

BUDGET MEETING MARCH 23, 2010

Mayor Tedeschi called the meeting to order at 6:18 P.M.

In accordance with the Open Public Meetings Act, annual notice of all meetings of the Borough of Fair Lawn was published in the Record issues of December 18, 2009. Notices were also posted on the bulletin board located on the first floor of the Municipal Building and the Maurice Pine Free Public Library. Copies were mailed to The Community News and posted on the Borough of Fair Lawn Website. The annual notice identified the times and locations of the Council meetings and work sessions.

PRESENT: Mayor Tedeschi, Deputy Mayor Swain and Weinstein and Councilmembers Baratta and Trawinski.

ALSO PRESENT: Acting Manager Kwasniewski, Assistant Municipal Clerk Bojanowski, Karen Palermo, Borough CFO and James Cerullo, Borough Auditor.

Budget Overview

Acting Manager Kwasniewski reported that the budget had been sent home on Friday. When the budget was completed Thursday night, it was under the cap, however, the announcement was made about the cut in State aid and the budget is now over by \$1.1 million. The Governor has just signed the Pension and Health Benefits Reform and there are a lot of questions regarding which reforms apply to new hires and which apply to current employees and retirees. The Borough is not in the State Health Benefits plan and the plan that Gov. Christie signed requires that 1½% of an individual's base pay would go into that medical plan. Acting Manager Kwasniewski doesn't know if this requirement applies to those who are not in the State Health Benefits Plan. She stated that this bill takes effect on May 21, 2010 for contracts that have expired and she asked if this would apply to contracts that have not been signed yet. She was told that unsigned contracts are considered to be expired and this condition will apply to them. Acting Manager Kwasniewski anticipates daily updates and she added that there must be regulations written to enact the rules.

Mayor Tedeschi said that he would be amazed if this requirement applied only to those in the State Health Benefits Plan. Jim Cerullo, the Borough Auditor, said that they will have to wait for the final interpretation over the next 60 days. Mr. Cerullo introduced himself and said that he is the partner of Mr. Wilcox who was not able to attend this meeting. Mr. Cerullo stated that State Aid has been reduced by 20% to 25% in most of Bergen County. He noted that municipalities have the tax levy cap and in prior years part of the tax levy cap law stated that any loss of State Aid would be an exception to the 4% calculation. The law implies that if the municipality does this they will lose more State Aid and this will be required to be part of the final budget. The penalty could change to be anywhere from a 0% to a 100% penalty which may be the reason for the Borough being \$1.1 million over the tax levy cap.

Mr. Cerullo distributed a hand out which incorporated the budget changes that CFO Palermo had sent out. He said that the budget is \$161,000 under the spending cap. With

the changes that were made, they were able to get below the spending cap, however, the elimination of State Aid has now put them over the cap. The maximum tax levy that the Borough could go to would result in a \$3.3 million tax increase, which equates to an increase of \$276 for the average home assessed at \$404,000. This number would have been less if there hadn't been a decrease in the net valuation taxable by the Borough. Mr. Cerullo said that the Tax Appeals in 2009, reduced the Borough's assessed valuation by \$21 million or .4% and the Borough's present budget is \$1,011,000 over. If the loss of State Aid is allowed to be used as the Tax Levy Cap Exception the increase would have been \$352. The question would be whether the Borough could live with this or would something further be necessary.

Mr. Cerullo explained that there was general capital surplus last year of approximately \$1.4 million. The Borough still has the ability to use that dollar amount in this year's budget; however, this will not be a possibility for next year. For the average homeowner there would be a savings of \$40 for every \$500,000 that is used. This would only help with the tax rate and would have no affect on the tax levy cap. Mr. Cerullo explained that the Borough isn't required to do anything with this money because it doesn't help with the overall tax rate.

Deputy Mayor Swain said that they are dealing with two issues which are the tax levy and the loss of \$1 million in State Aid. Mr. Cerullo said that the Council needs to consider the utilization of additional surplus. At the moment, the Borough is utilizing \$5 million out of \$6.6 million surplus. The surplus is down compared to last year by \$2.3. The reserve for uncollected taxes could be used to make up the difference but any excess goes back to replenish surplus.

Deputy Mayor Weinstein pointed out that these options are patchwork because they do not solve the problem which is that the system has to change. Acting Manager Kwasniewski agreed and added that it is necessary to make systemic changes. CFO Palermo pointed out that whatever actions the Council takes this year will reduce the available surplus.

