must be analyzed to determine the City's fiscal health. Not all of them are related to the current fund, nor can they be seen in the Annual Financial Statement or the Annual Audits.

The City's fiscal problems arise from many years of imprudent financial practices which include:

- Using non-recurring revenues to support ongoing operational costs
- Using monies meant for capital reimbursements to support ongoing operational costs
- Postponing payment for current and capital expenses and improvements indefinitely
- Incurring large debt burdens in both the current fund and the water and waste water utility, some of which are back-end loaded
- Postponing capital infrastructure maintenance in the current fund, water and waste water utility and the parking utility indefinitely
- Managing assessment of properties for short term gains and ignoring both property owner equity and long term liabilities
- Functioning with a short term or annual time horizons instead of considering the long term view

This budget makes great strides to shed this past character and pursue the objectives set forth above. However, it does not bring the City to a position of financial independence or financial stability. It is one step, as were the last three budgets, toward more prudent fiscal policies which will lead to financial stability, if aggressively and consistently pursued.

Alternative Strategies and Approaches

Presentation of alternative strategies to pursue budget objectives is valuable when trying to determine the appropriate course of action. In this budget, it is difficult to conceive of alternatives as there are so little resources and so many demands for these resources. Questions will probably arise about the propriety of individual appropriations. However, in the greater scheme of things, they will make little difference to the essential structure of this budget. The “Big Picture” of this recommended budget is as follows:

- The City has significant needs to fund capital infrastructure repairs and improvements that have been ignored over the years
- The City has significant “legacy liabilities” in the form of millions of dollars in tax appeal refunds and credits that are due, ongoing Public Safety Complex debt and litigation, borrowings of \$3.8 million by PARA in 2007 and \$ 4.2 borrowed from Middlesex Water Company at the beginning of 2008 of which \$2.8 million remains, forcibly deferred pension costs and future pension and health insurance costs for retirees
- The City must continue to provide basic services to residents and attempt to maintain services that residents have come to expect. This was quite evident following the Christmas blizzard of last year
- The City must do this with less state aid, less ratables and less miscellaneous revenues than they have had in the past. Yet the City must also comply with the new 2% Tax Levy Cap

Budget Limitations (Caps)

Appropriations Cap

Under the statutes, municipalities are permitted to increase their annual budgets based on two alternative courses of action. Local Finance Notice 2010-20 provides:

The COLA for CY 2011 budgets is calculated at **two percent (2%)** but pursuant to N.J.S.A. 40A: 4-45.2, “municipalities and counties shall be prohibited from increasing their final appropriations by more than 2.5%...” unless action is taken by the governing body to increase their final appropriations subject to the cap to the statutorily permitted three and a half percent (3.5%).

In other words, because the COLA is less than the statutory maximum of 2.5%, the cap rate for CY 2011 is 2%. The governing body may pass a COLA ordinance, increasing the cap base to 3.5%.

NJSA 40A:4-45.2 permits municipalities to **increase their final appropriations** over that of the prior year by 3.5%. To do so necessitates the municipal governing body adopting an “ordinance to exceed the municipal budget appropriation limits and to establish a cap bank.” This ordinance also is necessary if the municipality wishes to bank

any unused space in the appropriations cap. Historically, municipalities have adopted this ordinance if for no other reason than to provide flexibility for future budgets if conditions necessitated its use.

Here we are recommending that the governing body adopt the COLA Ordinance at the time the budget is introduced for the following reasons:

- Retain flexibility so that this Cap does not limit your budgetary choices in 2011 and future years
- Continue to utilize permitted appropriations cap bank that will evaporate if the ordinance is not adopted.

Later you will find the calculation of the Appropriations Cap utilized for this proposed budget. Appropriations are within this Cap.

Tax Levy Cap

In 2007, as part of the Special Joint Legislative Session called into session by former Governor Corzine, the legislature imposed on municipalities **a limitation on the extent to which the property tax levy could rise**. This limitation is commonly known as the 4% Cap or the 2007 Cap.

In 2010, the Governor and the Legislature reached a compromise that resulted in an amendment to this earlier Tax Levy Cap. The principal changes were to reduce the 4% limit to 2%, eliminate waivers granted by the Local Finance Board of which the City was a recipient, require referenda to permit future waivers and remove the exclusion for the appropriation to the Reserve for Uncollected Taxes.

