City of Englewood

Report of the Mayor’s Commission on Budget and Finance

June 23, 2011

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Introduction

In October 2010, Mayor Frank Huttle III appointed our Commission to examine the municipal operating budget and its effect on the quality of life in our City, and to recommend measures to improve the City's financial condition. The operating budget consumes approximately 44% of the funds raised through the Englewood property tax levy.

Englewood Tax Levy

	2005	2010	% Of Total	Increase	Percent Increase	Average Annual Increase
School	40,263,536	48,428,618	45.5%	8,165,082	20.3%	3.4%
County	7,566,728	10,791,972	10.1%	3,225,244	42.6%	7.1%
City	34,208,212	47,214,620	44.4%	13,006,408	38.0%	6.3%
Total	82,038,476	106,435,210	100%	24,396,734	29.7%	5.0%

Our commission included the Mayor, two City Council members, an independent municipal forensic accountant, and six individuals who live or work in Englewood, who were selected for their broad experience in private-sector financial management. Coming from a wide variety of personal and professional backgrounds, we collectively examined the City's financial and budgetary practices with the aim of recommending consensus solutions intended, as stated in our Commission's charter, "to best utilize and leverage City assets; maximize the operational efficiency and administration of the City government; and accomplish the stabilization of property taxes." Specifically, our mission was to recommend practices that would enhance financial stability and effective governance in the City of Englewood. We did not attempt to establish the City's spending priorities, as we regard these as the exclusive province of our fellow citizens acting through their elected City Council.

We utilized the City's 2005 budget year as the benchmark for studying changes in the City's financial practices. The first phase included a review of thousands of pages of financial information—including budgets, collective bargaining agreements and contracts—as well as interviews with the heads of all City departments to ascertain Englewood's current financial status. In the second phase, we studied recommended solutions.

The initial assessment of Englewood's current financial condition is sobering. The question, "Is Englewood's long-term financial situation sustainable?" led to further questions: Why have Englewood property taxes been rising at unsustainable rates? How do our costs compare with those of surrounding communities and the private sector? Where do we go from here? Our objective has been to answer such questions in the course of our work.

Part I. Englewood's Deteriorated Financial Condition

The Commission first met during November 2010 prior to the City's annual budget review, and had an opportunity to observe the process during a complete cycle. This year, the process included parallel presentations by the City Manager and Department Heads to both our commission and to the City Council. In general, presenters called urgently for continued funding of their departments at present levels.

We quickly recognized that in recent years the City has operated under the illusion that it was balancing its budget, when in reality it was shortchanging the City's future by deferring needed capital expenditures, failing to pay principal on City debt, dipping into its operating reserves, and underfunding reserves for tax appeals. Most significantly, it was basing its revenue assumptions on an untenable increase in property values during the recent housing bubble.

1. Investment in capital improvements has rapidly declined since 2007

Year	Improvements	Cumulative Decline
2007	7,535,649	
2008	6,743,359	-10%
2009	4,035,998	-48%
2010	2,720,710	-66%

A visitor to the dilapidated Englewood firehouse or the McKay Park facilities will find that the City of Englewood is paying its bills in part by allowing its physical assets to deteriorate. This neglect is further evident in the City's annual budgets, which indicate a precipitous decline in capital spending on infrastructure.

We heard testimony that the capital budget had been slashed to enable the City to balance its annual budget without raising taxes. It is our collective experience that neglect of capital items results in greater cost in the long run, not less, and the Commission recommends strongly that the City's capital budget be fully funded in each and every City budget hereafter.

2. Borrowing by the City swelled 30% during the period from 2005 to 2011

City of Englewood - Debt Outstanding 2005-2011

(As of December 31)

Debt Category	2005	2006	2007	2008	2009	2010	Change 2005-2010
Serial Bonds	$8,425,000	$6,955,000	$5,400,000	$4,700,000	$3,950,000	$7,615,000	(810,000)
Assessment Bonds					8,775,000	8,775,000	8,775,000
Anticipation Notes	18,715,000	27,749,564	32,026,139	35,119,369	27,238,850	26,180,921	7,465,921
Capital Leases- BCIA	15,316,016	15,316,016	15,316,016	14,613,984	13,927,186	12,861,276	(2,454,740)
Total Debt Issued	42,456,016	50,020,580	52,742,155	54,433,353	53,891,036	55,432,197	12,976,181
Change from Prior Year		17.8%	5.4%	3.2%	-1.0%	2.9%	
Cumulative Change from 2005			24.2%	28.2%	26.9%	30.6%	

To our consternation, City deficits have been financed with interest-only, short-term loans, and no effort has yet been made to pay down principal or develop a sinking fund to provide for future repayment. The Commission is adamant that the City stop "kicking the can down the road" and immediately develop repayment plan for the retirement of this debt, and that the City charge these amounts against the annual

City budget. As the table above indicates, City borrowing has increased by over 30% since from 2005 through 2010.

A large portion of current borrowing, $8,086,433 in currently outstanding temporary notes, was incurred to finance purchase of the Lincoln and Liberty Schools from the Board of Education for redevelopment. The City originally borrowed $11,500,000 for this project. In ensuing years, no progress has been made in redeveloping them for this or any other purpose. The Commission strongly recommends that the City decide the fate of these deteriorating properties, and proceed with their sale or re-use as may be appropriate.

