

BUDGET MEETING OF THE MAYOR AND COUNCIL
HELD AT THE
MUNICIPAL COURT /COUNCIL CHAMBERS
10 LAWLOR DRIVE, OAKLAND, NEW JERSEY
SATURDAY MARCH 21, 2009

MEETING CALLED TO ORDER: By Mayor Szabo at 9:12 am.

ROLL CALL: Mayor Szabo called the meeting to order and the Clerk called the roll. Present: Mayor Szabo, Councilmembers Burns, Di Pentima, Pignatelli, Visconti. Absent: Councilmembers Marcalus, Stagg. Also Present: Lisa M. Duncan, Borough Clerk; Richard Kunze, Borough Administrator; James Mangin, Chief Financial Officer; Frank DiMaria, Borough Auditor.

SALUTE TO THE FLAG:

MOMENT OF SILENCE:

MEETING ANNOUNCEMENT: Mayor Szabo announced this meeting is being held in accordance with the Open Public Meetings Law duly announced and included in the schedule of regular meetings.

Mayor Szabo explained that the purpose of this meeting is to begin discussion on the 2009 budget. A tremendous amount of work has gone into this paperwork so far. The budget will be introduced on Wednesday night. There will be further reviews and discussions and ultimately a public hearing and adoption. Mayor Szabo explained that because of the Governing Body's policy on financial management, the Borough is better off than other municipalities. Mayor Szabo commented he does not think that the Council has to take draconian measures with this budget. He thanked Finance Chairman Di Pentima and Assistant Chair Visconti.

Councilman Di Pentima offered thanks to Borough Auditor Frank DiMaria. He also explained that because of the Governing Body's policies, the Borough is going to be in better shape than neighboring communities. However, there still needs to be further cuts. The benefit of having a full-time Chief Financial Officer and Business Administrator is that the Council is getting a more detailed budget. Borough Administrator Richard Kunze will give an overview. The department discussions will take place next week.

Mr. Kunze advised he will be discussing the appropriation side. The revenue numbers have changed since the books are done. The projected appropriations are up .3% over 2008. The grants are down because the grants are taken continuously throughout the year. Every effort has been made to economize. The Borough is doing things differently and Mr. Kunze is continually looking at business practices to economize. There are several large items of appropriations that have dropped off this year such as retirement payouts and the revaluation cost. The Borough's pension contribution actually decreased which is significant considering the situations other towns are facing. There are several large department increases. The legal budget has increased and debt service has increased by \$ 112,000. He explained that there are costs inside the cap which are subject to the State cap. Items considered outside the cap include LOSAP, Library, Stormwater Management and Debt Service. The allowable cap increase is

2.5%. The Governing Body adopted an ordinance to allow a 3.5% increase. This budget calls for an inside cap planned increase of 1.2%

Mr. Kunze explained that in 2008, the OE budgets were \$ 10.5 million which accounts for 60% of the current fund. In 2009, the OE budget is decreasing by \$ 309,000 which is almost a 3% decrease. Mr. Kunze thanked department heads because their budget requests were very reasonable. The Borough is trying to live within its means and keep the budget as flat as possible. The capital budget has a \$ 20,000 increase in down payments. Mr. Kunze and Mr. Mangin are still working on related debt projections. The salary and wages budget is up by 5.5% and that includes the library. He explained some costs were shifted from OE to S & W. This budget maintains all positions currently had in 2008 including vacancies in the Clerk's office and DPW and Police. There were some departments that requested additional personnel and Mr. Kunze did not include those requests in the 2009 budget. Mr. Kunze advised that some federal stimulus money that is going through the COPS program. This money is available to municipal governments to avoid laying off police officers. He questioned if the Borough would like to apply. It provides funding for three years to include benefits. It could fund the vacant police officer position.

