

Mayor Burden called the meeting to order at 9:00AM and read the Presiding Officer's Statement. Present were Council Members DeNofa, DeSalvo, Dodge, Menapace, Meyer and Pellegrino. Also present were Borough Administrator Thomas Seaman.

Salute to Flag

Mayor Burden led the Salute to the Flag.

Mayor Burden stated that he would like to thank Councilman Dodge, Meyer, Pellegrino, Tom Seaman and all who worked to put the packet of information together for this meeting. Mr. Burden advised the public that Councilman Dodge would need to leave between 10 and 10:30am to attend a funeral in Massachusetts.

Councilman Dodge presented his power point presentation on the budget. (Please see attached documentation.) He reviewed the objectives of the Borough budget, although he noted that this is still a work in progress and hasn't received a final ruling from the Council. He pointed out that he would be going over in context what can be controlled in the Borough budget from an operating point of view. He noted that the Council is not able to control the day to day operating control over things such as Red Bank Regional School, Shrewsbury Borough School and the County. He advised the public that he will review the recent trends and how they have been funded. Mr. Dodge stated that when talking about the budget it requires balancing the service needs of the community with the cost and the impact on taxes. He indicated that people need to be concerned about what is going on in the community in terms of demographics and most importantly the income trends for both households and businesses, which he noted were under significant pressure in the last couple of years. Councilman Dodge stated that the appeals for both household and commercial properties have been pretty aggressive over the last couple of years. The effect of lower valuations causes lower tax receipts putting municipal revenues under pressure during a time when expenses are going up.

Councilman Dodge explained that every year the Finance Committee looks at the operating expenses of each department line by line and in the past couple of years they have held those expenses down but there is question about how much it is possible to cut going forward. He stated that they go into this process hoping to keep the tax increase down with an objective to be 0 to 1.6% which corresponds to an estimate of the taxable income growth within the community. He noted that the focus is to track income growth and expenses with the income growth of the citizens and households of Shrewsbury. He noted that in order to achieve that objective they need to utilize provisions that enable the Borough to defer school taxes.

Mr. Dodge reviewed the proposed and anticipated estimates but he noted that they cannot be considered concrete at this time. He stated that at the local school level the budget is subject to a vote while the County seems to be pretty much set. Councilman Dodge reviewed the figures and stated that the largest increase in the proposed 2011 budget is at the Regional School. He noted that the biggest factor here is that it is not only the most significant growth factor in the Borough's budget but also the cost per student seems quite high relative to the number of students sent there.

Councilman Dodge stated that the Council understands this is a sensitive issue but the economics of the situation at this point dictates that the Council pays attention to this factor. He noted that this meeting was not to review that issue he was simply pointing out where the 3% increase over the past 5 years is relative to the local school, regional school and the county. He noted that the budget is just under \$22,000,000 this year.

Councilman Dodge pointed out that the Borough represents 29.0% of the anticipated 2011 budget, which he stated was down a little bit from previous years. He stated that this meeting's discussion would be about that 29% with the bottom line being that the Council is anticipating a budget that would be on the order of \$8,869,076.00. He noted that the key items are operating expenses of the Borough which are about \$1.6 million. Using 2006 as a comparison, he pointed out that this number is up less than \$100,000.00.

Councilman Dodge stated that salaries and wages are up the most, which is also the largest expense in the budget, with health insurance being up significantly; however Mr. Dodge pointed out that the Borough made a significant change this past year to move from a private provider to the State's program and he noted that the number would be a lot more if that change had not been made. Mr. Dodge stated that retirement and disability are the next biggest item costing \$862,422.00 and those items, along with the Borough's debt service, represent 64% of the total budget. He noted in the short run these items are not controllable as they are either contract driven or State regulated. Mr. Dodge stated that the contract renegotiation cycle is really the only opportunity they have to influence those costs. Councilman Dodge commented that the Council can request that the contract be reopened for negotiation in the existing contract period and this has been done in the past. He stated that in the months ahead they would be talking to contracted employees as to additional cost savings that the Borough might be able to achieve however that would be over the next 12 months and not in the immediate budget cycle. Councilman Dodge stated that the increase this year is expected to be around \$200,000.00, pointing out that there has been a significant increase since 2006 of almost \$2,000,000.00 as he referred to his power point presentation.