3. The City has severely under funded reserves for successful tax appeals

As a result of the declining housing market, the City faces an unprecedented wave of property tax appeals. Given the downward movement in the market, we assume that a large percentage of these will be successful, and therefore cash will be needed to cover losses of revenue attributable to prior years. As the City has not sufficiently reserved in prior years to cover these appeals, the City will need to borrow funds to repay them. The City presently has $30,000,000 in pending tax appeals. Assuming a 5% reduction in tax receipts due to successful appeals, the total loss of income could be as much as $1,500,000 during 2011, twice the assumption in the Budget. The tax revenue assumption should be adjusted accordingly. The Commission disapproves of the practice of providing inadequate tax reserves, which by deferring recognition of the losses, overstates the revenues available to pay City expenses such as payroll. As of December 31, 2010 there remained $500,000 set aside for successful tax appeals. This reserve could be easily exhausted by any one of the large tax appeals that are currently pending against the City.

4. The City's operating reserves have declined 30% from 2008 through 2011

Surplus Balance				
As of	1-Jan-08	1-Jan-09	1-Jan-10	1-Jan-11
	$6,057,965	$5,605,055	$3,486,627	$4,528,645

The City maintains operating reserves to provide for emergencies. Raided in recent years to cover otherwise avoidable operating deficits, the City's surplus has sharply declined. Using the City's cash reserve to fund current expenses puts the City in a precarious position by understating the cost of operating the City, and by depleting the financial cushion that provides for its continued operation in the event of a genuine emergency in which the survival of our City is at risk.

5. The City has become addicted to inflated property assessments

Breakdown of Englewood tax assessment increases – 2005 v 2009

	2005	2009	% Increase
Vacant Land	10,366,200	26,685,000	157%
Residential	1,540,883,600	3,808,010,000	147%
Commercial	298,024,500	838,479,300	181%
Industrial	134,260,300	408,021,200	204%
Apartments	54,851,300	193,090,900	252%
Utility	5,878,294	9,853,722	68%

As housing values increased during the national real estate bubble, Englewood property tax assessments followed suit. However, it appears that the participants in Englewood's collective bargaining process viewed this not as a reapportionment of the tax burden among current taxpayers, but a license to authorize compensation levels that in hindsight were far beyond the City's means. The subsequent collapse of the real estate market demonstrated quite plainly the irrationality of basing municipal spending on transient market valuations and resulting reassessments.

Similarly, during the 2005 to 2011 period, five new multifamily/retail projects were added to the City's tax rolls. The 2011 property tax assessment for these new projects totals $351,447,900, and will generate approximately $8,201,729 in tax revenues during 2011. These projects involved no material enlargement of the City government and rather than being used to provide relief to Englewood's beleaguered taxpayers, was swallowed entirely by increases in salaries and benefits. We have no reason to believe that similar development projects will ride to the rescue of Englewood's budgets in the near future, and those involved in determining City labor costs or preparing budgets should not expect to have similar funds available during the next go-round.

One important fact revealed during our study is the City's increasing reliance on property taxes to balance its budget. As the following table indicates, City property taxes have increased by 37.5% since 2005, and the share of the budget funded by taxes has increased from 70.4% to 77.7%. Increasing reliance on this source of funding makes the City significantly more vulnerable to recently enacted New Jersey CAP legislation restricting the City's ability to increase the annual property tax levy.

The City is increasingly reliant on property taxes to balance its budget

Revenue:	2005		2011		Increase (Decrease) from 2005	
Property Taxes	34,208,213	70.4%	47,042,440	77.7%	12,834,227	37.5%
Local Revenues including user fees	2,558,221	5.3%	4,751,000	7.8%	2,192,779	85.7%
Surplus Utilized	$4,800,000	9.9%	$3,100,000	5.1%	$(1,700,000)	-35.4%
State Aid-Unrestricted	4,098,447	8.4%	2,763,296	4.6%	(1,335,151)	-32.6%
Delinquent Taxes	1,700,000	3.5%	1,800,000	3.0%	100,000	5.9%
State & Federal Grants- Restricted	535,282	1.1%	605,757	1.0%	70,475	13.2%
Special Items (non-recurring)	700,000	1.4%	500,000	0.8%	(200,000)	-28.6%
Total Revenues	$48,600,163	100.0%	$60,564,504	100.0%	$11,962,330	24.6%

