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 February 16, 2013 at 9:03 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 County 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 *FEBRUARY 16, 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 said this is hopefully, our final Budget Meeting and turned it over to CFO Charles Houck for an overview. Mr. Houck said we still don't have a balanced budget. In fact, we've added to the budget rather than taking money out. Having worked on this process for six weeks now, Mr. Houck said this demonstrates how difficult it's going to be when the day comes that we don't have the resources: reserves and fund balances, etc.; to supplement the tax. Even if we go with the plan we have to balance this year's budget, we still haven't solved the problem. "We need to do some serious, serious cutting over the next year or so because ultimately, we can't keep going the way we're going," said Mr. Houck. Mr. Marvin noted that this would be addressed in the budget's sustainability statement.

Mr. Sarnoski said when we talk about cuts, we're not just referring to a position or two. It would be major cuts, programs and services. We're trying to offset what we're utilizing out of the Medical Rate Stabilization Trust this year by privatizing some services at Warren Haven.

Mr. Gardner thought the Board was virtually powerless to solve the problem since Warren County is locked into a zero growth pattern. Between bureaucratic red tape and the Highlands Legislation, nobody can expand. He said west of here in Upper and Lower Macungie Townships in the Lehigh Valley, commerce is booming.

Mr. Houck went over revenue from new construction; data he had just recently received from Tax Administrator Melissa Pritchett. With numbers from a couple of municipalities still unavailable, Mr. Houck estimated the total to be about $300,000. The final figure is what would be generated at last year's tax rate to the County. Mr. Houck's recommendation to the Board was

to place this revenue in the Capital Improvement Fund. One of the responsibilities we have is to make sure we keep our facilities in good repair, Mr. Houck said, plus we have about $8-10 million worth of projects on the horizon.

Mr. Houck then reviewed the different CAP calculations and CAP banking procedures. For the maximum allowable amount to be raised by taxation, the County is required to comply with the lower of the two calculations. There is no CAP problem this year; the proposed amount to be raised by taxation falls below the limit.

Mr. Smith asked why we were carrying high surpluses in various accounts. In the case of the Medical Rate Stabilization Trust, when the County was self-insured, it was important to keep a significant balance to guard against catastrophic losses. This account can now be depleted somewhat, but in other cases, the money is dedicated by purpose. Mr. Houck reminded the Board that it just decided it would not borrow money without voter referendum. He said pay-as-you-go means just that; you've got to put money aside each year to amass a surplus to be in a position to address capital needs as they arise. The funds in these accounts are there for a purpose; not to balance the budget.

Regarding the big picture, the amount to be raised by the County Purpose Tax is to increase this year, but will have no negative impact on the taxpayers because the amount to be collected for Open Space will decrease. Mr. Sarnoski said he felt okay with this strategy because looking back over a five year average, we're still building money in Open Space coffers while pursuing projects and with the recent Wattles Farm auction, more receivables are pending.

Getting back to the importance of building Capital reserves, Mr. Olshefski pointed out that while it may look like there's a lot of money on hand, when you consider the cost of anticipated Capital projects, we're actually short. The technical term is "surplus", but it's a working fund.

Mr. Smith agreed that Capital funds have to be available, so he suggested increasing the County Purpose Tax to equal the amount of the decrease being proposed to the Open Space Tax and putting more away for Capital projects. Mr. Gardner thought since there was no impact on the taxpayer, this action would give the Board more flexibility next year.

Mr. Sarnoski said while he would love to be asking less from the taxpayers and continue to cut the budget, until we start making serious decisions about what services we are and are not going to provide, we have to provide those services at an adequate rate and we have to save as we go if we're going to spend as we go with our Capital needs. For the last two years, Mr. Sarnoski said he has been advocating for not affecting the taxpayers, but we are required to save for our Capital Budget and spend adequately on our current services so he understood and was inclined to agree with Mr. Smith's suggestion.

However, Mr. Sarnoski cautioned that this strategy cannot continue year after year. Next year, we're either going to have to retain the 1.5 cent cut to the Open Space Tax or find services to cut and the Medical Rate Stabilization Trust is not going to be there forever.