Pointing to the figures shown on the 2011 Budget Operating Expenses as a percentage of total, Mr. Dodge pointed out that this provides just the perspective of what percentage of the total budget is in each of these categories. He noted even though they have worked aggressively on operating expenses which is important, at this point to really affect the bottom line budget at the Borough level is not going to come from efforts to save money on supplies, training and equipment for the Fire House, Borough expenses for administration and so forth. He pointed out that the biggest portion of the budget is in the category of salaries, wages, health insurance, retirement and disability costs. Mr. Dodge referred to the slide that covered the top ten operating expenses for the Borough which involved collecting trash and disposal and tipping costs associated with this, Police Department operating expenses, workers compensation insurance, along with the typical utility expenses. Referring to the slide "Non Operating Expenses & Trend"; he pointed out that this year's budget would show a 5.3% increase in wages, salaries and benefits and he noted this is what gives the Council, Finance Committee and public stress when talking about cutting expenses because it impacts directly on Police and DPW basic services to the community. Mr. Dodge acknowledged that they are the biggest expenses and if we are going to control taxes there is no place to go but

where these expenses are so he noted they would be having those difficult discussions to see what can be done.

Mr. Dodge continued to step through all the pages of his power point presentation and at this point addressed the revenue portion of the budget. He pointed out that \$2.6 million in revenue comes from a combination of items namely \$1.4 million in anticipated surplus, which includes an anticipated deferral of school tax coming in at about 7% of the total budget, and another \$1.2 million representing State aid and grants.

Councilman Dodge pointed out in the slide where Grants and State Aid are both down on an average annual basis of 3 to 6% which translates that even if we are holding the expense portion of the budget down the Borough is still losing revenue which causes an increase in taxes even though the budget is going up. He pointed out that the decline in building and UCC Fees normally collected are way down which is putting pressure on the economics along with the decline of aid and grants from the State. Mr. Dodge reviewed the IRS data which was available by zip code which allowed him to calculate the average adjusted gross income per household in the Borough of Shrewsbury. He stated that the target was 1.6% on the budget and that is based on the data available showing the average annual increase in income in the Borough of Shrewsbury is 1.6%. He stated that general appropriations and taxes raised from the Borough exceed that income growth.

Mr. Dodge stated that Capital expenditures don't fit directly into the operating budget but instead fit into our annual budget cycle. Mr. Dodge stated that the way they get into the operating budget is through debt service and that debt service component is principal interest which can have a short term minimal impact on the annual budget to finance things to count as appropriations and not have a dollar for dollar impact on the budget. He noted that the concern is what is being done to the balance sheet of the borrowing capacity of the debt burden of the Borough. He pointed out that the Borough maintains a very high credit quality rating and the Borough has borrowing capacity that is well in excess of what we have borrowed so far. Mr. Dodge continued that our interest rate is competitive, our credit rating is good, and our intermediate to long term maturity is at 12 ½ years. He pointed out that the only issue we need to keep in mind as we go forward is the percentage of the annual Borough budget which is up to 10% and that number doesn't give us unlimited borrowing capacity.

Mr. Dodge continued that the issues and challenges that we have facing us after this budget cycle and that may influence the final numbers are the following:

The operating budgets are very lean already after multiple meetings with most of the major departments with maintaining discretionary purchases. He pointed out how it is getting harder to defer the acquisition of supplies while maintaining the best services and considering safety in the community. Spending that exceeds taxes raised have been helped by grants and State aid which are in decline and under pressure. The commercial component of our tax base had been doing very well but now is doing very poorly. This is significantly affecting assessed valuations in the Borough and the ability to raise taxes. He stated that the way and we have been filling the gap is with the deferral of school taxes. He pointed out that if we stay the current rate we will run out in about 3 or 4 years.

Mr. Dodge stated that we have some major deferred expenses and they are capital in nature but they are significant. He pointed out that we have a road (Blades Run) with major problems and a fire truck that is in excess of twenty years that is used for confined access situations, which is in need of replacement. He spoke about the deterioration and problems associated with both of these capital items. Councilman Dodge commented that there is serious consideration being given to strong public input on any decisions being made. Mr. Dodge stated that if further expense reductions become necessary hopefully the public and the Council will arrive at the conclusion as to what services are necessary and which aren't.