6. These practices fostered the misperception that the City is financially sound

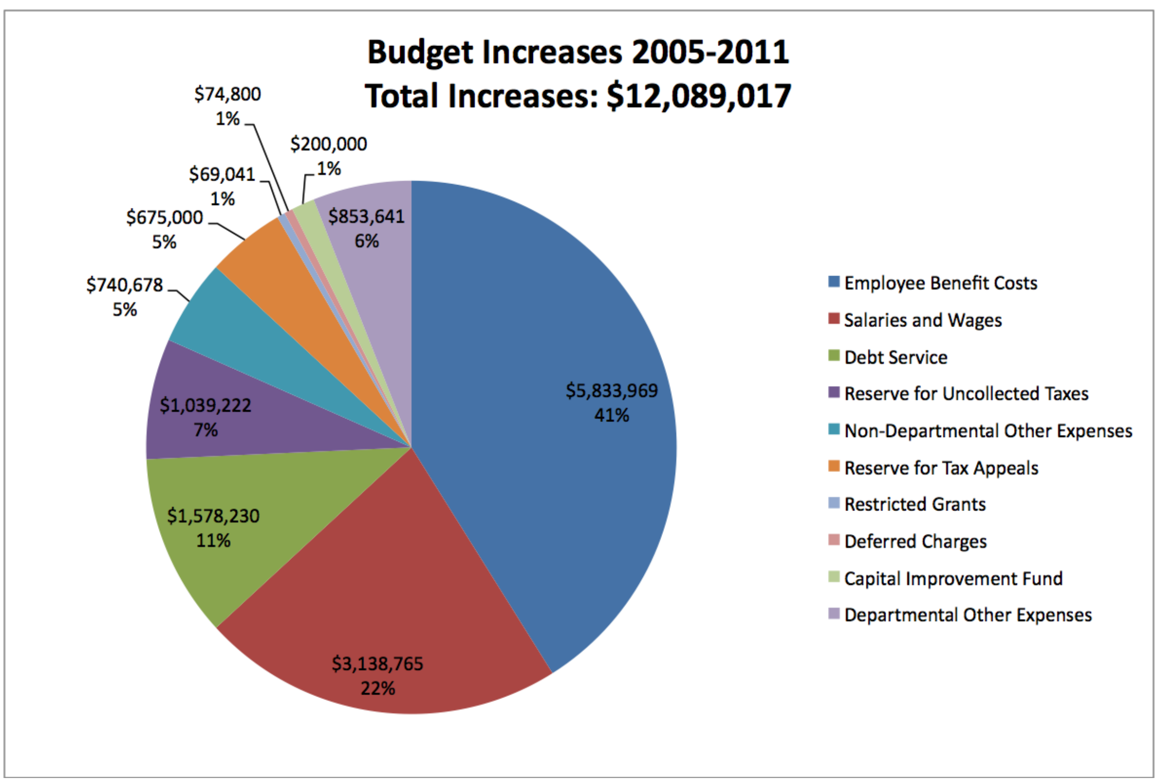
The four financial practices identified above contributed to the current crisis by concealing the City's underlying structural financial distress. However, we found the cause of the crisis to be rooted in the

City's inability to look at the big picture and appreciate the long-term consequences of its labor agreements and long-term borrowing.

Inattention to the City's underlying financial problems will inevitably lead to a period of declining city services, eroding property values, and a downward spiral in the City's tax base. The Commission strongly urges the City to end the four harmful practices outlined above, and focus on solving its underlying financial problems by prioritizing City services, seeking efficiencies, putting City assets to productive use, and most significantly, developing compensation packages for employees whose total costs are within the City's means. To fulfill these objectives, the City's short- and long-term budget planners must shed their illusions of what constitutes a "balanced budget" and begin making the "hard calls" that any sensible organization or family would do in similar circumstances.

Part II. The Causes of Englewood's Financial Distress

The City has experienced a series of financial setbacks and challenges that should have resulted in a reshaping of its budget years ago. As the accompanying pie chart shows, in addition to the loss of State aid, the most significant of these setbacks in dollar terms are increases in salaries, increase in debt service due to increased borrowing, reserves for uncollected taxes, and non-departmental expenses related to State-mandated costs.



1. Fire and Police compensation is crowding out other City services.

As the following table reveals, from 2005 through 2011, the Police & Fire Departments have received major increases in salaries and benefits. Police and Fire salaries as a group grew an average of 4% per year, five times faster than all other City Departments. As a result of increases in Fire and Police compensation, and a decline in the number of employees in other City departments, Police and Fire now comprise 67% of the City's total labor costs, equivalent to 61% of the City's entire discretionary budget.

Police and Fire payrolls are growing significantly faster than other departments

	2005	% Of Total	2010	% Of Total	Increase	% Increase
Uniformed Services						
Police Base Salaries	$8,863,261		$10,756,741		$1,893,480	21%
Fire Salaries	5,435,884		6,609,402		1,173,518	22%
Police & Fire Pensions	599,000		4,155,521		3,556,521	594%
Subtotal police & fire	14,898,145	61%	21,521,664	67%	6,623,519	44%
All other departments	9,206,528		9,574,162		367,634	4%
Pensions	300,000		1,031,711		731,711	244%
Subtotal other departments	9,506,528	39%	10,605,873	33%	1,099,345	12%
Total Salary/Pension	$24,404,673		$32,127,537		$7,722,864	32%

Salaries for Police and Fire Department employees are "negotiated" in the shadow of a State-mandated binding arbitration system that imposes collective bargaining outcomes on the basis of numerous criteria, only one which is a municipality's financial condition. Pursuant to a succession of labor agreements with the City's unions during the real estate bubble, compensation to police and firefighters increased by 21% from 2005 to 2011.

