

CITY OF CAPE MAY 2012 City Manager's Budget

The City Manager is required by statute to deliver to City Council by January 15th of each year a working document for the preparation of the annual municipal budget. However, as in many of the recent years, the official Budget Calendar has been extended. The revised date for the City Manager to present the budget is February 3, 2012.

In preparing the working budget document the City Manager must meet with the respective City Department Heads in November of each year. Each Department Head was asked to submit a budget in October, and I did meet with each Department Head to review their requests, together with Jim Penn, CFO/Treasurer. In addition, several meetings and discussions were held with the City's Auditor, Leon Costello, for the purpose of verifying compliance with the State of New Jersey spending CAPS law, and Tax Levy CAP law, and other budget regulations. The City Manager's proposed operating budgets are compliant with the Tax Levy CAP law, and the original Spending CAPS Law.

I have asked the Mayor and City Council to hold this "special" meeting of City Council to allow me to deliver the working budget document to them. This open meeting allows for transparency in the process, and an opportunity to report to the taxpayers and residents the City Manager's budget recommendations. The statutes call for the Manager to present the budget document to the governing body, which commences the formal budget process under the control of the City Council.

The working budget document has been prepared in the format required by the Department of Community Affairs, Division of Local Government Services, and includes the City Current Fund budget, the Beach Utility budget, the Water-Sewer Utility budget, and the initial Tourism Utility budget. In addition,

each member of City Council has been provided a 2012 Budget Notebook that includes the individual department requests for Other Expenses and Capital, detailed calculations for Salaries & Wages, cost analysis for Health Insurance and Other Insurances (including Liability and Workers Compensation), Revenue reports, and several statistical data and summary reports.

While submitted to City Council on the recognized State budget forms, I want to be clear that the presentation today is not the official introduction of the City's budgets. At the conclusion of today's meeting the working document belongs to the City Council, and City Council may make changes to the recommended budget, or move to introduce the budget as recommended at the appropriate time. The State of New Jersey by statute requires the budget to be introduced by February 10th and subsequently adopted by March 10th. The revised Budget Calendar allows for introduction by February 29th, and adoption by April 20th.

Since 1976, municipal budgets have been prepared in compliance with a spending CAPS law. Each year municipalities are allowed to increase the budget appropriations based on a percentage index similar to the CPI with certain exceptions. Over the many years several of the exceptions have been dropped, but an additional 1% increment with the approval of the governing body and the creation of a CAPS bank was added. For 2012, the CAPS index factor is two and one-half percent (2.50%), however, by statute municipalities are permitted to increase expenditures up to 3.5% upon passage of a resolution. Historically, the City has been compliant with the spending CAPS calculations. Therefore, I am recommending the adoption of a resolution permitting a 3.5% spending CAPS, which may result in a Spending CAPS bank. The City should create the CAPS bank just in case the budget rules change in the future.

In 2008, Governor Corzine created the Tax Levy CAP law, which limited the growth of the municipal local purpose tax to 4% annually. Certain exceptions or exclusions are part of the law. In 2010, the Tax Levy CAP law was amended, and reduced the 4% down to a 2% limit. The primary goal of the Tax Levy CAP law was, and is, to reduce government spending by limiting the ability of the governing body to raise taxes to support services. The City Manager's budget as presented is in compliance with both CAP laws. **As presented, it is under the Tax Levy CAP law by \$107,852.00.** In addition, the proposed budget is under the 3.5% spending CAPS calculation by \$710,832.00. The impact of the Levy CAP is leading to a smaller government. Several years of cuts to department Other Expenses operating budgets are reaching an end point. Increases in fixed costs simply result in reductions to discretionary spending. Statewide, the list of options to balance a budget now includes: shared-services, outsourcing, layoffs, furloughs, and personnel reduction through attrition. The City of Cape May, together with the Boroughs of Cape May Point and West Cape May has been leaders in the area of shared services. Maintaining services is a primary focus, while asking a dwindling workforce to be more efficient. However, doing more with less is not the answer. **To maintain current levels the City must increase revenues.** New initiatives or expanded services must include new revenues to offset the expenditures.

