SPECIAL MEETING
OF CITY COUNCIL OF THE CITY OF CAPE MAY, NJ
Wednesday, January 15, 2014 12:00 Noon

The Special Meeting meeting of City Council of the City of Cape May was called to order by Mayor Mahaney at 12:00 P.M. Wednesday, January 15, 2014 in the Cape May City Hall Auditorium. The Deputy Clerk called the roll and the Pledge of Allegiance was recited.

Present:	Councilmember Deanna Fiocca
	Mayor Edward J. Mahaney, Jr.
	Deputy Mayor William H. Murray
	Councilmember Terri L. Swain
	Councilmember Jack Wichterman
Also Present:	City Manager Bruce MacLeod
	Deputy Clerk Patricia Harbora
Absent:	City Attorney Anthony Monzo

Mayor Mahaney announced that under the Open Public Meetings Law, notice of this meeting was sent to the Cape May Star and Wave and The Press and a copy of the agenda was delivered to each Member of Council and was posted on the City Hall Bulletin Board.

COUNCIL & CITY MANAGER COMMENTS

Mayor Mahaney announced that the purpose of today's Special Meeting is the presentation of the 2014 Budget by the City Manager and a Closed Session matter regarding Police Department personnel.

AGENDA ADDITION/DELETION OF LATE AGENDA ITEMS TO BE CONSIDERED FOR ACTION:

RESOLUTIONS:

43-01-2014 – Resolution Providing for a Meeting Not Open to the Public in Accordance with the Provisions of the New Jersey Open Public Meetings Act, N.J.S.A. 10:4-12- Personnel – Police Department

Motion:	Wichterman
Second:	Murray
Roll Call:	
Fiocca	Yes
Murray	Yes
Swain	Yes
Wichterman	Yes
Mahaney	Yes

CLOSED SESSION

Motion made by Mayor Mahaney seconded by Councilmember Murray to go into closed session at approximately 12:10 P.M.

OPEN SESSION

Motion made by Councilmember Fiocca seconded by Councilmember Murray to go into open session at approximately 12:55 P.M.

BUDGET PRESENTATION – City Manager, Bruce MacLeod

Mayor Mahaney announces that questions from the public will be entertained only after the presentation.

City Manager, Bruce MacLeod, reads his opening statement, which statement provides an overview of his working budget document. This presentation informs the taxpayers and residents of the City Manager's budget recommendations. See copy of City Manager's Statement attached hereto and made a part hereof.

Mr. MacLeod offers an informative and complete power point presentation on the budget document and advises that today's presentation and recommendations will be posted on the City Website.

Mayor Mahaney thanks Mr. MacLeod for an excellent budget presentation. The Mayor asks City Auditor, Leon Costello, for his comments.

Mr. Costello speaks of the time and hard work that was put into the City Budget and feels that it was well thought out for the future financial well being of the City of Cape May. Mr. Costello endorses what the City Manager has done in preparing the budget and suggests the budget, as presented today, be introduced in February. Mr. Costello comments on how the City Manager demonstrated in detail what has happened over time, what will happen in the future, and how the budget works. As far as the deadline to the State, Mr. Costello advises that this Budget should be introduced in February and adopted in March.

COUNCIL & CITY MANAGER COMMENTS

Councilmember Murray thanks Mr. MacLeod, Mr. Young and Mr. Costello for their hard work in the preparation on this budget. Mr. Murray asks Mr. MacLeod if this presentation and the budget document will be available to the public.

Mr. MacLeod replies that the presentation and recommendations will be posted on the City Website, but the budget will not be posted until after adoption.

Councilmember Wichterman comments on the excellent presentation made by Mr. Macleod and advises that he is looking forward to the budget introduction.

Mayor Mahaney thanks Mr. MacLeod for his thorough presentation today and the hours he spent with Mr. Costello and Mr. Young working on this year's budget. The Mayor would like to introduce this budget on February 18, 2014 and have the public hearing on March 18, 2014. If the budget has any changes, there will be a second hearing only on the changes. Also, the Mayor comments that there should not be any changes from the State Department which will affect the City of Cape May's budget.

Mr. MacLeod advises that the City will provide a copy of the budget to the Library and that it will be posted on the City's website after adoption.

Motion made by Councilmember Murray, seconded by Councilmember Fiocca to adjourn. The meeting adjourned at approximately 3:55 P.M.