It is important however to understand that these caps on the growth of the property tax levy do not permit the final appropriations of the municipal budget to grow by either 2 or 4%. The limit on the growth of the property tax is a limit on the growth of Perth Amboy's primary revenue source. However, if all other revenues remain the same as last year, a 2% increase in the property tax levy only permits the final appropriations to rise by about 1.5%. If other revenue sources contract more, the amount final appropriations are permitted to increase could be below 1.5%.

For the complete Tax Levy Cap calculation see Exhibit A at the end of this message. In 2011, the City of Perth Amboy's Tax Levy Cap (TLC) would have been almost 4% due to the following adjustments to the calculation of the TLC.

| | |
|---|-------------|
| The 2% TLC permitted under the new law is | \$1,090,301 |
| In addition: | |
| Amount due to new construction | \$ 220,008 |
| Amount due to Capital Improvement Fund and Line items | \$ 99,000 |
| Amount due to PFRS and PERS bills exceeding 2% | \$ 771,293 |

Because the City chose to transition to a calendar year cycle, the law and Division permit the City to actually increase the budget by an additional \$1,104,286 or a total increase of 6%. With this proposed budget, the City will not be using \$1,144,359 of available TLC growth. This is being done because we firmly believe that the proposed increases, including the increase of \$2,149,998 to the tax levy, as outlined above are more than we would wish to impose on residents, but is the least that can be imposed if current service levels are to be maintained and current obligations are to be satisfied. This amount can only be reduced if specific services are eliminated.

Budgetary Elements

While overall budget appropriations have fallen from \$3,097,101, revenues have fallen even more, \$5,247,099. This has caused increased pressure on the tax levy, which is limited by the above noted 2010 Tax Levy Cap. Yet it is necessary to identify the ways in which costs have required a reallocation of appropriations within the limitations of the Cap.

Cost Drivers

What cost centers will significantly affect this municipal budget this year? Typically salaries and benefits are the cost drivers in most municipal budgets. This is not true here for several reasons:

- Layoffs in prior years
- Loss of staff through attrition
- Salary and wage guide freezes in FY 2009
- Use of seasonal employees to replace former full time employees where conditions permit
- Limits on annual salary guide increases to 1% with all non-public safety units and continued pursuit and budgeting consistent with these settlements for all units

In CY 2011, we see the following significant changes taking place when compared to FY 2010. Most of these are either mandatory or required by extant conditions. None of these can be ignored or “kicked down the road.”

| Category | Adopted FY2010 | Mayor's CY2011 | \$ Increase | % Inc |
|-----------------------|-------------------|-------------------|-------------|-------|
| • PFRS | 3,937,071 | 4,646,717 | 709,646 | 18.0 |
| • B&G (PSC) | 728,862 | 1,374,069 | 645,207 | 88.5 |
| • Reserve-Tax Appeals | 185,000 | 770,000 | 585,000 | 416.0 |
| • PERS | 1,091,002 | 1,253,210 | 162,208 | 14.9 |
| • Computer Data Proc | 213,840 | 333,500 | 119,660 | 56.0 |
| • Capital Imp'ments | 200,000 | 299,000 | 99,000 | 49.5 |
| • Reserve-Uncol Taxes | 998,726 | 1,094,826 | 96,100 | 9.6 |
| Total | | | 2,416,821 | |

Anticipated Revenues

Surplus (Fund Balance)

For the first time in recent memory, the City will be anticipating prior year fund balance or surplus to partially fund the City's CY 2011 budget. This is a very significant step in the development of self-sufficiency for the City. It results somewhat from the decision to revert to the calendar year cycle for the City's budget. It also results from the City's resolve to cease the imprudent fiscal practices of the past. Shown below is a surplus rebuilding chart that should accompany the budget each year so the Mayor and Governing Body have the opportunity to understand the history and anticipated future of the use of fund balance. This is a significant achievement for the City, one which we expect rating agencies will respect and verify the significant improvements achieved in the City's efforts to recover fiscal integrity.

This is shown on Exhibit B at the end of this message.

You should note the following points regarding this Exhibit:

- The City has not been in a position to anticipate surplus during the recent past. In the past, there were actually state policies that encouraged most urban municipalities not to achieve a positive fund balance.
- The CY 2011 budget uses a good deal of fund balance, but retains some unused fund balance to assist in the rebuilding of surplus for future years' budgets. It also allocates some portion of fund balance toward replenishment of the Reserve for Tax Appeals, which is woefully underfunded. This reserve appropriation will serve as a placeholder for an appropriation next year to fund refunding bonds.
- According to current estimates, the available surplus and surplus as a percent of expenditures decline rather quickly over the next couple of years.
 - As the economy improves, there is the potential for the city's financial resources to increase which would then improve the current estimated ability to rebuild surplus.
 - If this does not happen, there will be a need to further reduce services as the 2% Cap will not permit a significant increase in the property tax.

