

The 2017 Budget Summary Report From the Finance Committee

April 6, 2017

To Peapack Gladstone Residents:

The Borough Council recently completed the 2017 Municipal Budget after four months of review and deliberations in what would best be characterized as a comprehensive public exercise of due diligence conducted by Mayor Muller, Council-members, John Gregory and our CFO Mary Robinson. Heidi Wohlleb, from Nisivoccia LLP, Certified Public Accountants, was recently hired as our new borough auditor, and she has conducted a thorough review of our past and current budgets, but more specifically she examined the results of our proposed 2017 budget for purposes of accounting accuracy and statutory compliancy. The resultant budget will be subject to a public hearing scheduled on April 25, 2017.

The Mayor and Council are happy to report that the 2017 municipal tax rate will remain unchanged from the previous year, meaning that the municipal taxpayer will not realize an increase in property taxes as determined by the flat municipal tax rate. It is important to note that Ed Kerwin, our Municipal Tax Assessor, has determined that there was a 1.68% increase in the net property values municipal-wide, with the residential component calculated to be a modest increase of 1.63%. The average residential property value in 2016 was \$689,611.74, but with the increased reassessment, that same property today is valued at \$700,852.41. So the municipal tax levy apportioned to each property is the product of the calculated tax rate, multiplied by the corresponding property reassessment, which in this instance has increased from \$3,848.03 (\$689,611.74 multiplied by the 2016 tax rate of .558) to \$3,910.76 (the increased reassessment of the same property to \$700,852.41 multiplied by the unchanged tax rate of .558). So the average property homeowner will realize a net increase of only \$62.72 in the municipal portion of the 2017 assigned taxes. In short, any change realized in the municipal portion of the tax obligation assigned to any particular property will be solely and proportionally influenced by a change in the calculated assessed property value as determined by the municipal assessor, and not related to the municipal tax rate this year, which again remains unchanged from the 2016 level.

The municipal 'in-cap' appropriations (anticipated expenditures) have decreased .31%, or minus \$14,157.16, relative to the prior year, which is notably

below the statutory 3.5% spending cap that would have otherwise allowed for an increase in spending of \$200,741.86 over the 2016 appropriation. I share this with you to demonstrate the council's resolve to be fiscally prudent, this notwithstanding the progressively increasing health care costs, and a 2% salary-merit increase to our most deserving staff.

The municipal levy is the total tax amount necessary to support the municipal appropriations in any given budget, minus the calculated miscellaneous revenue anticipated to alleviate that burden. This year, Mr. Gregory identified reliable revenue sources that in prior years were not included in the total revenue calculations, but instead were allowed to lapse directly into our Fund Balance for subsequent utilization. Although both methods of recording revenue are permitted accounting approaches, Mr. Gregory's approach would allow the municipality to more promptly and directly reduce this year's tax levy, thereby reducing the municipal tax rate that is instrumental in calculating the individual property taxes realized by the taxpayer. Although our unadjusted levy is \$68,082.91 higher than in 2016, which represents only a 1.7% increase, the statutorily accepted method to calculate the adjusted 2% Tax Levy Cap places us \$265,627.31 under that mandate, which translates to -4.13% under the permitted Tax Levy Cap. Further, the fact that we are below the adjusted Tax Levy Cap this year allows us to bank or hold in reserve that accounting underage for the next three years, should the unforeseen need arise wherein we find it necessary to leverage any excesses in our Levy Cap in future years.

Not unlike previous years, the council invested considerable time evaluating the implications of the budgetary decisions not only with respect to the current year tax levy calculations and resulting taxes to be realized by the property owners, but more importantly with the ramifications these decisions will have on subsequent budgets to come. The hard decisions and sacrifices we made last year and the evolving budgetary trends have placed the municipality on a pragmatic and judicious fiscal course moving forward. We are proud to present the 2017 budget that reflects a flat tax rate. But I would be remiss not to address the unrelenting question: could we have gone further to provide the taxpayers with an actual reduction in their property taxes? The short answer would be an imprudent yes, but our assigned fiscal and fiduciary responsibilities compel us to produce a budget that will not only accommodate current needs, but also sustain future needs. I suppose that we could have elected more assertive methods to reduce the current year taxes such as utilizing more of the available fund balance to increase the anticipated revenue and thereby reciprocally reducing our tax levy, or appropriating less to our Capital Improvement Fund to reduce our total expenditures and tax liability, and/or further securitizing and constricting the submitted departmental budgets again with the intent to reduce the summative appropriations and tax levy: but for the reasons identified below, we collectively decided to adopt a more prescient and judicious approach in formulating the current budget.