In 2009 and into 2010, the global, national, State, and local economies all experienced difficult times. The City of Cape May as a tourist destination was not immune to the recession and downturn in the economy. City revenues such as the Occupancy Tax, parking meter fees, building permit fees, and interest on investments all declined in 2009, and stabilized in 2010. However in 2011, the Occupancy Tax, parking meters, construction permit fees and beach tags reflected an increase in revenues. It should be noted, that **the City receives just \$337,632.00 in State-aid, which is less than 3% of the total revenue for the Current Fund budget.** The percentage of tax collections remained strong at

98.14% in 2011. This represents the fourteenth consecutive year with a 98% or better collection percentage.

The City Current Fund budget totals \$15,580,538 dollars.

Salary and Wages total \$6,306,595 including required contractual commitments. Since 2008, the number of full-time employees has been reduced by five, and equals an approximate 5% reduction in the overall workforce. This has been accomplished through attrition. Simply, not filling certain positions when employees leave City employment. The City desires to continue to provide all services for the benefit of our residents and visitors. No layoffs have been recommended with this budget. The total appropriations for Salaries and Wages in the Current Fund budget are \$92,945.00 (1.50%) more than in 2011. One new position was added in 2011 creating the position of Director of Marketing, Communications, and Event Sales. This position is part of the new Tourism Utility budget.

Other Expenses total \$9,273,943 excluding grants. The nineteen "non-discretionary" appropriations including debt service, pensions, payroll taxes, insurances, open space, capital improvement fund, deferred charge payments for the Revaluation and Master Plan, and the Reserve for Uncollected Taxes totals **\$7,252,650.00** representing **78%** of Other Expenses. The non-discretionary appropriations are \$284,231.00 greater than the 2011 adopted budget. The remaining **22%** or **\$2,021,293.00** represents discretionary spending requested by departments as operating expenses, which is \$37,303.00 more than the 2011 adopted budget. The total appropriations for Other Expenses are \$321,534.00 (3.59%) more than 2011.

The total increase in appropriations including Salaries and Wages, and Other Expenses is \$414,479.00 (2.72%).

Although a few of the City's revenues were less than anticipated, through a continued conservative approach to the budget, the City was able to end the year 2011 with an "unaudited" surplus balance of \$3,250,000. As a result the City is able to again anticipate \$2,050,000 of Fund Balance for the 2012 budget. In addition to Fund Balance, the other revenues to support the budget are: Miscellaneous Revenues (parking meter fees, building permit fees, occupancy tax, interest on investments, mercantile licenses, etc) \$4,002,678.00, State-Aid \$337,632.00, Police Interlocal Agreement \$672,696.00, Delinquent tax payments \$303,000.00, **and Local Purpose Taxes \$8,214,532.00. The increase in Local Purpose Taxes is \$327,261.00. Based on the 2012 City assessed value this would equate to a one and one tenth cent tax increase (\$0.011).** The proposed Local Purpose Tax Rate will be \$0.294 cents per \$100 of assessed value, increased from \$0.283. **A property with an assessed value of \$500,000 will pay an additional \$55.00 for the year in Local Purpose taxes based on the 1.1 cent increase.**

The various departments submitted capital requests totaling \$3,747,400.00. Requests include the 2012 Road & Utility program, computers for various offices, police patrol car computers and other public safety equipment, improvements to City Hall and municipal parks, a new ambulance and other vehicles, a telephone system upgrade, and other office equipment and furnishings. I have asked for additional support information for some of the items, and a list of current vehicles by department. The budget binder includes a summary list of the capital requests with certain recommendations based on the ability to authorize a \$1,500,000 bond ordinance. The 2012 Capital Improvement Fund appropriation is \$35,000.00 combined with a balance \$116,250.00 in the fund, allows for sufficient funding to support the required five percent (5%) down payment for \$1,500,000.00 of General Capital projects. No down payment is required for "self-liquidating" utilities.

The Beach Utility budget totals \$2,222,500.00. Salaries & Wages total \$1,320,330.00 which is \$28,182.00 greater than 2011. The Other Expense appropriations total \$902,170.00 including non-discretionary insurance costs, capital and debt service. In past years, I recommended a move towards a cash basis operation, and limited debt service, by establishing appropriations geared towards a pay-as-you-go approach. I am recommending a \$100,000 appropriation for Capital Improvement Fund to be set aside for future beach replenishment, and a \$100,000 appropriation for payment and reduction of bond anticipation note principal. The sale of all beach tags totaled \$2,030,872.00 for 2010. This is approximately \$75,000.00 more than the sales from 2010, and for the first time exceeded \$2,000,000.00 in beach tag sales.