In addition to these wage increases, there was an additional 30% increase in the cost of medical insurance borne by the City and a 594% increase in the City's contribution toward State-mandated pension benefits for the uniformed services. Proposed State legislation to reduce the City's share of the cost of pensions and medical benefits will provide only modest relief from these unanticipated increases.

The significance of police salaries and benefits to the Englewood municipal budget is illustrated by the following table, which lists the highest paid employees on the City's payroll:

Most of the City's highest paid employees serve in the Police and Fire Departments				
Comparative Englewood Salaries & Benefits 2011 ($)	No. Of Positions	Average Base Salary	Average Pension/Medical/ FICA	Total
Police Chief	1	204,429	37,439	241,868
Fire Chief	1	183,475	36,634	220,109
Deputy Police Chief	1	168,733	50,557	219,290
City Manager	1	165,000	37,609	202,609
Police Captains	2	160,352	37,273	195,624
Police Lieutenants	3	152,443	54,503	206,947
Deputy Fire Chief	1	146,272	40,518	186,790
Police Sergeant	13	140,603	43,011	183,614
Fire Deputy Chief	1	146,272	40,518	186,790
Fire Captain	5	139,812	46,593	186,405
Asst City Mgr / Director of HR	1	135,000	29,981	164,981
Director of Public Health	1	130,000	36,680	166,680
Police Detective	12	129,419	43,650	173,069
Police Officers	39	126,700	38,311	165,011
Director of Public Works	1	112,462	33,382	145,844

The City and the unions have shared extremely erroneous assumptions regarding the City's financial condition. As stated above, the City, its citizens (and presumably those involved in the collective bargaining and interest arbitration processes) had an understanding of the City's financial condition that was woefully over-optimistic.

First, Englewood's budgets have been misleading inasmuch as they greatly understated the City's true operating costs. They failed to provide for principal reduction on City debt; neglected necessary capital improvements; dipped into operating reserves; underfunded reserves for property tax appeals, and underestimated long-term pension and medical benefits expenses.

Second, Englewood's budgets were unwisely predicated on a tax base that had risen to stratospheric heights due to a historically unprecedented housing bubble - without any regard for the very real possibility that this bubble would burst and that Englewood's financial condition would be seriously damaged. The table above demonstrates the dramatic rise in assessed valuations during the period 2005 through 2009. It is unconscionable that the City assumed that a rise in values this steep would continue forever without the kind of substantial correction that ultimately occurred.

Third, the City entered into collective bargaining agreements whose true costs it barely understood, as these agreements contained classes of uncontrollable built-in cost escalators such as percentage-based "step increases", "longevity increases", and "muster pay". These classes of compensation techniques are so hard to determine that the true cost of each negotiated agreement over time is extremely difficult to quantify. To compound the City's confusion, these built-in increases are not presently rolled into any mid or long-term City budget during the negotiating process and collective bargaining agreements are reached without a full understanding of their impact.

The City's obligation to pay into the State pension fund has ballooned in recent years, resulting in an astounding increase of $4,300,000 since 2005 in the amount of the City's required annual contribution. An undetermined portion of the increase can be attributed to State legislation raising pension benefits, passed in 2001 during the administration of Acting Governor Donald DiFrancesco, as well as to large increases in municipal base salaries on which State pensions are based.

Additional contributing factors have been erroneous underwriting assumptions by the state agency that manages the fund as well as the widespread decline in the nation's financial markets. The State regulated pensions mandated for municipal employees is of the defined-benefit variety, meaning that the City bears most of the responsibility for maintaining the value of the fund in the event of a market decline. This is the polar opposite of the defined-contribution plan (401k) common in private industry, whereby the employee has full control of the assets in his retirement plan, may take it with him/her as they move from job to job, and enjoys the full benefits of any appreciation in the plan assets, although we note that the employee bears the weight of any declines as well. Notwithstanding the current proposals in the legislature to reduce the cost of public pensions to municipalities, the Commission regards the problems with the State's pension fund to be far from over, and we believe that the fund's fragile financial condition will be a continuing source of financial instability for our City for years to come.

2. Health Benefits for all City employees have increased 30%

Since 2005, the cost of the City's contribution to employee health insurance premiums under the State-sponsored medical plan has increased by $1,120,000 (29.75%). While the City is obligated to provide medical insurance under its collective bargaining agreements, it is free to provide equivalent coverage from the private sector. To determine whether alternative coverage would save the City money, we asked the State health plan managers for information quantifying the aggregate claims made by employees so that we might entertain bids from alternative forms of health insurance coverage such as that available private carriers or in the form of a PPO with local hospitals. The Commission recommends that the City continue to seek this information from the State; in the meantime, the Commission recommends that the City plan for medical cost increase in line with those experienced in recent years.

3. State aid has dropped 32%

Contending with its own massive budget shortfalls, the State of New Jersey in recent years has sharply reduced the aid offered to municipalities, including the City of Englewood, resulting in a $1,335,000 (32.6%) reduction in State aid to the City between 2005 and 2011. Given the enormous long-term and unresolved structural problems faced by the State, we do not foresee any return to prior levels of State aid in the foreseeable future.