State (Transfer Payments) Aid

The City's receipts from State Aid, as it is often inaccurately called, have decreased significantly over the past several years if Extraordinary Aid is removed from the calculation. The transfer payments originate from two sources. Energy Receipts Taxes (ERT): In the past the City would have collected these directly from the utility companies as payment for an equivalent property tax. The State decided that they could collect these revenues more efficiently. Initially, the State just collected and distributed the funds on the same basis they were previously received by municipalities. Had this practice continued, municipalities would have no concern. However, over the years the state has retained portions of these revenues so that now instead of steady growth in ERT, we see much more tepid growth.

City of Perth Amboy Recommended Budget | **CY2011**

Consolidated Municipal Property Tax Relief Act (COMPTRA) aid has declined. Legislative Municipal Block Grant and Homeland Security aid have both been eliminated. The chart below shows this recent history.

| Year | ERT | LIMBG | COMPTRA | HAS (Homeland...) | EOA (ExtraO Aid) | Total | Change |
|---------|-----------|---------|-----------|----------------------|------------------------|------------|---------|
| FY 2007 | 2,009,457 | 185,476 | 9,249,559 | 140,000 | 700,000 | 12,284,492 | |
| FY 2008 | 2,119,977 | 185,476 | 9,139,039 | 140,000 | 1,000,000 | 12,584,492 | 2.4% |
| FY 2009 | 2,426,732 | 0 | 8,618,822 | 0 | 1,700,000 | 12,743,554 | 1.3% |
| FY 2010 | 3,143,745 | 0 | 7,846,581 | 0 | 3,500,000 | 14,490,326 | 13.7% |
| TY 2010 | 5,240,833 | 0 | 3,929,191 | 0 | 0 | 9,170,024 | (36.7%) |
| CY 2011 | 5,484,318 | | 3,753,051 | 0 | 0 | 9,237,369 | 0.7% |

As of late February the impact of certified State Aid for the City of Perth Amboy, without consideration for the impact on the School District and the County of Middlesex elements of the property tax bill, are as follows:

| | State Aid in FY 2010 | State Aid in CY 2011 | Change 2010-2011 |
|-------------------|-------------------------|-------------------------|---------------------|
| COMPTRA | \$7,46,581 | \$3,753,051 | -\$4,093,530 |
| ERT | \$3,143,745 | \$5,484,318 | +\$2,340,573 |
| Extraordinary Aid | \$3,500,000 | \$0 | -\$3,500,000 |
| Total | \$14,490,326 | \$9,237,369 | -\$5,252,957 |

(COMPTRA = Consolidate Municipal Property Tax Relief Act Aid; ERT=Energy Receipt Taxes, formerly utility property taxes collected by municipalities)

This represents a reduction of 36.25% in state aid from that received in FY 2010. As can be seen above, the trend of reductions in state aid that began several years ago has stabilized. While the state is statutorily obligated to provide for growth in State Aid, it ignored the law and reduced aid to municipalities in prior years to use the funds for its own purposes.

The category of aid previously known as Extraordinary Aid has now been merged with Special Municipal Aid and Capitol City Aid to form a new category of aid entitled "Transitional Aid." The proposed State budget calls for the reduction of this appropriation by \$10 million. Perth Amboy is not eligible for this aid in CY 2011 due to the conversion from the fiscal year to calendar year budget cycle. However, it must be understood that this aid category has now taken on a much different character than that which it replaces. Local Finance Notice No. 2011-7 states in part:

Applicants that receive aid will be required to sign a Memorandum of Understanding (MOU) with the Division of Local Government Services acknowledging state controls and committing to compliance therewith...The application, evaluation and award process is rigorous and developed to apply to

municipalities that have severe structural financial problems. Only municipalities demonstrating substantial actions to become self-sufficient by increasing revenues or reducing costs will be awarded funds... Budget must eliminate discretionary spending funded by property taxes, such as ... services provided by another government or non-profit agency.

From the above, it would not appear that the City should be seeking Transitional Aid in CY 2012, unless the financial conditions are truly desperate and the City wishes to submit to strict monitoring, oversight and control by the Division of Local Government Services. (N.B.: This aid is simply a different form of one-shot or non-recurring revenue that must be replaced with other revenue, such as tax revenues, in the future.)

