MINUTES **JANUARY 4, 2012**

The Board of Chosen Freeholders of the County of Warren met in Budget Session in its offices in the Wayne Dumont, Jr. Administration Building, Belvidere, New Jersey on January 4, 2012 at 7:00 p.m.

The meeting was called to order by Director Chamberlain and upon roll call, the following members were present: Freeholder Everett Chamberlain, Freeholder Richard Gardner and Freeholder Jason Sarnoski. Also attending were CFO Charles Houck, Fiscal Analyst Dan Olshefski, County Counsel Joseph J. Bell and County Administrator Steve Marvin.

The Pledge of Allegiance was led by Director Chamberlain.

Director Chamberlain read the following statement: **"ADEQUATE NOTICE OF THIS MEETING OF *JANUARY 4, 2012* WAS GIVEN IN ACCORDANCE WITH THE OPEN PUBLIC MEETINGS ACT BY FORWARDING A SCHEDULE OF REGULAR MEETINGS OF THE BOARD OF CHOSEN FREEHOLDERS TO THE WARREN COUNTY CLERK, THE STAR-LEDGER, AND DAILY RECORD AND BY POSTING A COPY THEREOF ON THE BULLETIN BOARD IN THE OFFICE OF THE BOARD OF CHOSEN FREEHOLDERS. FORMAL ACTION MAY BE TAKEN BY THE BOARD OF CHOSEN FREEHOLDERS AT THIS MEETING. PUBLIC PARTICIPATION IS ENCOURAGED. IN ORDER TO ASSURE FULL PUBLIC PARTICIPATION, THOSE INDIVIDUALS WITH DISABILITIES WHO WISH TO ATTEND THE MEETING SHOULD SUBMIT ANY REQUESTS FOR SPECIAL ACCOMMODATION ONE WEEK IN ADVANCE."**

RESOLUTION 1-12

On motion by Mr. Gardner, seconded by Mr. Sarnoski, at 7:02 p.m., the following resolution was adopted by the Board of Chosen Freeholders of the County of Warren at a meeting held on January 4, 2012.

A RESOLUTION AUTHORIZING EXECUTIVE SESSION OF THE WARREN COUNTY BOARD OF CHOSEN FREEHOLDERS PROVIDING FOR A MEETING NOT OPEN TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF THE NEW JERSEY OPEN PUBLIC MEETINGS ACT, N.J.S.A. 10:4-12

WHEREAS, the Warren County Board of Chosen Freeholders is subject to certain requirements of the *Open Public Meetings Act, N.J.S.A.* 10:4-6, et seq., and

WHEREAS, the *Open Public Meetings Act, N.J.S.A.* 10:4-12, provides that an Executive Session, not open to the public, may be held for certain specified purposes when authorized by Resolution, and

NOW, THEREFORE, BE IT RESOLVED that this Board hereby excludes the public in order to discuss such matters. The general nature of the subjects to be discussed are as follows:

(1) *Matters Relating to Litigation, Negotiations and the Attorney-Client Privilege:* Any pending or anticipated litigation or contract negotiation in which the public body is, or many become a party. Any matters falling within the attorney-client privilege, to the extent that confidentiality is required in order for the attorney to exercise his ethical duties as a lawyer.

BE IT FURTHER RESOLVED that the Board shall disclose to the public, as soon as practicable, the contents of the discussions after the final disposition of the matters discussed.

I hereby certify the above to be a true copy of a resolution adopted by the Board of Chosen Freeholders of the County of Warren at a meeting held on January 4, 2012.

Steve Marvin, Clerk of the Board

Recorded Vote: Mr. Sarnoski yes, Mr. Gardner yes, Mr. Chamberlain yes

On motion by Mr. Gardner, seconded by Mr. Sarnoski, the Board adjourned executive session at 7:50 p.m. and returned to open session.
Recorded Vote: Mr. Sarnoski yes, Mr. Gardner yes, Mr. Chamberlain yes

County Counsel Joe Bell left the meeting at this time.

Director Chamberlain then turned to CFO Charles Houck for an overview of the 2012 Budget proposals. Mr. Houck began by noting that the statutory introduction of the budget date has been moved from January 26 to February 29.