4. State and County mandated costs and tax bite have increased substantially

State and County law mandate a number of costs that are incurred by the City of Englewood. Among these are pensions and to a certain extent this includes awards made by state-appointed arbitrators. Other classes of mandated expenses include items such as County-imposed fees for sewer and trash pickup. This class of required countywide-shared services and other utilities has increased significantly from 2005-2011. In our opinion, these costs—which are charged to the City budget, although mandated by the County without any input from the City—can be expected to increase in the future. Indeed, as if to punctuate the Commission's finding, the Bergen County Utilities Authority summarily announced a 5.07% increase in Englewood's annual $2,800,000 sewer fee during the preparation of this report.

These mandated services are illustrative of a larger problem in managing the City budget: the simple fact that as shown in the table below, 37.8% of the City's budget is mandated by State or County law and is beyond the City's control.

The City has limited control over nearly 38% of its budget			
		Amount	% Of Budget
Budget		$60,546,627	
Less:			
Non- operating budget items:			
Reserve for Uncollected Taxes	$(3,300,000)		
Reserve for Tax Appeals	(675,000)		
Deferred Charges	(75,200)		
		(4,050,200)	6.7%
Mandated Expenses (Fixed Costs):			
Pensions	(5,247,049)		
Debt Service	(4,506,085)		
Sewer Treatment, Garbage Dumping, Recycling Tax	(4,067,246)		
Minimum Library Appropriation	(1,780,000)		
Restricted Grants	(609,698)		
		(16,210,078)	26.8%
Other costs not reasonably subject to City Control:			
Street Lighting, Hydrants, Insurance, etc.		(2,640,019)	4.4%
Total Non-Discretionary Funding		(22,900,297)	37.8%

Part III. Going Forward

As we have described in the previous two sections, Englewood is in practical terms running at a substantial deficit. This situation, financed by super-heated property valuations and short-term floating-rate debt must not continue, not only as a matter of law, but as one of simple municipal survival.

As the previous section demonstrated, 37.8% of the City's costs are mandated and therefore only 62.2% of the City's budget is reasonably within its control. However, when looking within this discretionary budget for cuts, it is revealing to consider the following table, which reveals how little potential there is in cutting expenses other than payroll:

Payroll represents 92.2% of the City's discretionary costs			
Total Non-Discretionary Costs 2011		37,646,330	100.0%
Employee- Related Costs:			
Salaries and Wages	27,844,438		74.0%
Employee Benefits Not Included Above	6,864,920		18.2%
		(34,709,358)	92.2%
Non-Payroll Costs		$2,936,972	7.8%

A $2,936,972 budget for the management of a City with 27,000 residents is hardly an excessive one – after all, a City needs offices and facilities for its staff, tools for its workers, fuel for its vehicles, salt and asphalt for its roads, and a myriad of other costs for the materials consumed in operating a modern City such as ours. Therefore, what these tables tell us plainly is that any effort to control the City budget will necessarily require cuts in its payroll.

The Commission feels quite strongly that if meaningful savings cannot be achieved (as described below) through control of employee salaries, greater efficiencies, or outsourcing, State-mandated limitations on property tax increases may well require the City – as soon as this year - to take direct action to reduce its payroll through a combination of attrition, early retirement, unpaid vacations, furloughs and layoffs.

While we realize these measures may result in the curtailment or termination of services long held near and dear by City residents, it is the Commission's belief that failure to take immediate, determined measures to get the City's operating costs under control will result in significantly greater difficulties in the future.

During its work, the Commission identified numerous areas in which the City must reduce City spending, and these are laid out below. All of these, however, depend on proactive management of the City by its City Manager and staff, together with constant engagement and support from its Mayor and Council.

A. The City needs to limit increases in its total labor costs

As described in prior sections, the total cost of Englewood's employees has soared in recent years. We would have expected that these increases bear some relations to the rate of inflation or an increase in the quality or quantity of City services. In view of the great importance payroll has on Englewood's budgets, the Commission spent a great deal of time attempting to determine the cause of these increases.

The Commission studied the number of City employees to determine whether it was a cause of spending increases. Our analysis revealed it was not a contributing factor, as the number of City employees actually declined from 2005 through 2011. We also studied the budget to see whether the addition of new programs contributed materially to increases. Analysis revealed that no new programs were created during this period that has had any material impact. Lastly, we examined the City's materials and facilities costs to ascertain whether these had exceeded the rate of inflation and population growth, but found these costs had changed minimally.

In the absence of additional personnel, new programs, or materials costs as the underlying cause of the City's ballooning budget, it became clear that the single most important contributing factor to budget increases, after pension costs, was a dramatic rise in employee costs that resulted from the collective bargaining agreements entered into by the City with its unions, primarily with uniformed services. Indeed, by 2010 the average cost of a City employee had increased to $107,000 per year, including $82,000 in salary and $25,000 in benefits.

These collective bargaining agreements appear on the surface to be freely entered into by two parties bargaining in good faith with equivalent negotiating power. In reality, the process in New Jersey for negotiating contracts for policemen and firemen occurs in a highly regulated environment dominated by a binding arbitration system that tends to leave the City with very little control over its destiny.