Edward J. Mahaney, Jr., Mayor

William H. Murray, Esq., Councilmember

Deanna Fiocca, Councilmember

Terri L. Swain, Councilmember

Jack Wichterman, Deputy Mayor

Patricia Harbora, Deputy City Clerk

CITY OF CAPE MAY
2014 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 7, 2014.

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 Neil Young, 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. The referenced meetings also included members of the Finance Committee consisting of Mayor Mahaney, current Deputy Mayor Jack Wichterman, and Dan Shustack of the Finance Department.

The Mayor and City Council agreed 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 Tourism Utility budget, and the Water-Sewer Utility budget. In addition, each member of City Council has been provided a 2014 Budget Notebook that includes the individual department requests for Other Expenses and Capital, detailed calculations for Salaries & Wages, Revenue reports, and several statistical data and summary reports.

While the City Manager's recommended budget is 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 March 14th, and adoption by April 25th in accordance with Local Finance Notice 2013-25, dated December 24, 2013.

Self-Exam: Several years ago, the State divided all municipalities into three groups. The City was placed into Group 1. On a rotating basis the budgets for one of the groups is reviewed by the Division of Local Government Services (DLGS) for approval before adoption. The other two groups based upon specific criteria are eligible for self-exam and adoption. All municipal budgets are forwarded to the DLGS after adoption. In 2014, Group 1 will be reviewed by DLGS, and Groups 2&3 are eligible for self-exam.

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 to the CAPS law 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 2014, the CAPS Cost of Living Adjustment (COLA formerly the Index Factor) is one-half percent (0.50%) limiting growth in total appropriations to 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 will result in a Spending CAPS bank. The City should create the CAPS bank just in case the budget rules change in the future, or there is a specific need to exceed the calculated CAP. It should be noted that the percentages and limitations previously mentioned are the same for 2014 as they were for 2013.

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 City Manager's recommended budget is in compliance with both CAP laws. **As presented, the 2014 Current Fund budget must utilize $260,759 of a Levy CAP Bank accumulated since 2011 based on the proposed level of spending and revenues. As such, the budget is not below the 2% Tax Levy CAP threshold for 2014, but deemed compliant through use of the available Levy CAP Bank to support the budget increase.** In addition, the proposed budget is under the 3.5% spending CAPS calculation by $228,302.00. The impact of the Levy CAP is to limit the growth of government. Since 2008, increases in fixed costs or non-discretionary expenditures simply resulted in reductions to discretionary spending and cuts to departmental operating budgets. Statewide, the list of options to

balance a budget now includes: municipal consolidation, shared-services, outsourcing, layoffs, furloughs, personnel reduction through attrition, and the elimination or reduction of services provided. The City of Cape May has been a leader in the area of shared services together with the Boroughs of Cape May Point and West Cape May. In addition, the City has entered into shared service agreements with the County of Cape May whenever possible. Maintaining services is a primary focus. However, the City has trimmed the work force through attrition over the last several years. The City continues to offer training and education opportunities to employees for the purpose of staff cross training, and increasing employee skills, efficiency, and professionalism. The concept of doing more with less has its limits. New initiatives or expanded services must include new revenues to offset the expenditures.

The Great Recession of 2008 is now six years removed. 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. In 2011, the Occupancy Tax, Parking Meters, Building Permit fees and Beach Tags reflected an increase in revenues. In 2012, the Occupancy Tax and Parking Meter fees continued to improve as Building Permit fees and investment income declined. Beach Tag revenue leveled off. Just as it seemed the economy was recovering, the east coast including the Jersey Shore was hit by Superstorm Sandy in October 2012. While the City of Cape May was blessed with very limited infrastructure damage and no loss of life, there has been lingering effects on the business community and tourism. In 2013, the Occupancy Tax continued to increase, while Parking Meter fees declined. Another positive sign was the increase in Building Permit fees in 2013. The tourism economy is subject to the affects of the daily weather, and a wet Spring and early part of the Summer made an impact on

projected Beach Tag sales and the levels of water consumed. The percentage of tax collections remained strong at 98.86% in 2013. This represents the sixteenth consecutive year with a 98% or better collection percentage. It should be noted, that **the City receives just $337,632.00 in State-aid, which is 2% of the total revenue for the Current Fund budget, and is 22% smaller than the 2009 State Aid amount ($432.584.00).**

The City Current Fund budget totals $16,599,793.

