

CITY OF CAPE MAY 2016 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 12, 2016.

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, I have worked with City's Finance Department staff to assist me in the preparation and collection of data for the budget document, and with City 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 2016 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.

Calendar: 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 a future City Council meeting. 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 18th, and adoption by April 22th in accordance with Local Finance Notice 2015-27, dated December 22, 2015.

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 the budget before adoption. The other two groups based upon specific criteria, and certification by the Chief Financial Officer, are eligible for self-exam and adoption of the budget. All municipal budgets are forwarded to the DLGS after adoption. In 2016, Group 2 will be reviewed by DLGS, and Groups 1&3 are eligible for self-exam.

CAPS laws: Since 1977, 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 original spending 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 2016, the CAPS Cost of Living Adjustment (COLA formerly the Index Factor) is zero percent (0.00%), which limits growth in total appropriations to two and one-half percent (2.50%). However, by statute municipalities are permitted to increase expenditures by the one percent increment up to 3.5% upon passage of an ordinance. Historically, the City has been compliant with the spending CAPS calculations. Therefore, I am recommending the governing body take the appropriate action 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 in a future year.

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 proposed 2016 Current Fund budget is approximately \$170,000.00 under the 2% Tax Levy CAP limit.** In addition, the proposed budget is under the 3.5% spending CAPS calculation by over \$600,000.00.

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 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. In years past, the City has trimmed the work force through attrition in some departments. However, based on required levels of service, modifications to staff have been made. As an example, the City Clerk's Office going back to 2008 was comprised of five full-time positions, through attrition dropped to three, and last year was restored to a total of four. The Municipal Court in 2016 will drop from three full-time positions down to two, but add a seasonal position. More significantly, based upon a review of the Fire Department service calls in 2015, the City Council agreed to increase the number of full-time firemen by three to a total of seventeen, and to add an additional seasonal position between mid-May through mid-September, to increase the level of manpower to seven per shift during the peak summer months. The Manager's budget as proposed includes both the increases and decreases in the respective department budgets for personnel. In addition, 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.

Economy: The Great Recession of 2008 is now eight years removed. The global, national, State, and local economies all experienced difficult times. The City of Cape May and the business community 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, Interest on Investments, and Beach Tag sales have all experienced fluctuating levels of income between 2009, and 2012. 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 was lingering effects on the business community and tourism. In 2013, the Occupancy Tax and Building Permit fees increased, while Parking Meter fees declined. In 2014, the Occupancy Tax, Parking Meter fees, Building Permit fees, and Beach Tag sales all increased compared to the 2013 level of revenue. The year 2015 was a successful one with most City revenues experiencing an increase over the 2014 results. The perfect combination of weather and the extended length of the summer season (the number of days between Memorial Day and Labor Day) were obvious factors in the increased levels of revenue. The City's percentage of tax collections remained strong at 98.9% in 2015. This represents the eighteenth 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 less than 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 \$17,379,139.

Salary and Wages total \$6,600,375 including required contractual commitments. Since 2008, the number of full-time employees has been reduced in the overall workforce. This has been accomplished through attrition. Simply stated, just 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. The budget does provide funding for three new firefighter positions. No layoffs have been recommended with this budget. **The total appropriations for Salaries and Wages in the Current Fund budget are \$205,725.00 more than in 2015.** 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 2015.

Other Expenses total \$10,778,764 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 **\$8,338,074.00** representing more than **77.3%** of Other Expenses. **The non-discretionary appropriations are \$228,180.00 greater than the 2015 adopted budget.** The remaining **22.7%** or **\$2,440,690.00** represents discretionary spending requested by departments as operating expenses, which is \$78,457.00 less than the 2015 adopted budget. **The total appropriations for Other Expenses are \$149,723.00 (1.47%) more than 2015 excluding grants.** Nineteen departments or line-items did not increase over the 2015 budget amount, and six decreased. Several departments or line-items did receive small increases after maintaining flat budgets for many years. The proposed budget for the Legal Services & Costs includes \$25,000.00 for the continued pursuit of a modification to the Lower Cape May Regional funding formula, and \$250,000.00 for the legal action related to the design elevation of the Convention Hall facility. Both amounts are less than the 2015 budget appropriation. Line-items that increased and made a significant impact the budget include: Health Insurance \$73,240.00, Capital Improvement Fund \$50,000.00, Debt Service \$83,800.00, and Liability and Workers Compensation Insurances \$32,680.00.

The total increase in appropriations including Salaries and Wages, and Other Expenses (excluding grants) is \$355,448.00 (2.09%).