We do not question the efforts of the unions to obtain the best terms they can for their members. However, it is a primary fiduciary responsibility of the City and its leaders to represent the interests of its taxpayers just as effectively. The only way to accomplish this is to dispel any illusions about the limits of the City's financial resources, and to communicate these limitations effectively to City workers and their union representatives, the state-appointed arbitrator, and to the taxpayers.

When the municipality ends up with a union contract that includes increases in total cost that exceed the natural economic growth of the community that it serves, all must understand—City officer, City employee, labor arbitrator and City taxpayer—that there will be consequences down the road. Times have changed and we now live in a world of declines in ratables and mandatory caps on tax levies. Substantial changes need to be made to the way the City compensates its employees and manages its affairs if it is to continue to provide essential services beyond just fire and police.

The Commission understands full well that a favorable result in State labor arbitration alone will not lead to a return to budget aligned with the City's financial capacity. Savings through improvements in efficiency of operations and prioritization of services should also be a necessary component of the City's financial rescue.

The 2011 budget process began in early January as called for by Mayor Huttle in an effort to restore the normal budget timeline and discontinue the practice of passing temporary spending measures. The Commission had commenced its work several months earlier but was unwilling to officially interject itself into the budget process prior to the completion of its task. However, through collaboration with the City Manager's office and City Council members, many of the initial findings and theoretical underpinnings described previously have found their way into the completed 2011 budget and into the decision to freeze salaries for all unclassified employees during 2011.

Adopted before we completed our deliberations, we regard the 2011 budget as a transitional one, intended to stabilize the City's financial situation and create breathing room while the City makes the hard decisions that will be required during the 2012 budget cycle. The Commission strongly recommends the City immediately commence work on the 2012 budget in the context of a detailed five-year financial plan that provides for concrete improvement in the City's financial condition.

1. Seek parity with compensation and benefits in the private sector

We have studied the compensation packages of Englewood City Employees and found them greatly out of step with similarly situated workers in the private sector. Englewood and municipalities across the State of New Jersey have begun seeking a new compensation paradigm that is fair and equitable for employees and also balanced and fair to taxpayers. It is our strong belief and conclusion that movement toward parity with private sector compensation packages will restore the financial stability of the City's budgets. The steady annual expansion in total individual employee compensation, including salaries, health care and pensions has been far and away the largest single cause of the City's current financial crisis. Given that many of the City's employees are covered by established collective bargaining agreements, changes needed to bring equity, fairness and parity to Englewood city government will necessitate a long-term financial plan that focuses on total compensation and increased employee productivity.

2. Develop compensation packages whose costs are within the City's control

The Commission recommends that the City seek to reduce its exposure to defined-benefits pension programs, cumulative sick and vacation pay, automatic step increases, longevity pay, and other forms of employee compensation that are unpredictable and/or beyond its control. Employee and family medical coverage (a large percentage of which is presently provided by the City) is subject to the vagaries of the highly volatile health care industry. Overtime varies considerably from year to year. Effective long-term financial planning is impossible when unpredictable costs such as these are allowed to command such a large portion of the City's budget.

3. Aggressively pursue opportunities to share services

The notion of New Jersey towns sharing services to save money is an old one. Englewood and Englewood Cliffs, for example, have shared the cost of a municipal library for decades. Regional schools and Departments of Health can be found across the state, and Bergen County itself recently opened a countywide police dispatch service that is available to all of its communities. The Commission recommends that the City, under centralized direction of the Office of the Mayor, aggressively pursue all opportunities for sharing services with the Englewood school system, the County of Bergen, as well as other municipalities. Shared fire dispatch services, technology maintenance, library services, and telecommunications contracts are among many potential cost efficiencies to be realized through sharing services.

Bergen County taking over more local dispatch services

SUNDAY, SEPTEMBER 26, 2010 LAST UPDATED: SUNDAY SEPTEMBER 26, 2010, 10:46 AM
BY KAREN SUDOL
STAFF WRITER
THE RECORD

Seven northeast Bergen towns could save about $235,000 if Bergen County handles their emergency communications — an increasingly popular option as the county prepares to open a new dispatch center in Mahwah this week.

The $12.4 million Public Safety Operations Center, on the Bergen County Police and Fire Academy campus, will be a dispatch center and an emergency management office.

DAVID BERGELAND/STAFF PHOTOGRAPHER

There is already a waiting list for the service.

The seven towns considering the switch now make up the Interboro Regional Police Communications Network — Alpine, Closter, Harrington Park, Haworth, Northvale, Norwood and Rockleigh.

They see the change as financially beneficial but want to ensure they will receive the same level of service.

"It's not cost-effective anymore," said Haworth Mayor John DeRienzo of the Interboro.

4. Closely supervise the use of overtime

Excessive overtime among Englewood's uniformed officers has damaged the City's finances and led to substantial negative publicity for the City in local newspapers.

Traffic duty, overtime boost Englewood police paychecks

SUNDAY, APRIL 18, 2010 LAST UPDATED: MONDAY APRIL 19, 2010, 11:11 AM
BY GIOVANNA FABIANO
STAFF WRITER
THE RECORD

PAGES: 1 2 3 > DISPLAY ON ONE PAGE | PRINT | E-MAIL

Roughly 15 percent of Englewood's police force earned more than $175,000 last year — including three officers who eclipsed the $200,000 mark — thanks to six-figure base salaries, overtime, and extra shifts standing guard as utility companies made repairs throughout the city.