User Fees

Fees collected from the various activities carried out by municipal employees do not constitute a large percentage of revenues collected by the City. However, it is necessary to charge fees for service where it is possible to charge a user for the service they are receiving. It is inappropriate to charge those who do not receive the service through the property tax levy.

Based on this approach, department heads have been asked to review their operations and the fees they charge for the services they provide. They will examine those fees in light of market conditions (what other municipalities charge for the service) and in light of the cost of providing the service. They will attempt to strike a balance between the two. Typically the cost of providing the service is greater than most if not all municipalities charge for the same service. The City would not want to get too far out front with these charges and so will need the market data to temper any increase in user fees.

Revenue Offsets

The City uses grants to underwrite the cost of many programs that it offers. Some of these are shown as actual revenues in the budget and others come from outside sources not included in the budget. While they are accounted for in different manners, they have the same effect, reducing the cost of governmental services for residents and taxpayers. Below is a listing of these offsets:

| <u>Department</u> | <u>Function</u> | <u>Offset Source</u> |
|---|-------------------------------|----------------------------|
| Administration | BID Administration | Business Improvement Dist |
| Office of Economic and Community Development | UEZ Administration | Urban Enterprise Zone |
| | CDBG Administration | Com Develop Block Grant |
| | Energy Block Grant Admin | Energy Eff Block Gt (1 yr) |
| Fire Prevention | Fire Safety Enforcement | Uniform Fire Safety Act |
| Public Works | Cleaning & clearing of debris | Clean Communities |
| | Education of residents | Clean Communities |
| | Recycling | Recycling Grants |

| | Recycling Equipment | Recycling Trust |
|----------|--------------------------|-------------------------|
| Fire | Training | Confined Space Serv |
| Revenues | Confined space equipment | Confined Space Serv Rev |
| Police | Salaries and Wages | Safe and Secure Comm |

Note that in prior years' budgets the following offsets that did occur will not occur in CY 2011 due to lack of funds,

- The Perth Amboy Redevelopment Authority will not provide any offsetting funds in CY 2011 for the salary and benefits of the Executive Director. She has taken on management responsibilities for the UEZ, BID and Office of Community and Economic Development. These functions provide offset funding for the costs of her position from these sources and CDBG funds as was the case with the prior Office Director.
- The Water and Waste Water Utility will not provide any franchise fee funds in CY2011 as there are insufficient funds to do so. Any available funds will be used to defease debt or pursue capital improvements as are desperately needed by the utility.

Appropriations

Accumulated Leave Reserve

The City, as other municipalities has severance liabilities that must be paid following the retirement of an employee. The finance office has estimated the probable departures in 2011. These are the expenses being funded. However, there is the extant liability that could become a current expense if each employee eligible for retirement were to retire. For example, there are currently a number of employees who have the requisite time in the pension system and are of the requisite age to retire; they have just not yet informed us of their intention to do so. At the very least, the Reserve for Accumulated Leave should fund these liabilities. It does not!

In the first few pages (Sheet 3c) of the Division of Local Government Services budget form for TY 2010, you will see that as of 6/30/2010, the City total liability for accumulated leave exceeded \$8 million. Yet the reserve is not now nor has it ever been fully funded to meet these obligations. There is a bill that has received a conditional veto by the Governor and might be considered further by the Legislature. This bill would significantly reduce the ability of employees to seek payment for unused accumulated sick and vacation leave. The State of New Jersey has permitted the funding of reserves for liabilities related to accumulated leave since the early 1990's.

During CY 2010, about \$655,000 was paid out for severance or accumulated leave benefits. The remaining balance in the reserve was \$317,000 at the end of June 2010 and with a Transition Year appropriation is about \$350,000 at the end of CY 2010. As an indicator of things to come, in three years there will be as many as 17 uniformed police

personnel eligible to retire. This reserve must be increased over time to deal with these known retirements.

Salaries and Wages

(See comments under “Cost Drivers” above.) A comparison of personnel positions for FY 2010 and CY 2011 reveals that the cost of salaries and wages decreases by about \$700,000 or 2.5%. This is due to some employees leaving City employment through resignation, retirement or involuntarily. Some have either not been replaced or been replaced with a less expensive employee. This savings has permitted this budget to comply with the 2% TLC.

Incorporated Budget Reductions

The following additional savings have been incorporated into the proposed CY 2011 budget.