The Beach Utility budget is \$11,700.00 greater than the adopted 2011 budget when excluding the one-time revenue and expenditure for Reserve to Pay Bonds/Notes, which was \$656,000.00 in 2011.

While this budget is balanced, the level of remaining surplus is greatly diminished. An increase to the price of the tags needs to be made before 2013.

The Water-Sewer Utility budget totals \$6,456,540.00. Salary and Wages total \$886,920.00 including required contractual commitments, no new employees, and no layoffs have been recommended with this budget. Other Expenses total \$5,569,620.00 including non-discretionary appropriations for debt service, pensions, payroll taxes, and insurances. The Water portion of the budget equals \$2,629,402.00, and the Sewer portion of the budget totals \$3,827,138.00. Within the Sewer budget is a line-item for the Cape May County MUA assessment appropriating

\$2,601,000.00, which represents 68% of the Sewer budget, and nearly 40% of the total Water-Sewer Utility budget. The Water-Sewer Utility budget is \$137,573 more than the 2011 budget, or an increase of 2.18%. Increased appropriations for Debt Service (\$63,349), insurances (\$38,000) and cost of the CMCMUA (\$50,000) exceed the total budget increase of \$137,573.00. All other appropriations decreased \$13,776.00.

The Water-Sewer Utility budget is largely supported by the billings and fees charged for the consumption of water by individual customers, and bulk users. In 2010, the method of computing the utility bills was changed to a Minimum/Excess formula, and new rates were established for each 1,000 gallons of consumption. While consumption has declined over the last couple of years, it has not resulted in the need for a rate adjustment. Also, the City was able to return to the use of true calendar quarters for the time period to read the water meters to ascertain customer consumption. In 2011, this created an eleven month revenue stream by eliminating the month of October. Therefore, a larger amount of surplus is needed to balance the budget. Historically, new rates, when set, have lasted for a 4 to 5 year period generating enough revenue to balance the Water-Sewer Utility budget over that period of time.

Both the Beach Utility and the Water-Sewer Utility as presented have a balanced budget for 2012, and maintain a self-liquidating position.

The Tourism Utility budget totals \$1,075,050.00. This is the initial budget of the Tourism Utility, and is considered as step one in an effort to grow the Tourism Utility over the next several years. The Tourism Utility budget is intended to include the cost of operating the new convention hall facility, the many recreation programs, civic events, and tourism related expenses. In the future, it may be possible for the Tourism Utility to absorb some of the debt service on the new convention hall. This is a goal to achieve, but not a mandate.

The Salaries & Wages total \$325,000.00, and the Other Expenses total \$750,050.00. In addition to the traditional expenses of operating the building, the recreation programs, and continuing the efforts of the previous Tourism Commission, new initiatives such as a ticketing system for performing arts events, and a major upgrade to the website to include the convention hall and tourism must be undertaken immediately. The building will be supplied by fiber optic technology to provide both hard wired infrastructure and wireless capability.

Revenue and appropriations for future new events and activities have been estimated, and listed as part of the budget. This will allow the Tourism Utility to add events during the year. Thereby, expanding and growing the revenue in the utility.

The management of the City's finances has been, and continues to be professionally handled. Through a conservative approach to budgeting on revenues, and limiting growth on discretionary expenditures, the City remains in sound financial position. The City has not relied on one-time gimmicks to balance the annual budget. The affect of the Tax Levy CAP law is unforgiving in that it does not afford a system of choice to set future tax rates. Prior practices to hold the tax rate to a zero increase for several years believing that a sizable increase could be implemented in a future year is no longer possible. The formula

limits the increase by design; thus, forcing annual rate increases to keep pace.

The recommended budgets allow the City to continue to provide the same services in 2012 as in the past. I will provide any additional information as requested by City Council.

Lastly, I would like to thank the City employees and department heads for their service to the City of Cape May and for their assistance in the budget preparation process. Also, I would like to thank Jim Penn, and Leon Costello, for their help and input in the development of the City budgets.

Bruce A. MacLeod
City Manager

January 18, 2012