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 5, 2013 at 9:00 a.m.

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

The Pledge of Allegiance was led by Director Sarnoski.

Director Sarnoski read the following statement: **"ADEQUATE NOTICE OF THIS MEETING OF *JANUARY 5, 2013* 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."**

Mr. Sarnoski welcomed everyone to this first Budget Session for the year 2013 and promptly turned the floor over to Mr. Houck and Mr. Olshefski for an overview.

Mr. Houck provided a summary of the budget process and schedule as required by New Jersey Statutes. The Budget is to be introduced on or before January 26 with a Public Hearing scheduled at the time of introduction. The Budget is to be adopted by February 25 and the budget package is to include a Structural Imbalance Disclosure consisting of four areas. Mr. Houck then reviewed a CAP Law Summary comparing and contrasting the 1977 CAP Law which allows for an increase of 2.5 percent or COLA (whichever is lower) and the 2010 CAP Law which limits the increase to 2 percent. There are some differences between the two in terms of allowable exclusions, banking and the way they are calculated and the County complies with the more restrictive of the two. Mr. Houck characterized the process as convoluted and onerous and it takes him a week to explain it as part of his professional development course at Rutgers University.

Moving onto a general overview, Mr. Houck said, "We don't really have an appropriation growth problem in this county. We have a revenue problem." For the past four years, we've held the line or reduced the County's levy. As a result, Mr. Houck said, we have dug ourselves into a hole that's gotten deeper every year. Funds have been taken out of surpluses and the money isn't being generated to put it back which brings us to the sustainability issue. Consequently, this year, we are facing a $4 million shortfall. "The revenue that we're generating through various sources: County tax, fees, etc., doesn't equal what we're spending," Mr. Houck said. Eventually, we're going to run out of money. We have to decide what programs or services we're going to cut or figure where we're going to get more money to continue to provide the same level of services.

Mr. Houck said we wouldn't be in this situation if we hadn't cut taxes for three of the last four years. Mr. Gardner pointed out the dramatic decline in the equalized tax base from it's peak. Mr. Houck noted that the drop in the base (the denominator) certainly results in an effective rate increase since the numerator in the equation is the amount of money we're raising. "If the base goes down, obviously, the rate goes up," Mr. Houck said, "But the rate is meaningless." It's a question of how much money is needed in dollars as opposed to a matter of rates or percentages. We have to either increase revenue or cut expenditures, but when you look at the budget, Mr. Houck said, there really hasn't been anything in our control that's gone up. Notable expenses beyond the County's control include healthcare costs and increases in salaries built in as approved in multi-year contracts. Mr. Sarnoski mentioned pensions. Mr. Houck said actually, this year, pensions aren't a problem. They have only increased about one tenth of one percent due to the rebound of the stock market. There was then some further detailed discussion regarding pensions and the impact of the pension holiday granted by the State years ago.

Mr. Smith asked for an aggregate of the impact of the cuts in the tax levy over the last four years. Mr. Olshefski had already prepared a table illustrating this so he started distributing the handouts to explain in a moment. "I'm going to compound what we did," he said. "We can point the finger at the pension and everything, but we are a part of this problem and we need to get out of this problem," said Mr. Olshefski . Mr. Sarnoski agreed we have to find solutions. In recent years, this Board wanted to give money back to the taxpayers during tough times in hopes that the economy would come back, but it hasn't and it will take more time before we see real estate values go back up leading to increases in revenue. We now have to make decisions on how we're going to manage this budget and make it sustainable for the foreseeable future.

Mr. Marvin said it's the levy cuts coupled with declining revenues in Medicare and Medicaid; we're getting almost nothing in terms of interest income. Fees from the County Clerk, Sheriff, etc. are down to the bare minimum and so on. Mr. Houck repeated we don't really have a budget growth problem, but a revenue problem.

Mr. Olshefski then began his presentation. "There aren't any surprises here," he said. "Anyone that's surprised we have a $4 million deficit hasn't been paying attention to our suggestions over the last couple of years," indicating himself and Mr. Houck. Mr. Olshefski said you have good leadership here. He asked that the Board listen to their suggestions this time.

He then turned the Board's attention to a Historical Budget Overview illustrating the Years 2007 through 2013 (preliminary). Again, it was pointed out that with the exception of appropriations over which the County has no control (medical, pension, institutional care, mandatory expenses) which have increased significantly, the other budget areas really haven't increased. In fact, on the expenditure side, debt has dropped off, but the amount put away for capital projects has also dropped. We are now slated to set aside only half the amount we did in 2008: $6 million versus $12 million. The Board has a pay-as-you-go philosophy, but we haven't saved as we went.