Summary of Savings Incorporated into the Recommended Budget:

| Department | FY 2010 | CY2011 | Estimated Savings |
|-------------------------|----------------|---------------|--------------------------|
| Insurances | \$15,375,000 | \$13,700,000 | \$1,675,000 |
| Debt Service | \$11,288,848 | \$10,411,390 | \$ 877,458 |
| Judgments | \$ 479,876 | \$ 0 | \$ 479,876 |
| Legal Services | \$ 1,783,132 | \$ 1,489,647 | \$ 293,485 |
| Tax Assessment | \$ 501,457 | \$ 412,325 | \$ 89,132 |
| Economic Develop | \$ 106,861 | \$ 36,819 | \$ 70,042 |
| Consultants | \$ 125,000 | \$ 69,000 | \$ 56,000 |
| Elections | \$ 70,000 | \$ 16,005 | \$ 53,995 |
| TOTAL REDUCTIONS | | | \$3,594,988 |

Major Long Term Concerns

Tax Appeals Liabilities

According to the Tax Assessor, after conducting an exhaustive review of the current City liabilities, the estimated potential loss in tax dollars from all appeals currently filed including new appeals for CY 2011 is over \$18,000,000 without the calculation of interest for these appeals, some of which date back to 2006. This is a worst case scenario. A more likely outcome will be losses in the range of \$11,000,000 to \$13,000,000 plus accrued interest. There is a reserve of \$3,000,000 that has been increased at the end of 2010 by \$1,000,000 through operations. An additional \$770,000 will be added to this reserve with the adoption of this budget. This means that the City will have a shortfall in meeting these obligations of about \$9 million plus interest. While this entire amount might not all be paid or credited in 2011, much of it will with the remainder occurring soon thereafter. The remainder will need to be funded in subsequent years through refunding bonds. It is currently estimated that the City will need to endure an increase of \$1,250,000 to \$1,500,000 to the CY 2012 budget to fund

these refunding bonds as they will need to be defeased within a 7 year period at the most in accordance with Local Finance Board past practice. Note that this does not include any anticipated filings in 2011, only those filed in prior years. Filings of appeals for 2011 will not begin to be known until April 2011.

The cost might be an estimate, but the liability is a known eventuality.

If the City had a sizable reserve for uncollected taxes, a more prudent strategy to deal with this condition would be to utilize a two pronged approach:

- Use any available residual space in the reserve for uncollected taxes (RUT) for anticipated credits to provide in the future.
- Use the reserve for tax appeals to fund cash payments.
- Because the City has been and will therefore need to remain on an accelerated tax sale platform, this more prudent strategy is not open to the City.

In addition, we must be cognizant that the problem will not end with the appeals filed in 2010. The Governing Body and staff need to manage these in the best interests of the City as a whole. However, there will still need to be a dedication of appropriate tax revenues to this purpose for the next several years until it is clear that there are sufficient monies available in the Reserve for Tax Appeals to permit satisfaction of all potential liabilities.

There is a need to keep these reserves funded at a level consistent with anticipated liabilities. Note that prior unfunded liabilities need to be satisfied with funds obtained from current and future taxpayers. The financial benefit (lower property taxes) of the higher than defensible tax bills in past years was provided to some taxpayers who are no longer residents. Some of the residents of a prior period will not be present in the future to return the monies to the “unfairly” taxed parties who will have won their tax appeals.

Severance Liabilities (Accumulated Leave)

See the above analysis.

OPEB (Governmental Accounting Standards Board Rule 45)

As of 2009, the City under GASB 45 began the process of declaring and acknowledging the extent of the liability for Other Post Employment Benefits (OPEB) for all eligible employees. Such process should have commenced in 2008, prior to this administration. These benefits are primarily employer funded health insurance for retirees. This is an ongoing contractual liability that the City must declare under GASB 45.

Note that this long term liability is NOT addressed in the recommended budget. There is just no ability to do so at this time.

2009 Postponed Pension Liability

In FY 2009, the Local Finance Board required the City to postpone its scheduled payment on about 50% of that year's pension bill in order to ease the tax burden on tax payers at that time. \$449,568 of the April 1st PERS and \$1,749,055 of the PFRS pension bills totaling \$2,198,623 were deferred for payment over many future years. **The Mayor, City professionals and City Counsel objected strenuously to this postponement of a known liability** as just more the same, "kicking the can down the road." Nevertheless, the City was denied its choice and was forced to postpone payment of this bill.

This action by the Local Finance Board created yet another unfunded liability for the City. Beginning next year (in CY 2012), the City will be obliged to provide an appropriation to fund this \$2.2 million liability. If this is to be paid over 15 years it is estimated that the City will be billed about \$260,000 per year to defease the principal amount of \$2.2 million at an interest rate of 8.25%.