Discussion turned toward revenue. Councilman Di Pentima explained that the numbers will change slightly. The projected revenue for 2009 is lower by \$ 567,000 than what was budgeted in 2008. One of the significant drops is investment income on short-term money. We are projected to lose \$ 280,000 which is significant lost income and that is because of the rates today. Another reduction is the loss in State Aid. There are two impacts to that. The Governor spoke about cutting State Aid by 2%. Towns were categorized based upon economic ability. Oakland was cut slightly higher than the 2% and State Aid was cut by \$ 42,000. Oakland also lost a Homeland security grant for \$ 70,000. Grant income is down by \$ 64,000. Councilman Di Pentima explained that some areas are up-the Borough is receiving additional cable franchise fees and additional money from the cell tower lease. Councilman Di Pentima explained that Oakland has dramatically expanded its recycling program. The more residents that recycle will gain recycling revenue for the Borough as well as decrease garbage costs. This will increase recycling revenue by \$ 75,000.

Councilman Di Pentima spoke about surplus revenues. Right now, we anticipate using the same amount of surplus as in 2008-\$ 445,000. The Borough has generated surplus through cost containment and freezing the budgets at certain times. Some items that have generated surplus in the past will not repeat generating surplus. For instance, the Borough has not had to expend the full amount of the insurance line for the past few years and that money would go to surplus. However, we are now changing the way we are doing the accounting for insurance. We are going to take the annual insurance budget and put through an account dedicated through the State. Money will be put in the account and claims will be paid from that account. Councilman Di Pentima advised that the Borough has to get out of self-insurance. We will put money in that fund and it will allow us to build surplus in that fund. If we were to stop self-insurance today, there would still be claims that would have to be paid so the Borough would have to maintain a runout fund anyway. This is a way to create a runout fund without affecting taxes.

Councilman Di Pentima advised he would like to start backing off from surplus. He recommended reducing the surplus used by \$ 100,000 and decrease spending by \$ 100,000. He explained that the Borough needs to maintain surplus as a rainy day fund. He explained that we could use surplus for tax appeals without having to affect the budget.

Borough Auditor Frank DiMaria explained it is time to look to the future. Decisions must be made to use toward next year and future years. The time is right to adopt a policy toward surplus. He advised that in 2007, there was \$ 700,000 in cash surplus. Half of that was used toward the budget. However, there was \$ 800,000 additional surplus generated. Utilizing \$ 445,000 of surplus would use approximately half of what is available. In the future, there will not be as much surplus generated. Councilman Pignatelli commented he thinks it is prudent to come up with a policy. It appears that State Aid will continue to fall.

Mr. DiMaria commented that the fact the Borough is able to absorb the losses in aid and revenue and to fully fund the pension payment and not have to entertain a levy cap waiver is highly commendable. Mr. DiMaria advised that valuations have actually increased in Oakland whereas a lot of neighboring towns have decreased. This budget as it stands is a \$ 112 increase which is less than half of the increase found acceptable by Trenton. It is less than last year's increase. Councilman Pignatelli asked if this will help the Borough's bond rating. Mr. DiMaria responded it would because the Borough is replenishing surplus at a greater rate than it is using. Councilman Di Pentima advised that as we can make a policy to increase the balance sheet, it gives the Borough access to cheaper money. The more risk that can be taken out of the community, the better rate the Borough will get. Councilman Di Pentima commented that there has been a lot of talk about the Governor's pension deferral plan. Councilman Di Pentima is adamantly against using that gimmick-municipalities will pay for that deferral in future years. This budget does not have a pension deferral in it because it is not sound policy to defer. Councilman Burns advised that several years ago, the State cut back on pension contributions. Then the State demanded the municipalities to pay and the municipalities had to pay through the nose. Anyone who uses the deferral is crazy. Councilman Pignatelli commented he does not want to saddle future generations with debt. Mayor Szabo commented that you cannot trust the State. The Borough could take a half million out now but will only have to make it up later and we will be less likely to make it up in the future with decreasing revenues. Councilman Di Pentima commented that it will be tough for awhile so it is a sound fiscal thing to do. The Governing Body doesn't always agree but everyone agreed that the pension deferral was not the way to proceed.

