

**SPECIAL MEETING
CITY COUNCIL OF THE CITY OF CAPE MAY, NJ
Wednesday, January 23, 2013, 10:00 A.M.**

The Special Meeting of City Council of the City of Cape May was called to order by Mayor Mahaney at 10:00 A.M. Wednesday, January 23, 2013 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 Attorney, Anthony Monzo
City Manager, Bruce MacLeod
City Auditor, Leon Costello
Deputy Clerk Patricia Harbora

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.

Mayor Mahaney comments that the purpose of this Special Meeting is to allow the City Manager to present the Budget to Council. No public questions will be answered until after the presentation.

City Manager, Bruce MacLeod, begins by reading an opening statement, a copy of which is attached hereto. Mr. MacLeod advises that this Budget presentation will help the taxpayers and residents understand his budget recommendations. A power point presentation follows which sets forth the amounts reported on the actual budget document.

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

Mr. Costello begins by explaining the Tourism Utility Budget and reminds us that at last year's budget presentation, the City Manager anticipated that income and expenditures would be in the amount of \$500,000.00. Mr. Costello reports that at the end of the year, on a positive note, the City collected more money than was expended. Mr. Costello reconfirms that the Tourism Utility will have no impact on the taxpayers or the current fund budget, as originally stated by Mr. MacLeod in his presentation. In addition, Mr. Costello advises that the City of Cape May will have a large bond sale this year in the amount of \$10,000,000.00, to fund Convention Hall. The

City is on track with their projections comments Mr. Costello and he advises that this is the City Manager's suggested budget and it has not yet been introduced.

Mr. MacLeod states that the City of Cape May is the first Municipality to present their budget for 2013.

COUNCIL & CITY MANAGER COMMENTS

Deputy Mayor Murray thanks Mr. MacLeod, Mr. Penn and Mr. Costello for their hard work in the preparation of the Budget.

Councilmember Wichterman talks about the many hours he spent with Mayor Mahaney, Mr. MacLeod and Mr. Costello working on this year's budget. Councilmember Wichterman commends Mr. MacLeod on the excellent presentation and looks forward to the introduction of this budget.

Mayor Mahaney thanks Mr. MacLeod for his thorough and timely presentation. The Mayor would like to introduce the budget on February 19, 2013 with a public hearing on March 19, 2013.

PUBLIC PORTION: Those wishing to publicly comment shall come forward, give their name and address and speak into the microphone. Each speaker will be limited to five (5) minutes.

Jerry Gaffney – 810 Columbia Avenue, Cape May commends the City Manager's excellent budget presentation. Mr. Gaffney comments that the surplus for this year, at \$1.4 million, is the largest surplus he has ever seen in the City of Cape May.

Mayor Mahaney confirms that through his experience on Council, this is the largest surplus realized by the City of Cape May. However, the Mayor feels that in this present economy, it is not a lot of money. The Mayor also comments that based upon the Tourism economy, the City realizes miscellaneous revenue which is subject to economic conditions so the \$1.4 million surplus is needed.

Mr. Gaffney asks if the tax collection rate for 2012 was 98.1% and what number the city will use for the 2013 budget.

Mr. MacLeod replies that the reserve monies for uncollected taxes remains the same as last year at 95.8%, leaving some cushion.

Mr. Gaffney asks if the City has received their flood insurance and if the declaration page is available to the public to view. Mayor Mahaney responds that the information on flood insurance is available for review in the clerk's office.

Mr. Gaffney questions the \$250,000.00 in the Beach Utility for new restroom facilities and asks if the money will be in the 2013 budget. Mr. MacLeod advises that the \$250,000.00 is a proposed capital expenditure. Bond Ordinances will be introduced and if adopted, those monies will be available in May or June 2013.

Mr. Gaffney asks if the revenue from the increase of the beach tags will go towards the new restrooms and Councilmember Wichterman responds that the increase in beach tags would result in approximately \$142,000.00 of additional revenue. The estimated cost to construct the restrooms is \$500,000.00 which will be payable over four years.

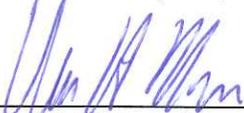
Mayor Mahaney advises that the additional revenue is included in the 2013 budget and every Councilmember is in agreement that the restrooms should be improved. The new, improved restrooms will be opened as quickly as possible, comments the Mayor.