Outstanding Debt

Municipalities have the ability to take on large amounts of debt. This debt is much like a mortgage a resident might take on in order to own a home. Other debt might be the more similar to a car loan, for a shorter term for a less durable commodity. Still other debt might be like borrowing some money from a friend to make it to payday. This is a bad practice, one which none of us should practice. Yet in the City's case, the prior administration incurred all three types of debt in large amounts. Some of this debt was incurred to pay for things that were not durable, such as employee salaries, wages and benefits.

The above liabilities need to be seen in light of the City's total outstanding debt burden. While the City has reduced the debt burden over the past 3 years by about \$25 million in the current fund alone, the City's outstanding debt is still at rather significant levels. Note that the Annual Debt Statement permits debt held by the Middlesex County Improvement Authority (MCIA) to be considered an exclusion from the calculation of a percentage of the assessed valuation. This is really untrue as the obligation is still the City's and there is no stream of revenue to defease this debt. Under this circumstance, the City's real percentage of debt exceeds the statutory maximum of 3.5% of the average of the past three years of assessed valuations.

According to the Annual Debt Statement for 31 December 2010 the City's outstanding debt was as follows:

| | |
|---|-----------------------|
| Current Fund Principal – Bonds and BANs | \$78,909,011 |
| Current Fund Principal – MCIA debt | \$39,185,088 |
| Water and Waste Water Utility Principal - | \$83,978,425 |
| Parking Utility Principal - | \$0 |
| Total Municipal Outstanding Debt - | \$202, 072,524 |

City of Perth Amboy Recommended Budget | CY2011

| | |
|---|---------------|
| Percentage of Assessed Valuation | 2.05 % |
| Percentage of Assessed Valuation with MCIA | 5.26 % |
| Maximum permitted under Local Bond Law | 3.25 % |

Recognize that since July 2008 through 2011, this administration has reduced current fund debt by more than **\$25,000,000**. The Water and Waste Water Utility debt has also been reduced by almost **\$6,800,000** in addition to reducing the Middlesex Water Company borrowing of \$4.2 million by more than **\$1.4 million**. This is a total reduction of debt of \$33.2 million. These are significant achievements when the City had been so dependent on non-recurring revenues to fund operations. Some of this debt reduction was achieved by authorizing very few capital improvements during this administration's brief tenure. This debt reduction will be lessened by the amount of debt authorized by the City Council to implement the Capital Budget. However, with CY 2011 appropriations defeasing over \$6 million in debt, implementing the proposed capital program will still achieve a debt reduction this year of about \$3 million.

Yet not much has been done in the way of renewing the capital infrastructure of the City over the past decade, excluding the Public Safety Complex. Today, this administration and governing body are presented with the reality of a still high debt burden and yet an **unrelenting need to replace capital equipment** (such as front end loaders, garbage compacting trucks, dump and plow trucks, etc), **rebuild water and sewer systems** (such as meeting EPA requirements, replacing and fixing pumps and pumping stations, collection and distribution lines that on average are a century old), **rebuild waterfront protections** and Port Authority facilities (significantly damaged during the 3/13/10 storm) and **rebuild streets** (reconstruction) **and public facilities** (replace roofs and mechanical systems) throughout the City.

Indicators of the condition of the City's fleet of vehicles provides a clear example of why it is necessary to begin the pursuit of an aggressive, but staged, capital vehicle replacement program. At the end of 2010, the City replaced two fire engines (pumpers) by purchasing used vehicles for the Borough of Bound Brook: a 1984 Pierce for \$20,000 and a 1988 Pierce for \$25,000. These will only buy the City about one additional year before replacement of these vehicles is necessary. Both of these fire engines were in far better condition than the City's 1987 (Engine #3) and 1994 (Engine #2) Seagrave fire engines. In public works, sanitation compactor trucks that typically are in use for 9-10 years remain in use for 18 years. During the last snow storms, the weaknesses of the fleet have become quite clear. If the City is to provide the services that all demand, the capital equipment must be up to the task. Currently, it is not.

The Capital Improvement Program which is elementary at best and the Capital Budget set forth a necessary and vital program of improvements that must be pursued if the City is to return to a position of financial stability and operational sufficiency. Over \$3,000,000 of debt must be incurred to pursue some of these objectives in the current fund and almost \$3,000,000 will be needed in the Water and Waste Water Utility, in addition to the expenditure of reserves for these two purposes.