Salary and Wages total $6,444,625 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 **$124,475.00** (1.97%) more than in 2013. The City's employee population is generally mature in years of service and equivalent pay grades. Thus, the City budget will benefit from retirements and resignations by replacing senior staff with entry level employees as was the case for 2013.

Other Expenses total $10,155,168 excluding grants. The nineteen "non-discretionary" appropriations including debt service, pensions, payroll taxes, insurances, open space, capital improvement fund, deferred charge payments, and the Reserve for Uncollected Taxes totals **$7,728,664.00** representing more than **76%** of Other Expenses. The non-discretionary appropriations are $24,990.00 greater than the 2013 adopted budget. The remaining **24%** or **$2,426,504.00** represents discretionary spending requested by departments as operating expenses, **which is $359,460.00 more than the 2013 adopted budget.** The total appropriations for Other Expenses are $384,450.00 (3.93%) more than 2013 excluding

grants. I asked the Department Heads to submit their budgets with a zero increase or a reduction. This request was generally met with a few exceptions. In a review of the budget documents by department or line-item, the proposed budget for the Legal Services & Costs includes an increase of $395,000.00 for 2014. This increase centers on two matters. The continued review and evaluation of the Lower Cape May Regional funding formula ($75,000.00, which is $45,000 more than 2013), and the consideration of legal action related to the elevation of the Convention Hall facility ($350,000.00).

The total increase in appropriations including Salaries and Wages, and Other Expenses is $498,603.00 (3.10%).

Almost all of the City's revenues were more than anticipated for 2013 through a continued conservative approach to the budget. However, several revenues were less than the 2012 levels. Still, the City was able to end the year 2013 with an "unaudited" surplus balance of $3,477,000. As a result the City is able to anticipate $2,100,000 of Fund Balance for the 2014 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) $4,021,000.00, State-Aid $337,632.00, Police Interlocal Agreement $713,664.00, Delinquent tax payments $232,000.00, **and Local Purpose Taxes $9,195,497.00. The increase in Local Purpose Taxes is $547.405.00. Based on the 2014 City assessed value a penny on the tax rate equals $280,000.00. This will equate to a two cent tax increase ($0.02).** The proposed Local Purpose Tax Rate will be $0.329 cents per $100 of assessed value, increased from $0.309. **A property with an assessed value of $500,000 will pay an additional $100.00 for the year in Local Purpose taxes based on the two cent increase, or $8.33 per month.**

The various departments submitted capital requests totaling $4,997,070.00. Requests include the 2014 Road & Utility program, computers for various offices and computer system upgrades, public safety equipment, Phase 4 of the ADA improvements on the Washington Street Mall side service streets including the 300 Block of Lyle Lane and Mansion Street, beachfront restroom improvements, a new well for water supply, purchase of vehicles and heavy equipment, and other office equipment and furnishings. The budget notebook includes a summary list of the capital requests categorized as General Capital, Beach Utility Capital, and Water-Sewer Utility Capital, with certain recommendations. The 2014 Capital Improvement Fund appropriation is $60,000.00 combined with a balance $61,250.00 in the fund, allows for sufficient funding to support the required five percent (5%) down payment for $1,500,000.00 for General Capital projects. No down payment is required for "self-liquidating" utilities. Capital spending for the Water-Sewer Capital projects is targeted at $1,000,000.00, and $115,000.00 for Beach Utility Capital projects.

The Beach Utility budget totals $2,229,505.00. Salaries & Wages total $1,386,925.00 which is $36,000.00 greater than 2013. The Other Expense appropriations total $842,580.00 which is **$71,495.00 less than 2013**, 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 $125,000 appropriation for Capital Improvement Fund to be set aside for future beach replenishment. The 2014 bond sale will include $2,005,000 in Beach Utility bonds, and result in a debt service payment starting in 2015. **The total Beach Utility budget is $35,495.00 less than the adopted 2013 budget representing a 1.57% decrease.**

The sale of all beach tags totaled $2,113,008.75 for 2013. This is $78,383.00 more than the sales from 2012. The Fund Balance continues to decline and is estimated to be $271,165.00 as of December 31, 2013, which is $40,000 less than the prior year. Recently, an ordinance was adopted increasing the pre-season Seasonal tag by $5.00 and the 3-day tag by $2.00 for 2014, and the 8-day or weekly tag by $3.00 starting in 2015. A portion of the new revenue will support future operations, and a portion will support restroom improvements.