Mr. Gaffney asks if money from the current fund is being transferred into the Tourism Utility Fund to make it self-liquidating. Mr. MacLeod responds that in the past, the current fund budget was used for Civic Affairs Activities and Public Events. Mayor Mahaney advises that the City of Cape May did not promise to pay the full debt service on the construction of Convention Hall. The Mayor reminds Mr. Gaffney that a binding question was posed on the 2008 General Election Ballot asking whether the voters would agree to fund \$10.5 million for the construction of the new Convention Hall building and the voters agreed to do so by a 2 to 1 vote.

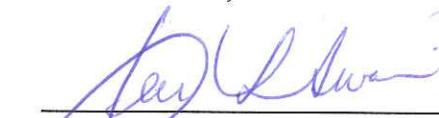
Mr. Gaffney asks if the City would provide a copy of the yearly audit to the Cape May Library. Mr. MacLeod advises that if possible, the City will send a copy of the audit to the Library and advises that you can also view the audit on the City web site.

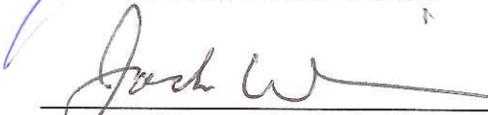
Motion made by Councilmember Wichterman, seconded by Councilmember Swain to adjourn. The meeting adjourned at approximately 12:20pm.

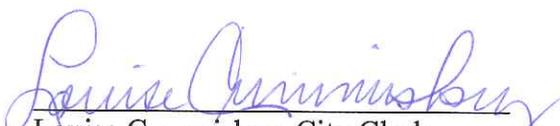

Edward J. Mahaney, Jr., Mayor


William H. Murray, Deputy Mayor


Deanna Fiocca, Councilmember


Terri L. Swain, Councilmember


Jack Wichterman, Councilmember


Louise Cummiskey, City Clerk

CITY OF CAPE MAY 2013 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 1, 2013.

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.

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 2013 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 15th, and adoption by April 26th in accordance with Local Finance Notice 2013-4, dated January 4, 2013.

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 2013, 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 City Manager's recommended budget is in compliance with both CAP laws. As presented, it is just under the 2% Tax Levy CAP threshold by \$636.00. In addition, the proposed budget is under the 3.5% spending CAPS calculation by \$459,430.00. The impact of the Levy CAP is to limit the growth of government. Several years of cuts to departmental 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 has been a leader in the area of shared services together with the Boroughs of Cape May Point and West Cape May. 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 five 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, construction permit fees and beach tags reflected an increase in revenues. In 2012, the Occupancy Tax and Parking meter fees continued to improve as Construction Permit fees and investment income declined. Beach Tag revenue leveled off. The economic

recovery has been slow although improving. 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, and is 22% smaller than the 2009 State Aid amount (\$432,584.00). The percentage of tax collections remained strong at 98.10% in 2012. This represents the fifteenth consecutive year with a 98% or better collection percentage.

The City Current Fund budget totals \$16,090,867 dollars.

Salary and Wages total \$6,320,150 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 \$13,555.00 (0.21%) more than in 2012.** 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 \$9,770,718 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 **\$7,703,674.00** representing almost 79% of Other Expenses. The non-discretionary appropriations are \$449,518.00 greater than the 2012 adopted budget. The remaining 21% or **\$2,067,044.00** represents discretionary spending requested by departments as operating expenses, which is \$45,751.00 more than the 2012

adopted budget. The total appropriations for Other Expenses are \$495,269.00 (5.33%) more than 2012.

The total increase in appropriations including Salaries and Wages, and Other Expenses is \$508,824.00 (3.26%).

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 2012 with an "unaudited" surplus balance of \$3,580,000. As a result the City is able to anticipate \$2,100,000 of Fund Balance for the 2013 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) \$3,980,265.00, State-Aid \$337,632.00, Police Interlocal Agreement \$692,879.00, Delinquent tax payments \$332,000.00, **and Local Purpose Taxes \$8,648,092.00. The increase in Local Purpose Taxes is \$432,054.00. Based on the 2013 City assessed value a penny on the tax rate equals \$280,000.00. This will equate to a one and one-half cent tax increase (\$0.015).** The proposed Local Purpose Tax Rate will be \$0.309 cents per \$100 of assessed value, increased from \$0.294. A property with an assessed value of \$500,000 will pay an additional \$75.00 for the year in Local Purpose taxes based on the 1.5 cent increase, or \$6.25 per month.