Regarding personnel, the County trimmed the number of authorized positions from 841 to 780 from the Year 2008 to 2013. Salaries increased less than two percent overall during that time, yet within that, we're absorbing some major increases through bargaining unit settlements for law enforcement employees. "Their settlements are what I would consider outrageous," Mr. Olshefski said. Operating expenses have remained flat. "You guys have done an excellent job on controlling expenditures," Mr. Olshefski said to the Freeholders, adding that credit is also due to department heads.

On the revenue side, miscellaneous revenues (excluding grants) have dropped by about $3.3 million over the same time period. The County tax revenue collected decreased by $1.6 million. Another major point Mr. Olshefski made was that the surplus savings needed to put toward balancing the budget took a huge jump in 2012 to $1.3 million, in excess of a million dollars more than in previous years.

In answer to Mr. Smith's earlier question about the aggregate impact of having reduced the tax levy, Mr. Olshefski then reviewed his illustration. Totaling up the decreases in tax levy since 2009, the County lost out on $4.6 million in revenue that it would have had if the levy had remained the same. "This is the issue," Mr. Olshefski said. He provided an alternate scenario of where we would be if Mr. Houck's suggestion of reducing the tax levy by $100,000 each year had been followed. The tax revenue taken in by the County over the same time period would have been $1 million less than if the levy had remained the same. It really compounds, he said, adding that it's important to understand how decisions made can have a big impact down the road. "And down the road is today," Mr. Olshefski said.

There was then some discussion regarding debt. Mr. Houck said Warren County has one of the lowest, if not the lowest, debt ratios in the state and he said debt is not a bad thing, using the analogy of home mortgages. Most people don't pay cash for their homes. Some counties choose to finance their recurring capital projects. We choose to do it on a pay-as-you-go basis, but that means you have to put the money in as Mr. Olshefski had stated earlier, but we've reached a point now where most of the money we had put aside for capital has been spent. So if we have to do a major improvement, we're forced to borrow.

Mr. Houck recalled how a few years ago when the Board was pursuing building a new Library and Human Services Complex, there was an opportunity to borrow $20 million financed in such a way that it would have had no impact on the County Budget because previous debt was falling off and it would have been replaced by different debt. We chose not to do that, but rather, put money aside each year. We have now obtained different buildings. Mr. Houck said another similar opportunity is coming up again with debt payment obligations falling off dramatically in 2016 and again in 2019. The Board could borrow money for necessary capital improvements if it chose to and replace the diminishing old debt with new debt. Although having depleted our surpluses, Mr. Houck thought the County's bond rating would be downgraded.

Mr. Sarnoski inquired about interest rates. Mr. Houck said that was another advantage as they are still very low. Mr. Sarnoski thought any discussion of borrowing should be in regards to long-term use. He said he didn't mind long-term bonding to be paid off over multiple years for facilities people will use over the course of many years as long as there was voter approval of the project. He also pointed out that counties don't get the tax benefits for debt that homeowners do for their mortgages and in regard to the newly obtained Library Campus, we saved up for that and this facility ended up costing much less than the much bigger, different facility that was being planned years ago.

Regarding Warren County's bond rating, Mr. Gardner asked how it could be adversely affected when we have a history of such low debt. Mr. Houck said the bond market views depleting surplus rather than raising revenue or cutting programs as a negative. Mr. Sarnoski said we can build our surplus back up and stabilize ourselves and that's something we'll have to talk about.

Mr. Smith then stated that he concurred with Mr. Sarnoski in terms of the voters being approached before embarking on major capital projects. Regarding the County's debt obligation dropping off in 2016 and again two years later, Mr. Smith said he viewed that as an opportunity to dedicate those resources toward replenishing the capital account while maintaining the lowest debt ratio as possible. He said many municipalities and certainly the State of New Jersey are facing enhanced fiscal difficulties because a large percentage of their budget must be dedicated to debt service. Mr. Smith thought the Warren County Board of Chosen Freeholders has done a good job of keeping that debt down through prudent fiscal management.

If a mistake was made, Mr. Smith said, it was to stop putting money away. He thought it was the Board's fiduciary responsibility to devote a portion of savings toward capital expenses and to avoid debt. He thought this was a philosophy that would also have the support of the public. "I don't think there's been any irresponsibility here whatsoever," Mr. Smith said, but added that he thought a point has been reached where the Board has to change direction.

Mr. Houck said it was a good idea to take that money and put it into a capital reserve rather than debt service. He thought it was his duty to point out this opportunity for flexibility in borrowing should the Board need to use it.