The Commission believes there is a great need to increase the City Manager's control of overtime throughout the city and recommends enhanced overtime tracking through computer technology or other means. Whether the City Manager should be required to authorize overtime for a department before the fact, or after, should be a determination made by him in consultation with his department heads.

5. Outsource services where long-term savings can be achieved

The Commission has concluded there may be outsourcing opportunities in various areas. For example, the central maintenance garage, whose current cost is $388,000 per year, and yearly tree management services, whose current cost is $200,000, represent areas that might be eliminated and covered by privatized contracted service.

The Commission also reviewed the use of City Fire Department officers to supervise daytime Emergency Medical Services and concluded that this does not appear to be an efficient use of the Department's staff. We recommend that the City make a full analysis of all the costs associated with this service – including the salaries and benefits paid for fire department supervision and the full cost of vehicles and equipment – and seriously consider entertaining bids from area hospitals to take over daytime EMS service.

We have been advised by the Englewood Volunteer Ambulance Corps (EVAC) that it intends to pursue State certification so that it can charge for its services, in which case the current $40,000 City subsidy of its services will no longer be required. While the Commission encourages this initiative by the Corps and hopes for its success, the City should carefully assess the commitment of EVAC to obtain the required certification and its proposed timetable. In the event that EVAC is unable to proceed, the City should be prepared to add nighttime services to its proposed contract for hospital-based private EMT services in the event the volunteer corps fails to obtain certification by the end of the current year.

B. Proactive Management is needed in City Hall and in all City Departments

1. Establish long-term financial planning at the Municipal level

There appears to be no set of defined principles that guided the development of the City's budgets. Rather, annual departmental reviews appear to have been conducted in a rushed timeframe close to the deadline for presenting the annual budget. Furthermore, the City's annual budget is prepared in a vacuum where little consideration seems to be given to the long-term impact of current decisions.

It is logical that the City establish its spending levels based on demonstrated municipal needs —and that these costs, reduced to an absolute minimum, would in turn dictate how much needs to be raised from taxpayers. This conception of financial planning – known as “zero-based budgeting” – means that in a given year all City departments would explain why each of its services is necessary to the City and describe the total minimum cost of its services, allowing the City Council to establish annual and long-term spending priorities that best meet the expectations of its citizens. In recent years, however, the City appears to have used the opposite philosophy, deciding first how much it can squeeze out of the tax base, and then going out and spending it on salaries and benefits, without thought to the effect that a given year’s spending would have on the City’s overall financial health in the long-term. The remedies we outline below are intended to enable the City to establish a rational budgeting process that provides opportunities for cost savings and thereby fostering long-term financial stability.

2. Develop budgets that look five years ahead

One of the most glaring differences between the private sector and our City’s practices is the lack of multiyear budgeting. No private sector company would risk operating without a multiyear plan containing contingencies for unexpected changes in revenues or costs. With reference to the 2012 budget and beyond, the Commission recommends the use of five-year planning in all departments.

3. Base budget line items on hard data

While studying the 2011 and previous budgets, we uncovered errors in budgeting including estimates that bore no relationship to prior years’ experience as well as optimistic revenue predictions from sources that have yet to materialize.

4. Charge the annual City budget for contributions to a capital reserve fund.

Because of the poor condition of City assets, the Commission recommends that the City set aside funds in each annual operating budget to fund the rehabilitation of its deteriorating infrastructure.

5. Constantly seek cost savings

The Commission recommends that the City Manager advise department heads of a preset goal at the beginning of the budget process and allow them to decide how to reach it. As noted earlier, none of the presentations received from department heads contained suggestions for creative cost-savings measures. The recommendations below illustrate the kinds of cost savings that may be achievable. Both department managers and the City manager are encouraged to begin actively looking toward implementation of these and similar operational reforms.

6. Issue more informative, and frequent, budget reports and departmental evaluations

Presently, there are simply no defined guidelines for composing City budgets. Department reviews are conducted in a rushed timeframe prior to consideration of annual budgets. Department heads routinely request City Council action or endorsement of a program that has not ever been presented in writing or subjected to a feasibility study. The Commission strongly recommends that these practices be replaced by ones requiring a thorough evaluation of any new program prior to its receiving budgetary approval. In addition, the budget process itself should become an ongoing one marked by predetermined checkpoints to ensure its viability and alignment with the City's prevailing financial conditions.

The Commission recommends that the City Council enact budgets consistent with both long-term and short-term budgetary goals after a thorough due diligence examination of departmental performance and programs. Accordingly, the Commission recommends that the City Manager provide to the Council quarterly reports comparing actual expenditures to the budget, and an annual multi-year rolling budget with regularly updated forecasts. Furthermore, we recommend that the City Manager implement a cycle of periodic reviews of each department (DPW, Admin, Recreation, etc) culminating in a formal annual review and public hearings by the City Council. These practices will foster better management of the budget-making process and will spread management reviews throughout the year, thereby avoiding the hectic scramble at the beginning of each fiscal year.