The various departments submitted capital requests totaling \$4,134,100.00. Requests include the 2013 Road & Utility program, computers for various offices, public safety equipment, improvements to City Hall and facilities, Phase 3 of the ADA improvements on Carpenters Lane (400 Block), beachfront restroom improvements, purchase of vehicles and heavy equipment, a telephone system upgrade, 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 2013 Capital Improvement Fund appropriation is \$60,000.00 combined with a balance \$76,250.00 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 \$1,100,000.00, and \$600,000.00 for Beach Utility Capital projects.

The Beach Utility budget totals \$2,265,000.00. Salaries & Wages total \$1,350,925.00 which is \$30,595.00 greater than 2012. The Other Expense appropriations total \$914,075.00 which is \$11,905.00 more than 2012, 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 \$75,000 appropriation for Capital Improvement Fund to be set aside for future beach replenishment, and a \$140,000 appropriation for payment and reduction of bond anticipation note principal. **The Beach Utility budget is \$42,500.00 greater than the adopted 2012 budget representing a 1.91% increase.** The increase is primarily the \$40,000 additional pay down on BAN's.

The sale of all beach tags totaled \$2,034,625.00 for 2012. This is just \$3,753.00 more than the sales from 2011. The Fund Balance continues to decline as annual expenditures are catching up with the revenue. I would like to recite a comment from my budget statement a year ago, "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." Recently, an ordinance was adopted to increase the daily tag by \$1.00 and the In-season Seasonal tag by \$3.00. A portion of the new revenue

will support future operations, and a portion will support restroom improvements.

The Water-Sewer Utility budget totals \$6,583,225.00. Salary and Wages total \$901,800.00 including required contractual commitments, no new employees, and no layoffs have been recommended with this budget. Other Expenses total \$5,681,425.00 including non-discretionary appropriations for debt service, pensions, payroll taxes, and insurances. The Water portion of the budget equals \$2,676,628.00, and the Sewer portion of the budget totals \$3,906,597.00. Within the Sewer budget is a line-item for the Cape May County MUA assessment appropriating \$2,655,000.00, which represents 68% of the Sewer budget, and 40% of the total Water-Sewer Utility budget. **The Water-Sewer Utility budget is \$126,685 more than the 2012 budget, or an increase of 1.96%.** Increased appropriations for Debt Service (\$29,055), insurances (\$12,190) and additional cost of the CMC MUA (\$50,000) equal 72% of the total increase in the 2013 utility budget.

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. 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 balanced budget for 2013, and maintain a self-liquidating status.

The Tourism Utility budget totals \$1,060,250.00. This is the second 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 revenue. The 2012 Budget, which was the initial budget, was 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. This budget provides for the facility operating expenses, recreation programs and other events that generate revenue (ie: ticketed concerts, weddings), and certain tourism related expenses.

The Salaries & Wages total \$298,625.00, and the Other Expenses total \$761,625.00.

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. Prior to the adoption of the first Tourism Utility budget in late March 2012 on-going expenses were charged to and paid from the then existing Recreation Dedicated Fund and Tourism Commission Fund. These expenses were recognized and included as part of the overall expenditures in the bank account, and the Tourism Utility ended the year in the "black" with \$\$\$\$ in the bank. However, based on strict accounting rules the Tourism Utility ended the year in a deficit on paper because the expenditures 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. The necessary steps have been taken to reclassify and restate the expenditures within the Tourism Utility budget, and subsequently additional appropriation reserve balances have been canceled to offset the deficit. The required appropriations have been listed in the 2013 Tourism Utility budget to complete the corrective steps. Most importantly, there is no impact on the taxpayers or the Current Fund budget, and the matter is being managed within the Tourism Utility budget.

Aside from the end-of-year accounting snafu, there were many positives and firsts with the opening of the new Convention Hall including superior 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, the return of craft shows, roller skating, and the LCMR Prom. The inclusion of fiber optic technology to provide both hard wired infrastructure and wireless capability, installation of the ticketing system for performing arts events, and the current on-going website upgrade.

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 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 2013 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 23, 2013