Regarding issuing debt, Mr. Marvin said he wouldn't be surprised if some of the federal tax advantages for issue of Municipal (Public) Bonds disappear in the next year or two. Mr. Gardner said municipalities are hurting and that makes it even more important for the County to be in a better financial position.

Mr. Olshefski then went over what he termed 2013 Budget Highlights to show the major areas responsible for the $4 million shortfall which included funds having been taken out of the medical trust to balance last year's budget; Warren Haven's receipts being down; general surplus generation being down; medical costs increasing and a need to replenish the pay-as-you-go capital fund.

Mr. Gardner inquired about Public Health Nursing. Mr. Olshefski said the agency's revenues are holding the line, but going forward there are significant issues. A contract with Warren Hospital has ceased which will result in per diem services costing more. Mr. Sarnoski was aware of this trend. Mr. Olshefski said Judy Leone does an excellent job and is constantly working to consolidate staffing, but the program is facing some difficult challenges. While revenues have stabilized, it is still costing the County nearly $2 million to run that operation. Mr. Smith added that with the implementation of the Affordable Care Act, there are still so many unknowns that make it difficult for us to map out reasonable long-term plans that will be consistent with what healthcare is moving towards in this country.

Mr. Sarnoski asked if any results of the year end "fiscal cliff" causing so much hype on a national level recently would have an effect on the counties. The answer was that Medicare and Medicaid are federal programs so if they pay out less, costs will be shifted to local governments.

Mr. Olshefski continued with his presentation, pointing out the current fund balance in the Medical Rate Stabilization Trust Account is $4.8 million. This account was very important when the County was self-insured and its precise balance fluctuates on a monthly basis depending on personnel changes. For this reason, Mr. Olshefski and Mr. Houck thought at least $500,000 should stay in this account so this fund could be a source of some relief as long as cuts are made elsewhere in the budget to equal what is being utilized.

The Warren Haven situation was then discussed with a breakdown provided of the three major sources of revenue: Medicare, Medicaid and Private Pay. While the costs to operate the facility have remained level, all revenues went down compared to the prior year by about $1.3 million. Another issue is the lower occupancy rate attributable to a few different factors not unique to Warren Haven.

Mr. Gardner asked about the potential impact if favorable bids are received to contract out three separate service functions at Warren Haven. This would affect about 70 employees if all three divisions were privatized and would take at least half a year to implement. Mr. Olshefski further cautioned that the County will incur "run out" costs for employees if they are not hired by the new companies and go on unemployment, but eventually, there should be a substantial savings. The last time it was analyzed, it came to about $1 million and that was for only two of the three divisions. The bids for these services are not due until the end of February. Mr. Smith thought the results of this process would provide some important baseline numbers and the bargaining units can be approached again. "That's already been done … two months ago," Mr. Marvin said, but Mr. Smith thought it should be done again once we have firm numbers.

Mr. Olshefski then went over the Capital Improvement Program. Today was not the day to get into all the details, but he wanted to point out a few major highlights and unknowns as far as he was concerned so the Board could consider its direction. Some major projects anticipated are improvements to the Court House Annex ($1.5 million was put in as an estimate, but Mr. Marvin said that was too low) and election system replacement ($1.7 million). Some discussion ensued regarding the voting machines. These are computers that have now become difficult to get replacement parts for and will be reaching the end of their useful lives within the next few years. The Help America Vote Act mandated the jump to these high tech yet low lifespan machines. It occurred to Mr. Olshefski that the election system replacement will coincide with the time of the debt obligation drop off discussed earlier. Perhaps we should start banking money in capital for the next couple of years to pay for it. "We either bank or we have to bond," Mr. Sarnoski said. Mr. Olshefski thought it was inadvisable to bond for equipment with a lifespan of 7-10 years with the debt obligation outlasting the life of the equipment. He thought it made more sense to bond for something such as a building that will be used by the public for 40 years or so.

No amount was inserted in the Capital Project Anticipated Section for Warren Haven which always has an ongoing list of projects or for the Court House Phase 2. The plan is to utilize Historic Preservation Trust Funds for the exterior of the Court House, but there will be some interior work that will have to be budgeted for. Mr. Sarnoski noted that while we have to make sure we maintain our capital infrastructure, this is a list of requests that will be gone over in more detail later and not all requests will necessarily be granted.

Mr. Olshefski then distributed another set of data on the Open Space Tax. The cash on hand in this fund has grown to more than $25 million and money already due from the State will add to this as will proceeds from the future sale of the Wattles property. Only $5.7 million is currently encumbered. He wasn't sure if there were any projects being discussed in the pipeline. Mr. Olshefski suggested this be examined as he had for the last two or three years.