The overall budget has not increased significantly, Mr. Houck said, only by about one percent, so we really don't have a budget problem. However, there is a revenue problem due to a sustained shortfall of fees from the Constitutional Officers and reductions in the tax levy over the last few years. In order to have a sustainable budget, Mr. Houck said, we have to either raise revenue or reduce expenditures.

Mr. Chamberlain said in his opinion, there's no way to increase revenue in this economy without increasing taxes. A lot of people are struggling financially. "I think raising taxes is not an option for me," he said.

Mr. Gardner said he agreed; he talks to many people and it is common for one spouse to be out of a job these days. He didn't think raising taxes would be appropriate in this environment. Tough decisions will have to be made. We'll look at operating expenses and have to chisel them down.

Mr. Sarnoski said he was in agreement that he would not like to see taxes raised on our residents at all. Times are already stressful economically and we don't want to add to that stress. However, he said he was also very concerned about over-using surplus or medical trust funds. We need to be very careful about how we use such funds. Mr. Sarnoski noted he had brought up this revenue problem last year when he foresaw that revenues would not bounce back and there would be a gap this year. "The answer to that was, 'we can always cut services.'" He said he was curious to see what services could be cut since we're running "bare bones" as it is.

Looking at the budget sheets before him, Mr. Chamberlain noted that medical insurance costs went up by $890,000. Under utilities, he questioned why the same amount was being budgeted for electric as last year when that should have been offset by installation of the solar field. Mr. Marvin said Buildings & Grounds Superintendent Alex Lazorisak was working on an analysis for the one year anniversary of the switch to Viridian Energy in February. Mr. Sarnoski was surprised energy costs hadn't gone up more than budgeted considering there are now more buildings such as the Northeast Branch of the Library.

Mr. Houck repeated that the budget has not really significantly increased in areas that are controllable. We have no control over what the healthcare costs are. Mr. Sarnoski asked Mr. Houck what the budget gap is right now.

Having been in this business for 40 years, Mr. Houck said a balanced sustainable budget is defined as collecting as much in the course of a year as is spent. Without taking surpluses into consideration, we're looking at about a $3 million shortfall.

If you start taking money out of savings, you may get by for a couple of years, but eventually, you're going to run out of those sources of funds, Mr. Houck stated. Given the budget restrictions in the State of New Jersey on sources of revenue, the only source you control is the County Purpose Tax which is limited to two percent. "Then you have a really perfect storm on your hands," Mr. Houck said. Even if the Board was willing to lay off half of the County's workforce, that can't realistically be done because a significant portion of the employees work in 24/7 departments or divisions (such as the nursing home, Correctional Center, 911 Center) that have mandated service levels.

Mr. Chamberlain wondered if staff had been built up in departments that had been generating revenue in years past. Mr. Houck said that may be true to an extent, but such an analysis had not been conducted.

Mr. Chamberlain asked if grant funding was being reduced. "Not really," said Mr. Olshefski who went on to say that the real core of revenue reduction is at the nursing home. The funding mechanism there has changed dramatically. The Medicaid reimbursement has gone from $230.00 down to $213.00 per diem plus a "bed hold" reimbursement policy worth about $100,000 per year is being abolished. There is talk of going to a "managed care" system in July of this year. "When I hear 'managed care', that means less revenue," said Mr. Olshefski. The revenue cuts are really coming out of the nursing home in a significant fashion. "You can't not address that issue," Mr. Olshefski said.

Going back to the matter raised earlier regarding the steep increase in employee medical costs; Mr. Olshefski noted that about a third of that is attributable to Warren Haven when you take into consideration the continued reductions in revenue. The gap keeps widening. Mr. Houck repeated his assertion that the County does not have a budget problem, but a revenue problem. He didn't think any significant improvement in the revenue picture was to be expected in the next two to three years. Mr. Chamberlain agreed there would be no building boom in Warren County, being located in the Highlands Preservation Area and comprised of municipalities with anti-development zoning. "I think that's telling us we have to reduce the size of government to match the revenues that are coming in", Mr. Chamberlain said.