Councilmember Trawinski commented that some systemic changes are being made over which they will have no choice. He said that the Borough may have additional revenue due to the 1.5% of base salary that will be paid by employees towards their health care benefits. The Borough is also facing a 2.5% maximum annual labor cost increase which may include longevity and health care costs. Councilmember Trawinski pointed out that there are systemic changes that are built in. He doesn't know how the pension changes will apply to new employees and Acting Manager Kwasniewski said that there is language indicating that full time employees only will be allowed into the pension plan and there is confusion over whether or not medical changes apply to councilmembers and assembly people. Councilmember Trawinski said that there has to be systemic changes from Trenton because a 2½% tax levy cap is unsustainable and unrealistic.

Acting Manager Kwasniewski reiterated that on Thursday night the Borough budget was under both the tax cap and expenditure levy. Mayor Tedeschi said that he is not certain that all of the things that Gov. Christie alluded to are actually going to happen. He asked if the Council has the statutory power to eliminate all of the 2010 raises. Acting Manager Kwasniewski indicated that the Borough could halt all raises, however, the unions would

have to agree. She explained that this is an assumption that they are counting on in order to get under the spending cap.

Mayor Tedeschi asked Acting Manager Kwasniewski if she is confident that they will be successful with these measures. Acting Manager Kwasniewski said that they must do all of these things and there are other recommendations they must consider. Councilmember Trawinski expects that they will question and consider all of the assumptions. It is the Manager's job to bring the budget under cap and to present all of the possibilities to the Council and for the Council to consider and assess what is realistic and what isn't. Mayor Tedeschi said that they need to know the dollar amount for every item and Councilmember Trawinski agreed.

Mayor Tedeschi said that the Council should go through the budget line by line. Acting Manager Kwasniewski agreed and stated that everyone will have to make tough decisions. She suggested a Closed Session because items concerning personnel cannot be discussed in public at this point. She and CFO Palermo have agreed that all estimates must be on the conservative side.

Mr. Cerullo stated that they will have to focus on cutting appropriations though lay offs, furloughs, outsourcing, etc. Decisions that are made now will be a blueprint for what is going to continue next year because using revenues is just a one time fix. Councilmember Trawinski questioned whether the Borough could ask for permission to exceed the tax levy cap. Mr. Cerullo stated that they could apply for a tax levy waiver which is based on extraordinary circumstances and having a decrease in revenue is not an extraordinary circumstance because every town in New Jersey is experiencing this situation. Deputy Mayor Swain asked if unanticipated litigation would fall into this category. Mr. Cerullo said it could be a possibility and the cost of damage from the recent storms could be something that they might allow. He noted that last year his office was involved in eight tax levy waivers and the majority were granted in the 50% range of what was asked for. Another possibility is to hold a referendum, however, he would be surprised if Fair Lawn voters would vote in favor of exceeding the levy cap. Councilmember Trawinski asked if there are any other choices to get to the tax levy cap of 4% and Mr. Cerullo said that there are none.

Mayor Tedeschi said that they should be considering short term fixes along with systemic changes. If not it will be a disaster and Acting Manager Kwasniewski said that it is bad now but it will be twice as bad if the changes are not made.

Mr. Cerullo stated that last year's budget included a one-time revenue of \$1.4 million. Last year revenue collection in many towns, including Fair Lawn, was not achieved. The biggest area of shortfalls were court revenues which could be a combination of collections being down, collections over time or the number of tickets written.

Mayor Tedeschi asked if he was correct in thinking that this year they don't have the \$1.4 million from capital surplus that they were able to get last year. Acting Manager Kwasniewski explained that they do have this but she does not recommend using it. Revenues are down by \$523,000; insurance costs are up by about \$1 million, surplus is down, ratables are down and State Aid has been eliminated.

Deputy Mayor Weinstein asked how they would be helped now if they hadn't used the surplus of \$1.4 million last year. Mr. Cerullo explained that they would have had a \$1.4 million tax increase last year and the Borough would be starting out with a higher base this year. In other words, the Borough would be in a better position with the taxpayers this year. Mr. Cerullo said that this is a management and an operational decision and he advised having the taxes go up one or two points so that increases are gradual. Using the surplus hurts the base going into this year. Deputy Mayor Weinstein commented that they believed that the situation was as bad as it could get last year, however, things actually got worse.

Councilmember Trawinski asked about other areas where revenues are down. Mr. Cerullo stated that hotel taxes are down and the use of Memorial Pool was low due to the rainy summer. Passaic Valley Water Authority is taking a larger portion of the sewer charges for commercial properties and using their own meters. Mayor Tedeschi reported that Passaic Valley Water notified the Borough that they will only be receiving \$3,000.

Acting Manager Kwasniewski has suggested that they explore sewer charges for industrial users based on water flow. Councilmember Trawinski asked if they would be able to recapture a portion of that lost revenue and additional lost revenue. Acting Manager Kwasniewski said she based her suggestion on other towns that have done this and she anticipates some outcry. Mayor Tedeschi pointed out that most commercial establishments are not metered.

