

Memo to: Mayor and Council
 From: Ray Codey & Jim Burnet
 Date: February 11, 2014
 Subject: Budget

Attached, please find updated financial documents prepared by administration and finance.

Additional information has become available since the budget presentations of January 27th and February 1st. They are as follows:

1. Madison/Chatham Joint Meeting

The below numbers reflect the proposed new budget and the new allocation ratios with Madison covering 62% and Chatham covering 38% of the budget (prior numbers were 65% and 35%). The \$976,221.59 number is very close to what is in the administrator’s budget. Since the Joint Meeting budget has not been finalized, we thought it prudent to not amend the number just yet. Perhaps this can be refined on February 24th.

	<u>2012</u>	<u>2013</u>	<u>% difference</u>
total budget	\$ 1,775,954.00	\$ 1,792,578.00	0.94%
Revenue and cancelation of PY Appropriations	\$ (321,681.00)	\$ (218,027.05)	-32.22%
'net' budget	\$ 1,454,273.00	\$ 1,574,550.95	8.27%
allocated as follows			
Madison	\$ 946,732.00	\$ 976,221.59	3.11%
chatham	\$ 507,541.00	\$ 598,329.36	17.89%

2. PILOT Agreement with FDU

We recently executed a PILOT payment with FDU with an approximate first year payment of \$38,000. Five percent of this amount goes to the County (about \$1,900) with the remainder being received by the Borough as municipal revenue outside the traditional levy cap. ***The remaining \$36,000 has NOT been added into the Administrator’s budget and is available for tax relief or to support other programs.***

3. Positive Surplus Generation News

We are revising the estimates on 2013 operating surplus generation (page 2, line 4) from \$3,867,000 to \$4,608,000. This is almost completely driven by two ‘non-recurring’ revenues. First, the Realogy property did not receive a final assessment until after the 2013 book was closed. The property value was added to the tax roles as an ‘added & omitted’ assessment. The taxes generated from the property were not included in the original total tax calculation and as such, they go directly into surplus. This

happens for all 'added & omitted' assessments, including small additions and improvements to residential and commercial properties.

The Realogy property along with the other 'added & omitted' taxes generated approximately \$400,000 in additional surplus. This is very rare and cannot be considered a source of recurring surplus.

In a related note, the Tax Collector recently reported a tax collection rate of 99.46% for 2013. We had anticipated a lower collection rate and as such, had anticipated less surplus from the 'Excess of Tax Collections Generated by the Reserve for Uncollected Tax (RUT)'. Please refer to page 2, line 9. This high tax collection rate generated an additional \$300,000 in surplus this year. Note, this will actually have a negative impact on surplus next year as there will be less in delinquent taxes to collect (page 2, line 8). We have updated the surplus figures on the attached

All totaled, the surplus generated in 2013 is \$700,000 higher than previously forecast.

4. Additional information included in the attached budget document

The attached budget documents include additional information as follows:

- Municipal Budget, Summary of Revenues and Appropriations. Revenues and expenses have been adjusted slightly to take into account final expenses and revenues for the joint court.
- A schedule of water utility surplus has been included.
- A schedule of non-tax municipal sources of revenue has been included.
- A schedule detailing Miscellaneous Revenue Not Anticipated has been included.
- A schedule of tax collection rates and equalized values has been included.
- A very tentative budget projection for 2015 has been included.
- Actual kWh purchased and the actual cost of purchased power have been added to a schedule in the electric utility budget report.

5. Important information worth mentioning

Please note the assessed value (pg 7) is increasing for a second year in a row. This is significant and creates immediate tax relief as more properties (i.e. Realogy) are paying taxes.

2015 Estimated Budget. Note that the loss of fund balance and revenues from the sale of property generate a 'hole' in the budget of almost \$2 million. The amount of surplus taken from the electric utility must be increased substantially in order to sustain the \$3.5 million capital budget. We anticipate ending 2014 with approximately \$6.3 million in Electric Utility Surplus, yet our current budget would figures assume drawing down \$7.8 million in surplus. In essence we would have to anticipate surplus, which is not suggested.

Electric Capital. There has been discussion regarding increasing electric capital. The attached document has not been updated, but we agree with Council that this number should be increased to \$300,000.

Electric Utility Power Purchase Reserve. There has been a significant amount of volatility in the Electric Spot Market this past January due to the deep freeze across the entire eastern half of the United States. The municipal electric utilities that are currently under managed contract experienced very high spot market bills (10x budgeted). We would like to talk to council about either increasing contingency or creating a reserve to cover this volatility in the future.

Rock Salt and Snow Removal Line Items. Given the extremely snowy winter, we may need to revisit these line items and adjust them up slightly. We will have a better handle on this on February 24th.

Given the increase in municipal operating surplus, the administrators would suggest increasing the contribution to general capital to pre-fund future large ticket items. Alternatively, a reserve account could be established to set aside funds that could be used to pay down the callable debt in 2018. These and various other options can be discussed further on February 24th.

The second year of the reval tends to generate a significant number of appeals. Filing deadline is in April, and as such we won't know the complete impact for quite some time.

We are currently in a billing dispute with JCPL and Constellation regarding our consumption in October – December. JCPL's master meter went down for an extended period of time and they have issued an estimated bill that is higher than expected. We have engaged a consultant and our rate counsel to help us with this issue. It will likely take months to resolve.

As previously discussed, we do not yet know the impact the Pfizer move will have on the electric utility revenue. We are continuing to monitor the situation but that too will take months to figure out.

The weather and limited natural gas distribution caused significant volatility in the spot electric market in January. There are two concerns with this. First, we may need to adjust our power cost estimates for 2014 and 2015. The other NJ Municipal electric utilities had spot market costs ten times the normal amount for January. Second, while we are in a fixed price contract with Constellation, there is a clause that allows them to pass along certain costs during emergencies. It is possible that they will attempt to pass certain costs on to the Borough. Our rate counsel is reviewing this.