Mr. Houck said that means making decisions regarding what services and programs are to be provided in the next five years. "if it means closing down and selling the nursing home …I hate to say it, but if means that, then that's the decision that has to be made," said Mr. Houck, adding that we could get by another year, but then the County will find itself in even worse shape next year.

Mr. Sarnoski said that's been his philosophy: that the long-term budgeting has to be considered along with the current year. He asked about the impact of County tax levy being cut every year for the last three years. Mr. Olshefski said the cumulative compounded effect of that half million dollars per year actually translates to a $3,100,000 reduction in tax revenue over three years than if the tax rate had remained the same. We had all hoped the economy would turn around quicker; it didn't, so now we have this shortfall we have to address to equal it. We have to look at services if you don't want to look at revenue.

One bit of good news, continued Mr. Olshefski, is that the balance in the Open Space Tax Fund keeps growing. There is more than $20 million there. "That Open Space Tax to me seems to be at a high level and I don't know the necessity for that," Mr. Olshefski said, particularly since it was just discussed that development is not anticipated in the county.

Mr. Gardner inquired about the State Mental Institutions cost. The County's share is now up to 15 percent. It was phased in from 10 percent to 12.5 percent to 15 percent over the last three years. "And there again, that's a number we have no control over," Mr. Houck said. The State sends a letter stating what we have to contribute and the budget will not be approved if it does not contain that exact number.

Mr. Sarnoski thanked Mr. Olshefski and Mr. Houck for compiling the budget sheets as they had with the percentage column on the right. He said it was excellent and very well put together.

Mr. Olshefski said there are some accounts with balances that could be tapped into "with the understanding that we also make sustainable service cuts that are going to go year-to-year." He cited the example of the Prosecutor coming in last year for budget discussions. There was talk of cutting some of those positions which would have been sustained year after year. An agreement was reached to leave some positions vacant for a number of months to save money. Mr. Olshefski said, "All the positions have been filled and we have to have that full impact of those positions now for this year." The savings are no longer there; it was a one-shot deal. "We need sustainable year after year savings," said Mr. Olshefski.

Mr. Chamberlain thought the number of lines could be reduced through attrition. The combination of the cost of salaries, pensions and benefits comprises at least two thirds of the total budget. If we don't fill those lines when they are vacant, we can achieve savings and nobody gets hurt. "We're not going to have growth in this county," Mr. Chamberlain said, "so do we need the size of government we have?"

Mr. Olshefski agreed. He had already estimated the value of positions currently vacant to be a savings of $175,000 if eliminated. "That's the first look; I think we can probably do better," Mr. Chamberlain said.

Another area where revenues have been negatively impacted is in Public Health Nursing. The division brought in $3.7 million in 2008; in 2011, revenues were $2,675,000. Warren County had been considered part of the New York metropolitan statistical area, but is now in the Lehigh Valley area.

Mr. Chamberlain asked about the balance in the medical trust fund. Having anticipated the question, Mr. Olshefski distributed another document illustrating the running balance in the Medical Rate Stabilization Trust with his projected utilization through the Year 2016. Mr. Sarnoski expressed concern that this trust exists to stabilize a budget for medical expenses and cuts have to be made each year in correlation. Mr. Olshefski agreed, saying these suggestions would give the Board time to plan its cuts to make up the difference. "You need to make cuts in services," Mr. Olshefski said. Mr. Houck said this is a blessing because the fund allows the Board to make a transitional plan, but if meaningful service cuts are not implemented, the fund will eventually be depleted.

"It allows us time to reduce our major costs, which is personnel, through attrition without people being hurt," said Mr. Chamberlain. "We had some opportunities last year and we didn't take them." Mr. Sarnoski expressed doubt that personnel could be reduced enough to catch up. "We're talking about $2 million worth of personnel reductions in the next year to equal out that stabilization; that's far more people than we're going to be losing over the next year – or can lose," he said. Mr. Gardner and Mr. Chamberlain thought personnel would be one factor in the approach along with examining Operating Expenses.