Councilmember Trawinski asked for the difference between a shortage in miscellaneous revenues and a deficit in miscellaneous revenues of \$90,000. Mr. Cerullo explained that miscellaneous anticipated revenues includes money from other licenses, fees and permits. He said that revenue from other licenses last year was anticipated at \$62,000 and \$48,000 was actually realized.

Councilmember Trawinski asked if there is a chart that shows what makes up the other \$90,000. He said that perhaps some of the fees should be adjusted and it is important that the Council understands why the revenues are down. CFO Palermo said that she had included a revenue re-cap. Mayor Tedeschi recalled that CFO Palermo had prepared an analysis of parking permits in December and there wasn't a large reduction in the number of permits issued, however, there was a reduction in revenue.

Mr. Cerullo stated that the Borough is allowed by law to anticipate up to what is realized in cash in the previous year and there may be some revenues that are not going up or aren't as much as they were last year. The amount of outstanding taxes and delinquencies could be less than last year.

After more discussion, CFO Palermo said that she would give the Council more information on what is meant by "other" when it is used by different departments in different contexts. Mr. Cerullo said that the budget items anticipated in 2010 are what had been realized.

Deputy Mayor Swain asked about the possibility of preparing a laundry list of all of the options including the financial outcome. Councilmembers agreed, however, Deputy Mayor Weinstein said that this would only bring them to one level and they have a long way to go. Mr. Cerullo said that the goal is to introduce the budget by March 31st; however, the first meeting in April would be acceptable. The budget should be adopted by the end of May but the State may not certify budgets until after the State Budget is adopted. If the Borough were to get any State Aid it would be used next year. Mayor Tedeschi stated that that the Council must firm up the savings and he suggested that the Council call in every organization to explain where they are and how they can help.

Councilmember Trawinski asked if the differential in the surplus from tax collections between 2008 to 2009 was due to tax appeals. Mr. Cerullo stated that this was the case and Councilmember Trawinski asked for an understanding of the pending tax appeals and the parameters. Mr. Cerullo said that two things made up the big change which are the tax appeals and the reserve for uncollected tax calculations that was utilized in 2009 versus 2008. In 2008, \$4.3 million was utilized as a reserve for uncollected taxes and in 2009, \$3.3 million was utilized. There was \$1 million from the reserve for uncollected taxes that was reduced and there was over \$400,000 in tax appeals that made up the two items. Councilmember Trawinski said that as the Council considers what the reserve for uncollected taxes should be for this year they now have realistic figures which illustrate the fiscal impact for next year.

Councilmember Trawinski questioned "MRNA" and Mr. Cerullo explained that this stands for Miscellaneous Revenue Not Anticipated or revenues from other sources that were not part of the original budget such as revenue from cell towers. Councilmember Trawinski referred to the temporary cell tower lease and asked where this would show in the anticipated revenue. Mayor Tedeschi said that a decision must be made as to whether this unanticipated revenue flows directly to surplus or would it go to reduce the tax levy if it was anticipated as revenue. CFO Palermo said that it was not anticipated.

Mayor Tedeschi asked about pension deferral and Mr. Cerullo said that pension deferral was a one time opportunity in 2009. Councilmember Trawinski said that he wanted to understand what the State Laws are relative to the role of the municipality in library expenditures. Mr. Cerullo said that it is based on the State formula and the minimum library appropriation is \$1,714,711 and the Library's budget request is \$2.7 million.

Councilmember Trawinski asked for other questions they should be asking to get to the tax levy cap. Mr. Cerullo said that they need to focus on the bigger departments. CFO Palermo agreed and added that the Council must consider what the residents need versus what services can be cut. She said that reductions can definitely be made, however, the Governor needs to realize that each town is unique. They must be open to looking at everything and every department and person must be examined.

Mayor Tedeschi commented that everything is fair game. CFO Palermo stressed the importance of looking beyond this year. Councilmember Baratta asked if Ms Palermo would be recommending policy changes and she indicated that she would.

Deputy Mayor Swain questioned timing and pointed out that they are in the middle of negotiations that will affect this budget. Acting Manager Kwasniewski commented that when they see what the alternatives are they will realize that the other choice isn't too inviting. CFO Palermo said that decisions that are made build upon each other and looking at the big picture will be beneficial to everyone.

Acting Manager Kwasniewski said that the next budget meeting is Saturday, March 27th at 8:30 A.M.

Adjournment

Upon motion by Deputy Mayor Swain, seconded by Councilmember Trawinski, the meeting was adjourned at 7:28 P.M.

Respectfully submitted,

Marilyn B. Bojanowski, RMC
Assistant Municipal Clerk

The undersigned have read and approved the foregoing minutes.

Mayor Joseph Tedeschi

Councilmember Jeanne Baratta

Deputy Mayor Lisa Swain

Deputy Mayor Steven Weinstein

Councilmember Ed Trawinski