Councilman Dodge stated that the public would be surprised to see the full list of initiatives that have been addressed with regard to reopening consideration of shared services, to reopening existing union contracts, to working with departments to alter the way they organize themselves on a day to day basis, to how we are considering the replacement of people as they retire and he added that there is a long list of things that are underway right now that will continue beyond this budget cycle.

Mr. Dodge stated that some of this relates to the confusing equalization formula which attempts to adjust property values in the Borough and that adjustment process bears directly on how the taxes for Red Bank Regional School System is allocated to each sending borough. The Finance Committee has been trying to understand that better and finding out who can explain all that so far it has not been as straight forward as one might hope but they have the motivation to get to the bottom of this. He spoke about the reevaluation of the assessed property values in the Borough which may begin this year as the Assessor is talking to the County about this now. He noted that appeals are up significantly; Mr. Dodge discussed how the appeals process, in particular the valuation process, is handled for commercial businesses based on their business income. If their business falls off substantially, or their tenant leaves, there are grounds for appeal and he pointed out that there have been some significant vacancies that have opened up in commercial office buildings in the Borough and this has added to the increase in tax appeals. Mr. Dodge stated that 30% of the Borough's overall tax receipts come from commercial. He stated that Shrewsbury Borough is different from the other neighboring Boroughs in that it has a lot of volatility in economic downturns in the assessed valuations and the tax receipts from them. He explained that when times are good this works out well but the Borough is dealing with the other side of that now.

Councilman Dodge stated that we need to get this information out there and involve the public in considering the range of ways to reduce costs. The public will need to sign off on reductions in services which he pointed out is what the Borough did when trash pickup was outsourced. He stated that he felt it was a very good effort this year but that the Borough is running out of options to keep taxes down. Greater transparency and communication are going to be paramount to dealing with these issues if they become significant going forward because in some respects the choices might be the public's either directly or indirectly. Councilman Dodge stated that unlike previous budget workshops the Council has decided to open it up to the public for questions and comment however he pointed out that there are some levels of detail where the Council will have to draw the line. He noted that they can't talk about the specifics with what the Council is doing from a contract or personnel point of view but the factors being considered can be discussed.

Councilman Meyer stated that Shrewsbury Borough is compared to Little Silver quite a bit and as Councilman Dodge pointed out we rely on commercial real estate for almost a third of the Borough's taxes where Little Silver's is only 2% of their taxes. He noted that this is such a dramatic difference because there are so many more homes in Little Silver. He noted that regarding the reassessment of the homes the Council realizes that this is good for some and bad for others but he pointed out what we have to realize is that of the three sending districts that send to RBR, Shrewsbury has the lowest assessed value at 70%, which is why the Borough's bill is the highest. He pointed out that as soon as you get reassessed on your home you automatically go to 100% so there will be some benefit there.

Open Meeting to the Public

A motion was made by Councilman Menapace, seconded by Councilman Dodge to open the meeting to the public. The motion was approved by consensus vote with all members present voting yes.

Judy Martinelly, 70 Corn Lane and 675 Broad Street stated that she was owner occupied in her commercial building and the only changes she has experienced is her taxes going up. Councilman Meyer explained how vacant real estate affects the tax base. They discussed the difference between commercial real estate taxes called property taxes and what they know as residential property taxes. Councilman Dodge explained that when you talk about commercial property taxes it is not the same as it is with respect to a residential property. Residential is about how houses are selling, recent sales prices and raw land but when you go over to commercial side it is really dictated by the business value, their revenue and their net income, it changes. He explained that if a business has a 100% occupancy and then it changes to 50% they absorb a 40% decrease in per square rental rates and if all their expenses are equal, then their net income would drop by 40%. He explained that the situation is further confusing in that the net income number is subjected to a multiple based on business conditions and interest rates and cost of capital and other factors. He stated that it is more of an evaluation of the business that sits in the commercial entity as opposed to the property value of the commercial entity. Ms. Martinelly questioned that when she looks up, on the tax site, the value of a commercial building she sees a land assessment and a building improvement assessment. She questioned when does a change show up in the records? Councilman Dodge responded that when they sat down with the Assessor they sat down thinking that it is allocated as a property but the method of calculating the value of the business and how it's allocated based on the meeting that they had with the Assessor is according to the net income of the business. Councilman Meyer stated that it will change down on appeal but it is a fluid situation where the Assessor constantly monitors the vacancy rates because the impact to the budget. He noted that once it gets appealed the Assessor will monitor it very closely.