Mr. Sarnoski was also concerned that salaries budgeted for vacant positions end up going into surplus. While eliminating those positions and associated salaries do cut the budget, the move also reduces the surplus generated the prior year. Without that surplus to draw from, he thought that wouldn't necessarily amount to a budget cut.

Other items Mr. Olshefski wanted the Board to consider going forward were whether to grant $50,000 to the Warren County Regional Chamber of Commerce as has been done in the past and the juvenile detention account. With occupancy down significantly in the juvenile detention center, Mr. Olshefski thought $60,000 could be recovered from that account. If these two cuts are made, combined with eliminating positions currently vacant, that adds up to about $275,000-$300,000 toward filling the budget gap as a start.

Following up on the attrition concept, Mr. Houck estimated that at an average salary level including fringe benefits, we're talking about letting go a minimum of 40 employees. Minimum staffing levels must be maintained in the 24/7 facilities, so there is no choice but to fill most vacancies occurring in those departments. While Mr. Houck agreed attrition would be a "painless way of downsizing", in his view, it was realistically "not do-able". He said we need to look at programs and services. "What are we doing that we don't need to be doing?" he asked. Mr. Chamberlain said he agreed. Attrition is one aspect; examining programs is another and we have to look at Operating Expenses. "I think we have to look at all three," Mr. Chamberlain said. "Those decisions are going to have to be made."

It was generally acknowledged and agreed that the County will not be experiencing growth. Mr. Marvin pointed out that even more of a concern is the net reduction in total equalized valuation. "Everything that we have out there now is losing value, it loses taxable value," said Mr. Marvin.

Mr. Sarnoski said the tax rate has been cut for the last few years; where have service cuts been made? Mr. Houck said the last meaningful reduction was when the Juvenile Detention Facility was closed. Mr. Sarnoski said he understood personnel was an area to examine, "but it's certainly not going to get us to where we need to be and … we're going to have to cut some services or the way we provide services," Mr. Sarnoski said. Mr. Chamberlain said, "Those services are personnel."

Mr. Houck said as we move forward in this budget process, we need to take two approaches: to consult with departments to make sure we're running as tight a ship as possible and try to find places to reduce expenditures and also embark on some long-term strategic planning identifying programs and services to perhaps be phased out over the next five years.

Mr. Chamberlain said, "We're talking some big dollars here. We're talking some major programs and I think the public should have a say in it," adding he would be in favor of having some issues on the ballot so the taxpayers can have some input.

Mr. Gardner was interested in more background information regarding the Public Health Nursing Agency. Mr. Chamberlain said that's an area in which we're competing against private industry. Mr. Gardner thought it was somewhat contradictory since there is a movement to keep people in their homes. He thought we should be netting more profit from this service. Mr. Marvin noted that only Warren and one other county in New Jersey offer home healthcare. "It is not, in fact, the norm for County Government to be providing home healthcare services," he said.

Mr. Sarnoski also wanted Warren Haven's Administration to come before the Board for budget discussions.

Mr. Chamberlain noted that Capital Projects need to be examined as well.

After some deliberation, the Board decided to invite Judy Leone of Public Health Nursing to the January 14 Budget Session. It was expected that Warren Haven would be invited at a later date.

There were no Closing Public Comments.

Phillip Molnar of The Express-Times asked for a dollar amount of the revenue shortfall. He was given a figure of $2,675,000 with the caveat that a last minute "windfall" of $400,000 from a Sheriff Sale of a commercial property was factored into the figure. In Mr. Houck's opinion, since that $400,000 is not a recurring revenue, he said the shortfall is actually $3 million.

Mr. Chamberlain said the shortfall is due to salary increases, increases in healthcare costs and pension obligations.

When Mr. Molnar asked a question regarding the surplus, he was given a set of budget sheets to examine.

On motion by Mr. Gardner, seconded by Mr. Sarnoski, and there being no further business to come before the Board at this time, the meeting was adjourned at 8:48 p.m.
Recorded Vote: Mr. Sarnoski yes, Mr. Gardner yes, Mr. Chamberlain yes

ATTESTED TO:

Steve Marvin, Clerk of the Board