In the current fund, the addition of over \$3,000,000 more in debt will become an expense that will need to be borne by the 2012 budget in the form of increased interest payments. We are in the process of developing a debt management plan to attempt to limit the impact as much as possible on the City's taxpayers. But recognize that there will be increased costs to pursue these improvements. Municipal money must be spent to achieve these objectives.

The Parking Utility at this time is unable to provide a stream of revenue to support needed improvements to the Jefferson Parking Deck. We are in the process of developing plans and capabilities to do so, but have not accomplished this yet.

Not included here are two debt liabilities that would ultimately fall to the City and its current fund if they are not resolved by the responsible agencies.

Perth Amboy Redevelopment Authority

The prior administration pushed the Redevelopment Authority to borrow \$3,800,000 to permit it to buy from the City a parcel of property that was to have been sold but has never been sold. PARA still holds this liability. It has not been defeased in anyway. In the event PARA is unable to liquidate this obligation, PARA will need to dissolve itself and the responsibility for this note will become the City's. The next renewal of this note is scheduled for June of this year. It is subject to Local Finance Board approval.

Water and Waste Water Utility

Not included in the above debt of the Utility is a borrowing from Middlesex Water Company that the prior administration created without any public review or action by the Governing Body at the time. By mid-2007, the City owed to Middlesex Water Company, under the Public Private Partnership with Middlesex Water Company and the Middlesex County Improvement Authority, over \$5,000,000 that had accrued over the prior 4 years. As of today the remaining principal is down to about \$2.8 million. This has been achieved through aggressive payments by this administration as the interest on this debt is 8% per annum as agreed to by the prior administration.

Not shown in the outstanding debt of the City identified above are these two obligations the principal of which currently total about \$6,600,000.

Salaries and Wages - CNA's (Collective Negotiations Agreements)

The City has been fortunate to have had the cooperation of non-public safety units to achieve contracts that have frozen salary guides for periods of 12 to 17 months and limited annual salary guide increases to 1% for 2010 and 2011. Unfortunately, the public safety units including PBA representing Police Officers, FOP representing Superior Officers, IAFF Local 286 representing Firefighters and IAFF Local 4070 representing Fire Officers have all invoked binding interest arbitration and have not had a contract since 31 December 2008, 6 months after this administration came into office and about 26 months prior to now.

Over 70% of the City's budget is composed of personnel and personnel related costs. The only way in which the City will be able to achieve financial stability is to limit the increases in costs of municipal employees. Great strides have been achieved in controlling the cost of health insurance and comprehensive general liability including workers compensation insurance over the past 2.5 years. However, pension cost increases have consumed most if not all of these savings.

Employee layoffs and losses of employees through attrition have also reduced the cost of governmental services, but it is necessary to have sufficient personnel to perform required functions. The City's workforce has been reduced from about 400 employees in early 2008 to about 315 today. It is not possible to continue to expect to achieve savings through further layoffs and attrition. Therefore, it is only possible to achieve savings through the limitation of personnel and personnel related expenses. In other words, salaries and benefits must be controlled and the total costs must be reduced. Either the workforce needs to be functioning more efficiently than it is now or the unit cost of labor must be reduced, such as gaining more work time for the same current cost. **Without achievements in this area, the budget will not be able to support the current level of services.**

Conclusions

The recommended budget does not address the objective of holding or reducing taxes. This is an impossible objective at this time, unless the municipality wishes to place itself in a more precarious financial position than it currently finds itself. This is also impossible given the losses in other revenues and the needs to manage the actual liabilities outlined above. It is vitally important to the long term fiscal security of the City that it follows the lead established by this budget.

- Make conservative yet realistic and secure current revenue estimates
- Reduce funding and therefore the costs of operations to the extent that services may be maintained at minimum levels or reduce service levels.
 - Recognize that if all municipal operations ceased today and all employees ceased to be paid, the municipality would continue to levy property taxes, even though no services were being supplied because of legacy costs (pension and health insurance), unfunded severance liabilities, outstanding debt, other run out costs such as for comprehensive liability insurance and health insurance, etc.
 - It is necessary to continually examine ways to reduce the daily operating costs of the municipality if property tax increases are to be stabilized sometime in the future.
 - Though residents of New Jersey generally and of Perth Amboy specifically have called for reductions in the property tax, the probability of reducing property taxes is the probability of reducing services and reducing costs of items such as debt service, operating expenses, personnel related costs, OPEB and pensions payments into the future ... **it is not probable.**

- Acknowledge, identify, quantify and fund current liabilities
 - Some of these are promises made to employees that must be funded or eliminated through bilateral negotiations. They cannot be ignored hoping they will somehow go away.
 - Understand the threat that successful tax appeals present to the ability of municipality to maintain stable tax revenues, achieve improvements to the capital infrastructure and fund ongoing operating expenses.
 - Understand the full impact of pension increases, increases in health benefits costs without employee contribution or benefits reductions and OPEB on the municipal budget.