The Water-Sewer Utility budget totals $6,687,350.00. Salary and Wages total $950,300.00 including required contractual commitments, no new employees, and no layoffs have been recommended with this budget. Other Expenses total $5,737,050.00 including non-discretionary appropriations for debt service, pensions, payroll taxes, and insurances. The Water portion of the budget equals $2,690,199.00, and the Sewer portion of the budget totals $3,997,151.00. Within the Sewer budget is a line-item for the Cape May County MUA assessment appropriating $2,700,000.00, which represents 68% of the Sewer budget, and 40% of the total Water-Sewer Utility budget. **The Water-Sewer Utility budget is $88,331.00 more than the 2013 budget.** Increased appropriations for Salaries & Wages ($48,500), Debt Service ($20,700), and additional cost of the CMCMUA ($45,000) comprise the majority of the increase in expenses ($114,200). However, decreases to other areas of the 2014 utility budget resulted in a **net increase of $88,331.00, a 1.34% overall increase.**

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. 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. 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. Consumptions dropped in 2013 for both bulk users and City users causing a reduction in billings and revenue. Additional surplus of $55,981.00 above 2013 levels, and use of an accumulated revenue for Reserve to Pay Bonds and Notes of $249,700.00 was used to offset reductions in other revenues to balance the Water-Sewer Utility budget. There is no proposed change to the current rates for City customers.

Both the Beach Utility and the Water-Sewer Utility as presented have a proposed balanced budget for 2014, and maintain a self-liquidating status.

The Tourism Utility budget totals $1,067,175.00. The Tourism Utility was created by City ordinance which became effective in January 2012. This included the termination and closing of the old Recreation Dedicated Fund and the Tourism Commission Fund by merging them into the Tourism Utility. **The 2014 budget is the third budget for the Tourism Utility.** The Tourism Utility budget will increase in the future based on building and developing numerous events and activities throughout each year generating new revenue. The 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 2014 proposed budget provides for the facility operating and maintenance expenses, the numerous recreation programs and other events that generate revenue (ie: ticketed concerts, weddings), and certain tourism related expenses.

A year ago, I reported to you that the Tourism Utility ended the first year (2012) of operations in the "black" with money in the bank. However, based on strict accounting rules the Tourism Utility ended the year in a deficit on paper because certain expenditures from the old Recreation Program paid in early 2012 were not merged into the new Tourism Utility budget. This problem came to light when the CFO was working with the Auditor to close the books after the end of the year 2012. The necessary steps were taken to reclassify and restate the expenditures within the Tourism Utility budget, and subsequently additional appropriation reserve balances were canceled to offset the deficit. The required appropriations were listed in the 2013 Tourism Utility budget to complete the corrective steps. Most importantly, there was no impact on the taxpayers or the Current Fund budget, and the matter was managed within the 2013 Tourism Utility budget.

As the year 2013 comes to a close, I am happy to report the Tourism Utility generated a surplus in excess of $94,000.00 in its second year of operation. The proposed 2014 Salaries & Wages total $330,000.00, and the Other Expenses total $737,104.00. The Salary & Wage appropriations are larger for the Convention Hall Event Staff to support the many activities and shows that have been scheduled, and smaller for the Recreation programs in recognition of the non-availability of the Cape May Elementary School pool for a number of aquatic programs.

The new Convention Hall has allowed the City of Cape May to offer many musical concerts, nature shows, magical shows, community events such as the Memorial Day Ceremony and the Holiday Community Party, joint programs with MAC and the Chamber, the revival of the Jazz Festival, a limited number of wedding receptions, the return of craft shows, roller skating, and the LCMR Prom.

In closing, 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 year after year on one-time gimmicks to balance the annual operating budgets. The City's past and present fiscal management has been recognized through the Bond Rating designation of AA. 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 2014 as in the past. I will provide any additional information as requested by City Council.

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 Neil Young and Dan Shustack of the Finance Department, and Leon Costello, City Auditor, for their help and input in the development of the City budgets. Lastly, I would like to thank Mayor Mahaney and Deputy Mayor Wichterman for their support and insight as representatives of the Finance Committee.

Bruce A. MacLeod
City Manager

January 15, 2014