Regarding sustainability, Mr. Smith echoed the earlier sentiments of Mr. Gardner relative to the negative impact of the Highlands Act. He said the last County Planning Board Meeting was cancelled because there was only one item on the agenda. "With the two percent CAP, we can't keep up with it if there's no growth," Mr. Smith said. Mr. Marvin added that it's worse than having no growth; equalized property values have been declining for four or five years now.

Mr. Sarnoski said he intended to address the topics of zero growth, red tape, unfunded mandates from the State and declining revenues in his budget message. As Mr. Houck said at the beginning of this process, Warren County doesn't have an expense problem, but a revenue problem. We're not growing government here. Going forward, the real question is going to be what services will this county cease to provide in order for us to balance our budget. Mr. Marvin said we really haven't added a service or expanded an operation since the Year 2000 and even then, it was limited.

Mr. Smith noted that from a CAP perspective, shrinking government will not help. If a line item is removed, we now have a smaller base. So even in that case, the dilemma is not addressed. Mr. Houck agreed. Mr. Marvin said for years, the County lived on the growth in the ratables base (which we now know was a housing bubble that popped in 2008) and artificially inflated interest rates. "Now we're on the downhill side of that same dynamic," he said.

When Mr. Smith expressed that he couldn't see what the Board could do in the current set of circumstances to get out of this dilemma, Mr. Houck said, 'I think you're doing it," noting that the Board has come to the realization that we can't keep arbitrarily cutting the revenue side and not cut the spending side. That's how we got into this mess. "You need to increase revenue which you're doing and I applaud the Board for that," Mr. Houck said. We understand that people don't like their taxes to go up, but they do want services from government and they want the facilities maintained.

Mr. Sarnoski said there are no easy choices, but we're doing what we need to do now and planning for the future.

Mr. Smith noted the good intentions of the CAP Law, but when the County is obligated to fulfill unfunded State mandates that exceed the two percent, that's lunacy. Mr. Marvin said we've fallen for bait-and-switch over and over again, especially in the Prosecutor's Office. The State funds a program 100 percent to get it started and then the money drains away.

There was then a discussion regarding the sustainability statement. The Board wanted to be sure the aforementioned issues were clearly disclosed.

In closing comments, Mr. Gardner said he thought this budget was about as sound as it could be. Going forward, there is not much the Freeholders can do to spur growth in the county. The Legislature is doing nothing, so we need to find a voice among municipalities and other leaders to try to get some amendments through.

Mr. Smith said bringing that amount flat (the cut to the Open Space Tax equal to the increase in the County Purpose Tax) is the responsible thing to do. We're doing the best we can in the circumstances and we're still under the allowable CAP. He recognized the sacrifices County employees have made. Mr. Gardner agreed that Warren County has dedicated employees. For the most part, they understand what the Board is facing.

Mr. Olshefski said his biggest fear at this point is how "managed care" is going to impact Warren Haven. He said that was like a cloud hanging over us that we don't know how to plan for because so much is still unknown.

Mr. Sarnoski said he knew before the budget process began how difficult the challenges would be. We've been meeting for the last month and a half to have open, honest discussion. He commended Mr. Houck, Mr. Olshefski and Mr. Marvin for always being honest and presenting all the viable options. He was also grateful to all the Department Heads that came in and understood what we're up against. This was a tough budget, he said, but we have a great team and I'm proud of it.

For the past two years, Mr. Sarnoski said, I've been talking about sustainability and although I would love to see the taxpayers pay less, you can't do that without really cutting services at this point because we're such a lean county. We now have voter-approved bonding which promises the taxpayers we will not mortgage their future and if we're not going to do that, we have to save as we go.

Mr. Gardner pointed out that there are a number of services that government is obligated to provide to the people. He also thanked Mr. Houck and Mr. Olshefski for their efforts.

This budget will be introduced at the Freeholder Meeting of March 13, 2013. The Public Hearing and final adoption will be scheduled for April 10, 2013.

Mr. Marvin reminded the Board of County Engineer Dave Hicks' upcoming retirement party. He also revealed that Hunterdon County Freeholder George Melick announced his retirement after serving for 36 years.

On motion by Mr. Gardner, seconded by Mr. Smith, and there being no further business to come before the Board at this time, the meeting was adjourned at 10:03 a.m.
Recorded Vote: Mr. Gardner yes, Mr. Smith yes, Mr. Sarnoski yes