Ms. Martinelly questioned when we see the adjustment on a commercial piece in the record. Councilman Dodge responded that when the Assessor makes the adjustment he is not sure when it shows up on the databases. Mr. Seaman stated that the Borough receives the new duplicate the beginning of every year and the new duplicate this year was down \$16 million and that was from all the adjustments from the appeals.

Councilman Meyer stated that we already know that we will lose about \$2 ½ million going forward because there was a huge reassessment on one property and the owner of the property took less than 100 % because he knew it was going to have a huge impact on the tax rate. He stated that he knows that we only give the bad news but we know that there are 33 appeals in the process and of them, 6 are commercial and 27 are residential. Mr. Seaman stated that some good news is that we have some new construction coming into the Borough that won't hit the ratable for another couple of years but the K Hovnanian and the Seashore Estates will help the Borough's assessments go up.

Mr. Dodge stated that what he hoped to show the public present at the workshop was that the Council was really striving to share this information in a way that doesn't incite concern but demonstrates that the Council is on top of this situation and the reasons we are being aggressive with respect to services, salaries and wages. He noted that the insidious part of this is that when you talk about having to deal with expenses it affects real people.

Ms. Martinelly stated that she felt the handout and preparation was fantastic because she is constantly being asked why Shrewsbury's taxes are so high when we have so much commercial ratable. Councilman Meyer questioned if she knew before coming in here that 33% of the Borough's taxes come from commercial properties as opposed to 2% from Little Silver, he stated the number is staggering. Mr. Meyer stated the reason our commercial number is so high is that we have the least amount of homes.

Mr. Dodge commented that the high number of commercial properties does not just affect how taxes are raised but involves the services that we are obligated to provide as well. He continued that probably no place is this more significant than in the Police Department where monitoring the businesses after hours and shoplifting issues during the day and policing county roads comes into play. He stated these factors directly influence the number of patrols we are going to have, how big they are going to be, the level of their qualifications, how much they are going to be paid and the services we are going to need to support them in terms of dispatch and other services in the Borough as well. Mr. Dodge stated that he hoped the public was getting a perspective on the issues the Council is looking at and considering in their planning in an attempt to stay out in front of these variables. Mr. Dodge stated we don't have a disaster, our debt service is great, our operating expenses are under control, we are having a certain level of cooperation in discussing expense controls with the unions, we show up at the Board of Education meetings and ask the tough questions which are totally justified, we will sit down more with the Assessor, we will find out how these formulas work and we will get to the bottom of it. Mr. Dodge stated we are working as hard as we can and not just in terms of operating expenses every year but in the total picture of the total tax bill that is affecting Shrewsbury Borough in a way that the Borough probably hasn't had to do in a long time. He pointed out that these are the questions the Council is dealing with and they are doing their best to get the answers.

Ms. Martinelly stated that she was so glad that they are following up on that. She questioned

what the cost for the revaluation was and where is that in the budget. Mr. Seaman responded that the cost of that is usually around \$150,000 and that it would be spread out over 5 years. He continued that they would create a Special Emergency Line Item and that would be added on to the following year's budget which is standard procedure.

Mr. Meyer stated that it is easy to talk shared services but the fact of the matter is, if you compare us to other towns, we are one of the few towns that has two four lane highways running through it and some of the surrounding towns and their Police Departments don't even want to get involved with that.

The Council discussed the County costs and if they were within the 2% Cap and the exclusions from the Cap. They discussed the County portion of the budget and what the Borough receives for the portion they pay. They discussed the County's budget and how it applies directly to the Borough and they questioned if it is proportional to the obligation these County and State roads put on the Borough. The Council discussed the different portions of the County budget that are excluded items.

Elizabeth Andia-Waterbury, 111 West End Avenue stated that she missed part of the discussion about the equalization formula and asked where she could go to gain a better understanding on this subject. Councilman Dodge stated that googling the county website she would get a subjective description of what is going on. He stated that the Council's approach has been to try to understand the available information and then they will be following up with one of the Freeholders who happens to be a former resident of the Borough to gain some insight where they have questions. Mr. Meyer reviewed the surrounding towns assessed values and how this effects the budget.