Councilman Burns commented there are breaks this year for items that we had to pay for in the past such as the revaluation. He advised he had a number of residents ask why the property valuations cannot go down. He explained that the valuation is important. However, the Borough needs to raise a certain amount of money through taxation. If the Borough's property valuations are lowered, it is not going to change the amount of taxes needed. Mayor Szabo explained that new construction gets hit at a higher rate. Someone who paid for their house 50 years ago pays a different rate. The revaluation equalizes the rate. If the valuation goes down, the rate will just go up. People would expect a decrease in their taxes but they wouldn't see it.

Mr. DiMaria explained that planning ahead is the key to avoid problems. Mayor Szabo questioned if appropriations are only at 3/10%, where would we take the \$ 100,000 from in order not to use the \$ 100,000 of surplus. Where do we take the money from without affecting services and personnel? Councilman Di Pentima advised that anything he suggests will not affect employees. Other towns are talking about furloughs and layoffs. Oakland is not looking at that in this budget. Mayor Szabo responded that layoffs, furloughs and pay cuts are the absolute last resort. The employees work very hard and the Borough is staffed to the bare bones as it is. The employees did not create the economic situation and should not have to bare the brunt.

Chief Financial Officer Mangin commented that Councilman Di Pentima is right about weaning off of using surplus. Surplus will take a hit in 2010. He explained that a budget cycle is two

years. At the end of the second year, what is left in reserve becomes surplus. What was left in 2007 makes up surplus in 2009. There will not be a lot left from 2008 so in 2010 there will not be a lot of surplus. He explained that investments will generate income but we cannot anticipate more than we took in 2008. Councilman Pignatelli commented that by cutting \$ 100,000 it does not ensure surplus in future years. Councilman Di Pentima explained that based on the auditor's guesstimate, there is about \$ 1 million in surplus in 2009. If we take over \$ 400,000 this year, that will leave \$600,000 in 2010. The Borough will not generate revenues at the same pace. You can't expect to take another \$ 400,000 in 2010. Councilman Di Pentima wants to get to the point where surplus balance is stable and where we do not use surplus for the budget. Mayor Szabo commented that there will be construction of affordable housing in the future but the Borough won't witness a boon in new construction, only redevelopment. That is why revitalization of the downtown is important. The Borough needs sewers downtown so we can increase density. He advised the Borough will have to lay out money to see a return.

Mr. Mangin advised that investments took a double hit. Rates went down. In July 2008, the rate was 2.5% as compared to 4.5 % the year before. The current rate is 1.5%. It is a lot of work to chase down good rates but the rates are creeping up. The other hit was that in 2007, the BAN money was sitting in an account earning interest. That revenue was anticipated in 2008 but we didn't realize that amount because the money was used. Councilman Di Pentima explained that the Borough cannot anticipate income greater than we took in the previous year. Even if the interest rates jump in September, we cannot anticipate that revenue now.

Councilman Visconti explained that the Finance Committee does not want to reduce surplus but wants to reduce using surplus in the budget. He also feels that cuts to the employees-wages, furloughs, etc.- mean a cut in services. This tight budget maintains the service the Borough already has. He gives Mr. Kunze credit because when they started working on the budget in January, it looked very grim. The Borough employees and Department Heads have worked with Mr. Kunze to bring the budget in line. The budget process is ongoing and takes hard work and oversight. Over the last several years, the percentage of tax increase has gone down. Things that the Governing Body did two years ago are helping us today. Councilman Di Pentima advised that Mr. Kunze and the Health Department did a ton of work to save money on the health contract when faced with a 27% increase. The Borough managed to save money with the Borough employee's help.

Discussion turned to insurance. Mr. Kunze advised that liability costs are up 4% overall compared to 2008. Once the funds are allocated properly to water, sewer and library, the overall amount of impact on current actually drops. Mr. Kunze does expect an overall increase in health benefits claims. However, there is a net decrease on the amount budgeted. Things were done during the year such as restructuring short-term disability and adopting a new hospital network. He expects to save another \$ 50,000 from that new hospital network. Mr. Kunze advised that the insurance committee is looking at options other than self-insurance. He is getting a quote from the B-Med. Councilman Di Pentima advised that the Borough got a benefit from the new hospital network. The change on the short-term disability led to a \$ 10,000 savings.