Mr. Sarnoski noted Mr. Gardner's previously voiced concerns regarding the potential of the State cutting back in this area. The upcoming Historic Preservation Project will come out of this fund, but the fact remains we are putting more money in than we take out every year. The question is how long we want to continue doing that. We have the option of taking from zero to six cents. Cutting it by a penny would equal about $1.2 million or so. There are a number of factors in play that discourage development in the county; one being the Highlands Act. Mr. Smith said he had attended Hunterdon County's Reorganization recently and these matters were brought up there. There are stewardship issues with the properties we do have and associated costs. Some kind of framework should be established for a long-term vision for development. There was supposed to be relief for the drop in ratables that has not come to fruition. "They decided that they were going to take away our ability to grow; then there should be some way to offset that loss in our ability to sustain ourselves," Mr. Smith said.

Mr. Sarnoski thought Mr. Tierney should be consulted as to what he would consider to be an adequate balance maintained in that fund. Mr. Gardner said the problem is that the State does not have a dedicated funding source. In the future, he said the State monies will be depleted by 2014. Then it will be up to the municipalities and the county to be the funders.

Mr. Smith was assured that making an annual decision to modify the levy of the Open Space Tax does not affect the CAP. Mr. Gardner's feeling was that the public voted in favor of this tax and once it's reduced, it might be hard to garner public support for raising it back up even though voter approval is not required. Mr. Marvin noted that there is also flexibility in the ratio between Farmland/Open Space/Historic Preservation. Mr. Gardner didn't really like the idea of changing it. Mr. Gardner thought the sunset on the requirement to pay pre-Highlands Act appraisal values was coming up in 2014.

Mr. Sarnoski repeated that he thought the Board should decide, in consultation with Mr. Tierney, on a set level to be kept in the fund unencumbered and still be able to fund the projects recommended. He looked forward to the discussion.

Moving on, back to the matter of the overall $4 million deficit, Mr. Olshefski shared his recommendations for a three component approach to address the issue.

1. Restore the County Tax up to whatever the CAP allows, but we can reduce the Open Space Tax so it's really no money out of the taxpayer's pocket.

2. Since there are some proposals on the table for savings at Warren Haven, for this one year of transition, we could take some more money out of surplus (inclusive of the Medical Trust) than we generated. This is not something they would normally recommend; it would be just for this one year as a bridge.

3. Examine the budget for areas to reduce appropriations (costs) with Capital being a part of the mix along with other areas the Board may want to discuss.

The Board was then given a summary of the entire budget as requested by departments in spreadsheet format for them to examine to formulate questions moving forward. Local revenues, including Municipal Court fines were down significantly.

As had been pointed out several times throughout the morning, appropriations really aren't increasing, with the notable exceptions of Capital and Medical. With the County having recently acquired two new buildings, increases in utility costs must be anticipated. There is nothing budgeted for Court House Annex improvements for this year. Mr. Marvin thought it would be a planning year with no construction until 2014.

Mr. Smith asked about arbitration mentioned earlier and has it been budgeted for? It was explained that we are going into arbitration with the Correctional Officers core unit because they have received increases through steps far greater than other County employees over the last three to four years which is not unusual for law enforcement. There is a line in the budget, "Provision for Salary Adjustments and New Employees" where we put lump sums in for contract settlements going forward.

Mr. Sarnoski thanked Mr. Olshefski for his presentation. Mr. Marvin then consulted with the Board to schedule specific departments to come in to answer questions. The scheduled was established as follows:

January 12	Library, Land Preservation
January 16	Public Safety/911/OEM, Prosecutor, Sheriff
January 19	Warren Haven
January 26	Engineers, Roads, Bridges, Buildings & Grounds
January 30	Information Systems, Mosquito Commission, TBD
February 2	Environmental Health, Public Health Nursing Agency, Human Services
February 6	Warren County Technical School

Clarification was provided regarding budget introduction and adoption dates. The timeline can be pushed forward a bit as long as Mr. Houck writes a letter to the Division of Local Government Services accompanying the budget explaining the reasons for it being late.

Mr. Sarnoski said this has been a good overview. We all know we have some challenges. It's been a very good meeting and he thanked everyone for their input.

On motion by Mr. Smith, seconded by Mr. Gardner, and there being no further business to come before the Board at this time, the meeting was adjourned at 10:43 a.m.
Recorded Vote: Mr. Gardner yes, Mr. Smith yes, Mr. Sarnoski yes

ATTESTED TO:

Steve Marvin, Clerk of the Board