Ms. Waterbury questioned if there was any benefit to being the host community to the Monmouth County Library besides not having to pay for your library card. The response was that it is a soft benefit and otherwise, no. Ms. Waterbury shared that the Planning Board has been dealing with the change in the time of decision rule from the State regarding when an application can be considered "locked in" as to what Ordinances apply when applications come before the Planning Board. She explained how they have been reviewing the Ordinances to tighten up any areas that might have a loophole in them. Ms. Waterbury stated they have to consider how this affects the Master Plan and that this has caused the Planning Board to have meetings that led to the examination of the Master Plan. Ms. Waterbury noted that they realized that it has been a long time since the Master Plan has been looked at in totality as opposed to previously being viewed only in pieces without a total assessment. She noted the conclusion the Planning Board came to is they need to tighten up any loopholes that exist but also they need to review it in totality to make sure that it represents what the Borough's current views and needs are. She discussed balancing out the Master Plan going forward with the views of where we need to go and the consideration for the County and State roads which impact our Master Plan. She discussed the different planning that may have to be considered from a different view from a different economy and how to create a

community that is sustainable to all aspects of that community. Ms. Waterbury spoke of the mission to look at the Master Plan as a whole as a balanced community that is sustainable.

Councilman Dodge stated that he had an obligation and so he excused himself at 10:10 a.m.

Karen Lloyd, 20 Penbrook Court thanked the Council for their work on the budget and the transparency they created with the information. She questioned slide number 4 where 39.1% is shown for the change in Regional School taxes since 2006. She stated that she just wished that there was an asterisk there to explain what affects that tax figure. She stated that a direct comparison. The local school tax is directly relatable to the number of kids in the town. With regard to the Regional School number there is so much more in its calculation than purely a tax number divided by the amount of Shrewsbury students sent to the high school. Ms. Lloyd stated that she was hoping that during that discussion the Council would bring in the reason why the 39.1% might look strange or how that calculation was derived. The assessed to equalized valuation for Shrewsbury since 2006 has affected this tax number and this is one reason why it is distorted. Comparing how the assessed to equalized values have changed in Little Silver, Red Bank and Shrewsbury since 2006 and you would see why that number might be heightened to that level. Ms. Lloyd continued that in 2003, Little Silver and Shrewsbury were reassessed. In 2004 Shrewsbury's ratio was 105.04%, Little Silver's was at 106.4% and Red Bank was at 73.77%. In 2006, she stated, we were at 82.50% dropping to our present level of 69%. Little Silver dropped from 86% to 75%. She continued, so our drop is more significant than Little Silver's. Red Bank was just reassessed in 2007 and their ration is 97%. Ms. Lloyd continued that because of this issue she felt that it needed to be mentioned, to be a little more transparent, when the figure was mentioned in the slide. She stated that she felt to be fair we need to note that this calculation is not the high school's fault. Ms. Lloyd stated that she was glad that Mr. Meyer brought up this calculation at the end of the presentation and was pleased that the Council had plans to address this issue going forward.

Councilman Meyer responded that in 2006 according to figures released by Red Bank Regional their cost per student was under \$14, 000 as compared to \$18,698 last year and this year it is down to \$18,000 so the difference between \$14,000 and \$18,000 is \$4,000 almost 30% higher in that same period. Their costs per student has gone up 30% and he acknowledged that she brought up a good point that Shrewsbury's valuation has gone down but their cost per student according to their public documents has also gone up by 30% in the same timeframe. Ms. Lloyd stated she understood that too but she felt the valuation bears explanation when putting that number up there.

Ms. Lloyd stated that she was glad to see the equalization formula noted in our plans for managing the future needs of the Borough. She questioned what we can do as a town to appeal to the State to have some input about the equalization calculation and she mentioned the situation that existed in Sea Bright with their cost per student. She questioned if we don't feel this calculation makes sense what can they do to change the calculation. Mr. Meyer responded that the only thing you can do is to order a revaluation it is more a County calculation than a State issue. He commented there has to be objective criteria for them to arrive at these numbers but if we were evaluated at 100% and Red

Bank were valued at 70% we wouldn't be having this conversation. Ms. Lloyd stated that she personally loves the school that her children go to and she feels they have gotten a fabulous education and she wouldn't want to see the school budget defeated. She stated that her children have gotten a direct benefit of having a wonderful high school. She spoke about the budget for the high school which was defeated last year and the pay to play issue that came into discussion. At that time she was quoted \$1,000 for her child to play soccer for the year. Ms. Lloyd stated that if "pay to play" is considered again this year as a cost cutting measure, if the budget is defeated, that she has to look at that costs affect on her against the proposed budget increase of \$48 this year. She stated that the budget being voted down would then potentially cost her more money than less money. Ms. Lloyd thanked the Council.