Mr. Kunze spoke about the General Government section of the budget book. Mr. Kunze advised there is a reduction in Administration Salaries & Wages because there had been a payout in 2008 to the former Administrator. The salary for the Senior Purchasing Assistant has been moved from the Administration budget to Finance. In Other Expenses, there has been a shift in costs to a new control budget called General Services. These are overall costs that are shared by all departments and will be tracked. It covers copier costs, postage, and office supplies. The General Services Salaries and Wages budget consists of several lines. Mr. Kunze is going to

establish a general temporary help line and is requesting \$ 1,000 to fund. The purpose of this line is to give a mechanism to deal with peak workload activity or if an employee goes on extended sick leave. There is a line for sick and vacation buybacks for the white collar employees and a sick time buyout for the blue collar employees. Mr. Kunze explained there is an intent to set up a reserve to fund accrued time payouts. The intent is to fund that next year.

The OCC budget is down and no money has been included for update to the website. The Mayor and Council budget has a wage increase based on the CPI as per the salary ordinance. The Other Expenses budget has a small increase for costs for the planner. That will also be for unanticipated needs for consultants. The Municipal Clerk's budget has increased slightly to cover the cost of minute books. The Election budget has decreased since last year's budget included funding for the extra Presidential Primary election. Mr. Kunze advised that Information Technology is a new budget created to centralize technology costs. He advised that he intends to carry out the networking project this year and there will be network maintenance costs beginning in 2010. The Legal budget has a \$ 75,000 increase which is in line with what was spent last year. That was due to the Library litigation. If the Library litigation can be resolved this year, this line item can be reduced next year.

Councilman Di Pentima commended Mr. Kunze and Mr. Mangin on their restructuring of the budget in order to centralize services. He advised that all professional contracts were held flat. Mayor Szabo advised that he and Wyckoff's Mayor Fiorenzo appeared before the JIF Executive Board in order to request a bylaw change to allow municipalities to negotiate the Risk Manager's fee. That must pass by a ¾ vote in order to amend their bylaws.

Mr. Mangin advised that the Purchasing Assistant salary was moved into Finance. Mr. Kunze advised that without that switch, there was an actual reduction in Finance Salaries and Wages. Mr. Mangin advised that they are restructuring the budget for IT costs. There was extra work required by the auditor in 2008 and that line should go down this year.

Mr. Kunze advised that the Tax Collector's budget is almost flat since the payout for the former Tax Collector. Most of the O.E. expenses go to printing and mailing of the tax bills. The Salary and Wages line of the Tax Assessor budget is up by COLA and there is a slight longevity bump for one of the employees mid-year. There have been some reductions in Other Expenses since some items were moved to the Information Technology budget.

Councilman Di Pentima asked if there were any questions now. Next week, the DPW and Police Department will speak.

Councilman Burns commented it is hard to follow where the money has gone in regards to shifting of funds. Mr. Kunze responded that the IT and General Services budgets included separate spreadsheets to follow. Other changes include flipping the clothing allowance from O.E. to S & W in Police and Fire. Councilman Burns asked if he could get the notes for all changes so he knows where to look. Mayor Szabo suggested everyone go through their budget books. If it is not clear after reading the Executive sheets, it can be tweaked. Mayor Szabo likes the reorganization of the structure of Borough Hall in order to watch and effect savings. He finds the budget book to be very readable. Councilman Burns advised the Executive Summary sheets are excellent. However, it is hard to read the budget sheets. Mr. Kunze responded that those are the Edmunds budget sheets. He wishes it gave percentages but it does provide three-year historical data. Mr. Mangin will provide Councilman Burns with a copy of his sheets with notes regarding changes.

MEETING ADJOURNED:

On motion of Councilman Di Pentima, seconded by Councilman Visconti, the meeting be adjourned at 10:55 a.m.

ROLL CALL: All yeas, Councilmembers Burns, Di Pentima, Pignatelli, Visconti.

Lisa M. Duncan, Borough Clerk
April 7, 2009

Mayor John P. Szabo, Jr.

Date Approved