Looking Ahead

Current Fund

The Division of Local Government Services encourages municipal executives and governing bodies to consider the ways in which their budget decisions of today will affect their budget conditions of the future. Above we have shown that withholding capital investment over at least the past couple of years has permitted the City to make significant inroads to reduce the enormous debt burden of the City. Also shown, however, is the enormous need to invest in the capital infrastructure of the City.

Likewise, how will this year's fiscal policies affect the next few years? Because of the erratic history of state aid, it is difficult to predict with any certainty what condition next year will really be, let alone farther into the future. There are some elements of the budget that can be forecast with some surety. Below is an estimate of how this might take place in CY 2012 from a macro perspective.

| Category | Est. Added Cost | Reason |
|------------------------------|------------------------|--|
| Debt Service | + 100,000 | Added interest due to capital projects |
| Pension Bills | +1,000,000 | This has been the pattern for past years |
| Deferred Pension Bill (2009) | + 260,000 | 2009 Local Finance Board Requirement |
| Capital Improvement Fund | No change | 2011 sets reasonable funding level |
| { Reserve for Tax Appeals | (770,000) | { With so many settlements/judgments in |
| { Tax Appeal Payments | + 1,500,000 | { 2011, shift cost to refunding bonds. |
| Reserve for Uncoll Taxes | + 150,000 | Resulting from credits for tax appeals |
| Salaries and Wages | +> 600,000 | If all unions are held to 1% |
| Health Insurance | No change | If police and fire accept new controls and retiree costs do not escalate |
| Accumulated Leave Payments | +>400,000 | More eligible employees will retire |

External factors or those outside the control of the City will have significant impacts on any future budget. These factors will include,

- major failures in the City's infrastructure beyond that which is currently anticipated

- significant losses in assessed valuation due to successful tax appeals beyond expectations
- losses in state aid
- inability to achieve savings in health insurance and/or pension bill increases beyond that anticipated
- costs resulting from interest arbitration awards beyond that currently anticipated

If the current proposed budget is adopted, current staffing levels are maintained, and revenues remain constant, it is probable that the CY 2012 budget and tax levy will increase over the CY 2011 budget by an amount that can be supported by the limits of the Tax Levy Cap with a levy increase of comparable to that proposed for 2011 herein. Failure to abide by the strict discipline of the CY 2011 budget will result in the need for more drastic actions in 2012 – higher increases in the tax levy and/or elimination of services.

Water and Waste Water Utility

So long as the Governing Body authorizes the programmed rate increase in July 2011 and future years, the utility should function satisfactorily. Failure to provide for these rate increases will however cause the utility to fail to pursue required capital repairs and improvement and/or experience utility deficit conditions in the near future.

Parking Utility

This utility is under intense examination at this time. While the CY 2011 budget works for now, it does not permit the capital improvements needed to improve the utility to be pursued. For example, there are currently insufficient funds to permit major renovations to the Jefferson Street Parking Deck.

First, we will be examining methods to maximize revenues from existing authorities. Once that is known, the administration will bring to the Governing Body proposals for adjustments to the utility in terms of regulations, rates and other operating conditions to put the utility on a financial footing to pursue the capital improvements that are necessary in order for the utility to provide the services to the City's residents and businesses that it must.

Budget Review Meetings

The City Council should **introduce the Mayor's recommended budget at its meeting of 9 March 2011** to be in conformance with the regulations and conform to the Best Practices Checklist. This would then have a scheduled **public hearing at the meeting of 13 April 2011**. If an amendment and a public hearing on the amendment were needed this would need to take place prior to 22 April 2011 to be in conformance with the regulations and the Best Practices Checklist. Note that failure to satisfy the checklist can result in the loss of state aid.

It is suggested at this time that the governing body meet to review this recommended budget prior to conducting the aforementioned required public hearing on the Mayor's recommended budget. The suggested dates are:

- Monday, 7 March 2011 after the Discussion meeting
- Saturday, 5 March 2011
- Saturday, 12 March 2011
- Monday, 14 March 2011