Mr. Meyer stated his concern was that the building was constructed to house 1,500 students and there are only 850 from the three surrounding areas. He continued that the concern was if they have any plans to move forward without any degrading of programs they haven't made it available. Mr. Meyer stated they have 800 students there and they are backfilling with 250 students from other towns. He stated that his biggest concern was that they publish a \$18,000 per student cost and he his understanding is that it is \$18,000 per all 1,050 students. Ms. Lloyd stated that she knows they have been discussing tuition costs but as she understands it instructional support cost per pupil is really the basis of most of the schools tuition charge. Mr. Meyer stated that his understanding is the reason they are \$12,500 for tuition students is because they don't want to compete against the other private schools in the area. Ms. Lloyd agreed but similarly to Shrewsbury Borough's tuition she questioned isn't it based off of instructional support cost. Mr. Meyer stated that Shrewsbury Borough's cost of \$13, 000 is the total for everything, and they do it a little differently.

Marjorie Clark, 213 Garden Road, Shrewsbury commented that she would like to commend the Mayor and Council for having a workshop on the budget where the public is allowed to participate. She questioned if consideration of opening up contracts and renegotiating has been attempted yet with the unions. Councilman Meyer responded that yes an attempt has been made to have that conversation for certain cost cutting parts of the contract but that is up to the unions as we are bound by the signed contracts.

Ms. Clark reminded everybody about Senator Beck's statement at the meeting she attended here about reducing things to make a budget reasonable. She asked the Council to consider all the possibilities where we can cut and slim down the budget wherever we can.

Close Meeting to the Public

Seeing no one else to speak a motion was made by Councilman Meyer, seconded by Councilman DeNofa to close the meeting to the public. The Motion was approved by consensus vote with all members present voting yes.

**BOROUGH OF SHREWSBURY
MUNICIPAL CENTER
MAYOR AND COUNCIL**

**78
BUDGET WORKSHOP
APRIL 9, 2011**

Mr. Seaman spoke in Mr. Dodge's absence asking for a motion to approve the budget that we have submitted to introduce at the next meeting. Mr. Seaman stated it would be a 1.6 cent increase and the reason for that is the change of valuation issue. He noted that last year the budget increased by over 3 cents and all the other years we had to increase by 3 cents so I feel we have done a really good job with this budget.

A motion was made by Councilman Meyer to accept the budget introduction at a 1.6 cent increase, seconded by Councilman Pellegrino. Mr. Meyer and Mr. Seaman discussed the different figures involved in the deferral of school taxes considering what is deferred this year and next year. The motion was approved by roll call vote with all members present voting yes.

The Mayor thanked the Finance Committee for all the work they put into the budget this year. He stated how he, the Council, and he is sure the residents, appreciated all their work. He again stated for the record that Councilman Dodge needed to leave the meeting when he did to attend a family funeral in Massachusetts.

Councilman Meyer commented on the fire truck issue. He stated that currently the Fire Department has three fire trucks and the oldest fire truck is over the statute limit for replacement and the cost of that is a half a million dollars. Councilman DeSalvo met with the Fire Department to tell them the Borough would not be able to budget it this year. Mr. Meyer stated that he wanted the public to know that in 2017 the Ladder truck, which is the biggest truck, will also have to be replaced and that will be a \$1.2 to \$1.4 million dollar difference in the budgets. He noted that in the next 5 years we are looking at a \$2 million dollar cost for the replacement of fire trucks which is going to be a tremendous expense. He stated that he wanted the public to know this in view of full transparency.

ADJOURN

A motion was made by Councilman Menapace, seconded by Councilman DeNofa at 10:38AM. The motion was approved by roll call vote with all members present voting yes.

Attest: _____
Kathleen P. Krueger, RMC – Municipal Clerk

Approve: _____
Donald W. Burden, Mayor