Fund Balance (FB):

There was and always should be a critical assessment of the Fund Balance (aka: Surplus and hereafter referred to as FB) as a relied upon revenue source to supplement the municipal budget. The FB reflects the monetary resources in a particular year's budget that are generated from the annual closing of operations when the overall revenues received were higher than anticipated, and expenditures were less than amounts previously appropriated. The council subscribes to an unwritten tenet that the utilization of the FB in any one budgetary year should be no more than can be regenerated in the subsequent year through operations. Utilization of the FB in excess of the amount that can be regenerated is fiscally discouraged, and prudence would mandate a review of this matter to correct this undesired trend if so manifested. In 2016, the FB's replenishment value (the difference between the excesses in operations as referenced above and the amount utilized to supplement the budget) was a healthy 11.71%, as compared to averaged replenishment value of -1.77% for previous five years dating from 2011 to 2015. I share this information with you to demonstrate why the council found it necessary last year to make the hard decision to modestly increase the tax rate so that we can reverse that insidious trend which would adversely impact our FB. In addition, this year, through the innovative suggestions offered by Mr. Gregory and Ms. Heidi Wohlleb, we have devised the means to utilize even less of the FB to supplement our current budgetary needs, thus foreseeably improving the FB's replenishment value in the subsequent year(s).

In conclusion, the difference between the resources available in the FB and the amount utilized to supplement the budgetary needs is referred to as "FB Reserves." Ideally, it would be desirable to have adequate FB Reserves for future periods when economic difficulties may arise. I can report that last year represented a significant upward tick in improving our FB Reserve, and the expectation to continue this trend is indeed promising.

Revenue:

An essential component of the municipal budget is the generation of revenue, which reflects the amount of anticipated money to be received as necessary to offset the anticipated expenditures for that given budget year. Statutorily, estimates of revenue cannot be above the amount collected from the previous year, and they should not be overestimated even though the prior year collection

may be high due to unusual circumstances. For instance, this year we recorded the anticipated court and construction revenues at \$70,000.00 and \$95,000.00, even though we actually collected \$95,802.71 and \$206,439.15.00 respectively from each department in 2016. More significantly, we estimated only \$100,000.00 in anticipated receipts from uncollected taxes, notwithstanding the \$207,201.00 collected in 2016. As you can see, we intentionally remained conservative in our estimates recognizing that any realized excesses received in revenue will eventually be deposited in our FB, which again is a relied upon revenue source that will be utilized in future budgets.

In 2017, we considered and ultimately subscribed to Mr. Gregory's recommendation to record reliable revenue sources such as those generated from various collectable Fees and Permits (rental property, zoning, and interest payments), which assisted in offsetting our calculated levy. In prior years, those particular revenue sources were forwarded into the FB for subsequent utilization, rather than being applied directly to the current year levy calculation.

The council continues to explore ways to increase revenue to include the prospect of encouraging or providing for more property development and improvements with the intent to increase rateables.

Capital Project Plan:

The council requested and received a three-year capital plan from the various Department Heads so that we can anticipate the resources and means necessary to accommodate those future requests. Formulas were devised to calculate the impact of these larger expenditures on our debt service and the impacts to our future budgets, so that we can determine the most appropriate and least adverse means to sustain our municipal services.

The council remains resolute in our shared philosophy to conservatively reduce our dependency on debt service to satisfy future capital needs; and in that vein, there was an ongoing effort to commit a sizable yet reasonable dollar amount to our Capital Improvement Fund. In 2017, we appropriated \$300,000.00 in the CIF; in 2016, \$100,000.00; 2015, \$80,000.00; and 2014 and 2013, \$40,000.00 in each year. This fund serves as reserve to cover multi-year expenditures of major capital projects with the intent to stabilize debt and to reduce borrowing costs. Instead of exercising an ad hoc approach to municipal budgeting, the councilmembers remained not only diligent to our current needs, we were also presciently mindful of the future needs and expectations.

Appropriations:

A detailed analysis of past budgetary appropriations was conducted with the intent to establish a proportional trend to estimate future appropriation demands as required to either sustain or improve the current level of services provided to our residents. Those figures were then incorporated into our projection models

to ascertain the impact they would have on our FB, tax levy and the statutorily imposed Caps (Appropriation Cap and Levy Cap). That same type of historical analysis and estimated projections were applied to our tax obligations with the regional school system, county and open space taxes. Albeit, those latter obligations are without municipal control or influence, they are nonetheless factors when calculating our total tax levy and therefore need to be included in any future projections.