The City’s Current Fund revenues were more than anticipated for 2015 overall through a continued conservative approach to the budget. However, a couple of revenues were less than the 2014 levels (Lease & Rent Contracts, EMS Fees). Still,

the City was able to end the year 2015 with an **“unaudited” surplus balance of \$3,888,000**. As a result the City is able to anticipate \$2,184,000 of Fund Balance for the 2016 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) \$4,149,000.00, State-Aid \$337,632.00, Police Interlocal Agreement \$749,776.00, Delinquent tax payments \$232,000.00, **and Local Purpose Taxes \$9,726,731.00. The increase in Local Purpose Taxes is \$225.746.00. Based on the 2016 City assessed value a penny on the tax rate equals \$281,320.00. This will equate to a seven-tenths of one cent tax increase (\$0.007).** The proposed Local Purpose Tax Rate will be \$0.346 cents per \$100 of assessed value, increased from \$0.339. **A property with an assessed value of \$500,000 will pay an additional \$35.00 for the year in Local Purpose taxes based on the 0.7 cent increase, or \$2.92 per month.**

The various departments submitted capital requests totaling over \$4,000,000.00 which are included in the last section of the Budget Notebook. Requests include the 2016 Road & Utility program, computers for various offices and computer system upgrades, public safety equipment, beachfront restroom improvements, purchase of vehicles and heavy equipment, and other office equipment and furnishings. Additional funding for improvements to the Cape May Elementary School pool, and funding for a project to adjust the beach slope. Future improvements to the Beach Avenue seawall and other hazard mitigation projects will be considered based upon the completion of a feasibility study, and shared financing. The 2016 Capital Improvement Fund appropriation is \$150,000.00 to provide for sufficient funding to support the required five percent (5%) down payment for \$3,000,000.00 for General Capital projects. No down payment is required for “self-liquidating” utilities.

The Beach Utility budget totals \$2,414,825.00. Salaries & Wages total \$1,441,425.00 which is \$20,000.00 greater than 2015. The Other Expense appropriations total \$973,400.00 which is \$119,880.00 more than 2015, including non-discretionary insurance costs, capital and debt service. **The total Beach Utility budget is \$139,880.00 more than the adopted 2015 budget representing a 6.15% increase.**

The sale of all beach tags totaled \$2,576,778.00 for 2015. This is \$364,808.00 more than the sales from 2014. The Fund Balance is estimated to be \$840,811.00 as of December 31, 2015. The year 2015 completed the planned progression of beach tag increases. An ordinance adopted in January 2014 increased 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. Also, the City authorized the free Veteran and Active Military beach tag in 2014. Over 2,700 Veteran and Active Military beach tags were issued in 2015.

The Water-Sewer Utility budget totals \$6,877,870.00. Salary and Wages total \$893,450.00 including required contractual commitments, no layoffs have been recommended with this budget. Other Expenses total \$5,984,420.00 including non-discretionary appropriations for debt service, pensions, payroll taxes, and insurances. The Water portion of the budget equals \$2,834,188.00, and the Sewer portion of the budget totals \$4,043,682.00. Within the Sewer budget is a line-item for the Cape May County MUA assessment appropriating \$2,805,000.00, which represents 69% of the Sewer budget, and 41% of the total Water-Sewer Utility budget. **The Water-Sewer Utility budget is \$142,870.00 more than the 2015 budget.** Appropriations for Salaries & Wages decreased by \$7,025, while Debt Service (\$59,138), the additional cost of the CMCMUA (\$51,000), and insurances (\$25,000) comprise the majority of the increase in

expenses totaling \$135,138. The 2016 utility budget **net increase of \$142,870.00, is a 2.12% 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. The year 2015 represented the sixth year in the rate setting cycle. There is no proposed change to the current rates for City customers for 2016. Based on tendencies and leading indicators, a rate study team should be established in 2017.

Both the Beach Utility and the Water-Sewer Utility as presented have a proposed balanced budget for 2016, and maintain a self-liquidating status. As such any capital bond ordinances approved will not require a 5% down payment.

The Tourism Utility budget totals \$1,155,100.00 for 2016. 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 2016 budget is the fifth budget for the Tourism Utility.** The budget is intended to include the cost of operating the new convention hall facility, performing arts and ticketed events, the many recreation programs, select civic and community events, and tourism related expenses and staffing. As stated in prior years, it may be possible in future budgets 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 2016 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.

The proposed 2016 Salaries & Wages total \$374,000.00, and the Other Expenses total \$781,100.00. This is \$48,400.00 greater than the adopted 2015 budget, or a 4.37% increase. The Salary & Wage appropriations are larger (\$26,000.00) based upon the addition of one full-time Convention Hall Facility & Events Operations Staff to support the many activities and shows that have been scheduled. There are eight full-time employees in the Tourism Utility, and many seasonal or recreation level staff members. The Other Expenses increased by \$22,400.00 mostly caused by the increased cost of utilities. The Convention Hall facility is opened approximately 360 days a year, and is closed for only a few of the holidays (ie: Christmas, New Year's day), and is open on many days between 12 and 16 hours.

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. **The overall 2015 revenues totaled \$1,266,287.00 resulting in \$159,587.00 more than anticipated. The Tourism Utility ended the year with an estimated Surplus of \$353,016.00, and a self-liquidating status.**

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 2016 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 and the Finance Department, and Leon Costello, City Auditor, for their help and input in the development of the City Manager's recommended budgets.

Bruce A. MacLeod
City Manager

January 15, 2016