This year, through a collaborative endeavor with the various department heads, it was determined that the 2016 appropriations were adequate to support the current level of municipal services as accustom to and expected by our residents. The department heads and employees deserve our sincere respect and recognition in devising budgets that reflect no new increases in appropriations and they did so without making sacrifices in anticipated service levels.

Ratables:

The council examined the variables that affect the total assessed property valuations within the borough, in addition to the newly recognized and assessed improvements, as determined by our municipal assessor Ed Kerwin. As you know, these assigned values have a direct and inverse relationship with the establishment of our applied tax rate for any given year, so it would stand to reason that constructive efforts to improve these values, such as through creative planning and zoning, could reduce the applied tax rate and resultant property taxes.

It is generally accepted that a consistent 3% increase year-to-year in total property valuations would best mitigate the tax burdens and provide for budgetary growth wherein we can achieve budgetary savings, reduce our dependency on debt service and accommodate the ever expanding need and related cost to provide exceptional municipal services. Through the exercise of a financial trend analysis dating back to 2001, we determined that the average percentage change in property valuations was under 1.5%, interpretatively affected by the aberrant decline in values in 2008 and 2009, which were -8.51% and -9.41% respectively. This year the council - through Cm. Lemma's initiative and guidance - is pursuing various means to assure that infractions to zoning are properly redressed, and further, we are attempting to establish a reasonable and conservative enforcement code to minimize the manifestation of blight within the borough. It is believed that those two pursuits could conceivably enhance property values and thereby proportionally alleviate the persistent impedance to budgetary growth.

In summary, the council remains cognizant to identify and cultivate new revenue sources, while exploring new approaches to minimize rising expenditures such as; the prospect of shared services, addressing the tide of rising health care, and adhering to a philosophy that will make us less dependent and obligated on debt

as a means to address our capital needs. As a result of forecasting the fiscal implications and assuming a less than myopic approach to formulating the 2017 budget, the council continues to demonstrate a proactive posture that will allow adaptive and constructive solutions to address the budgetary needs not only for this year, but in subsequent years as well.

The council continues to explore constructive ways to mitigate the adverse implications to our tax levy to include the possibility of providing more favorable means to increase a ratable base, to cultivate improved productivity, conservation and efficiency within the various municipal departments, and to investigate and address perceived zoning transgressions (as discussed above).

By way of illustration I offer the following:

- Cm. Corigliano is leading the council deliberations to mitigate our undetermined compliance numbers necessary to provide adequate affordable housing within our municipality. As you can imagine, the magnitude of any court assigned Fair Share Housing obligation could dramatically impact infrastructure requirements, the level of municipal services to be provided and the variables involved when calculating our ratable inventory, all of which could influence our applicable tax rate.
- Cm. Caminiti is persistently investigating the availability of grants to offset the associated cost to improve our streets and roads with the objective to reduce our dependency on debt service to accomplish same.
- Cm. Smith is exploring options to contain and control the ever-rising expenses for health care and legacy cost. These expenditures are growing insidiously and consuming more of our limited pecuniary resources.
- Cm. Simpson has been charged to assiduously review all conceivable options, with a conservative awareness on related costs, to improve and beautify Liberty Park. This important landmark represents the centerpiece to our municipality and communal social venue, both of which lend favorably to real-estate attractiveness and valuation.
- Mayor Muller, through his exemplary leadership, continues to inspire the council to examine the prospect of shared services as an effective means to contain operational costs and eliminate communal redundancies in provided services. Mayor Muller was instrumental in forging a Shared Sewer Service Agreement with Bedminster and Far Hills that has already translated to a net savings to all affect taxpayers; specifically, the residents of PG should realize a reduction in their sewer tax bills this year, not to mention the reapportionment of staff salaries that resulted in a reduction to our Current Fund salary obligations, and which was absorbed in the Sewer Budget with no adverse impact.

I hope that you can appreciate from our concerted efforts that we are selflessly mindful of our fiscal and fiduciary responsibilities that have been entrusted upon us, and we will do what is just and proper rather than what is expedient and

propitiatory.

The council invites you to participate in our budget hearing discussions scheduled for the 25th of April so that you can better appreciate the budgetary objectives as outlined above and to offer your comments and suggestions before the budget is adopted. We believe that this proposed budget not only demonstrates the best approach to maintain the current level of municipal services provided to the residents with least possible tax burden, but also establishes a meaningful template to remain fiscally responsible moving forward.

Respectfully Submitted,
Anthony T. Suriano
Chairman of Finance