The Commission also recommends that the City Manager be discouraged from transferring amounts from one budget line to another during the course of the year. This practice enables budget-busting practices in City departments – particularly with respect to overtime – and is better handled through more accurate budgeting and cost control at the departmental level.

7. Establish better financial controls

The Commission took notice of published reports of embezzlement by individuals handling accounts in the Englewood Housing Authority (2009) and the Fire Department (2011) and recommends strongly that all receipts and disbursements pertaining to the City of Englewood and its agencies be centralized in the office of the City Treasurer.

Englewood Fire Department worker charged in phony check scheme

WEDNESDAY, MAY 25, 2011
BY MIKE CURLEY
STAFF WRITER
NORTHERN VALLEY SUBURBANITE

ENGLEWOOD - A municipal employee was arrested on May 24, accused of allegedly taking money from a city account through falsified checks.

8. Preserve operating reserves for true emergencies

Reserve funds are generally intended for unexpected or emergency expenditures. The Commission recommends that the annual operating budget not draw on operating reserves for the purpose of meeting ordinary, predictable shortfalls.

9. Plan for the library's future

It is important for all to understand that State Law requires Englewood to contribute approximately $1,780,000 (1/3 of a mil) to the Library's $2,500,000 budget. A further $200,000 is provided by Englewood Cliffs under a sharing arrangement. Accordingly, approximately $2,000,000 (80%) of the library's budget is irreducible.

In interviews, representatives of the library conceded to us that because of the present layout of the library into physically separated reference, circulation, and childhood sections, a high degree of staffing is required simply to open its doors. In this time of austerity, we recommend that the City Manager, the Library Board, and library management work together to produce a detailed plan to reduce costs through a combination of staff and facility re-organization, automation, collaboration with the Board of Education, and increased utilization of volunteers.

10. Improve the efficiency of City staff through the judicious investments in new technologies

One means of ameliorating the burden of its heavy payroll is to increase the efficiency of the City's employees. We recommend that productivity-enhancing technologies be promptly investigated, tested and implemented where possible throughout the City's operations. Examples include:

> **a. Management software and staff training** in all departments. The Committee recommends a comprehensive evaluation of the City's management structure and the implementation of the best technological practices to increase operational efficiency and quality of service.
>
> **b. One-man automated garbage trucks** are successfully used in other municipalities. Were they found appropriate for use in our City, the resulting improvement in productivity and cost savings would be enormous. Numerous videos demonstrating their use in urban and suburban settings can be viewed at www.youtube.com.
>
> **c. Computerized job-costing system** to monitor the use of DPW resources. There appears to be no mechanism for the Department of Public Works to ascertain the manpower invested in individual City projects. The Commission recommends the City acquire and implement software to track labor, equipment and materials used in specific projects.

11. Avoid unnecessary layers of management

The Commission had a lengthy discussion regarding the manager-to-staff ratio in City departments, particularly in the Fire Department and DPW. We recommend that the departmental table of organization be reviewed by the City Manager to provide the most advantageous manager-to-staff ratio and that a thorough Citywide review of supervisory positions be undertaken. We note that steps in this direction were made in the 2011 budget.

12. Monetize City assets not essential to current operations

We were briefed on a number of City-owned assets that are neither required for identified City purposes nor generating income for the City. Prime examples are the Liberty and Lincoln Schools, which were purchased with a large amount of borrowed funds with a view to their future redevelopment. As far as we could ascertain, little progress has been made and neither generates any revenue for the City notwithstanding the debt service and maintenance costs associated with owning them. We note that discussion has recently begun within the City Council with regard to the future of these assets, and the Commission hopes that these discussions will soon lead to significant efforts to move these valuable assets off the City's books and onto the tax rolls.

13. Specific departmental recommendations

a. Recreation Department. We recommend that the City Manager perform a complete review of the Recreation Department to determine how the City might utilize its resources to serve our children better and more efficiently, including possible collaboration with the Board of Education and local non-profit organizations.

b. Department of Public Works. After interviews with the Director of the Department of Public Works and subsequent study of practices in other municipalities, the Commission concluded there are many opportunities for increased efficiencies in the DPW including elimination of the last vestiges of backyard trash collection and bring the trash collection schedule in line with that of other municipalities; privatization of certain DPW functions; investigation and implementation of new garbage collection and processing technologies; and the elimination of unnecessary managerial positions, particularly in small workgroups within the department.

c. Department of Health. The Department of Health can accomplish savings by outsourcing certain functions. In addition, the Commission recommends that the Department determine whether it might be possible to develop a strategic partnership with the Englewood Hospital and Medical Center in such areas such as health education services, public programming, community inoculations, and emergency planning.

d. Replace the existing telephone system. The City telephone system is both antiquated and costly. The Commission recommends that the City examine the current system and consider replacing it immediately with a system that is less costly and more efficient.

Part IV. Conclusion

We note the progress that the City made this year by adopting a 2011 budget that required no increase in City taxes, largely as a result of staff attrition. However, as we were developing this report, the Commission received two pieces of disturbing news that reinforced the sense of urgency that we have about the City's financial condition going forward: first, the City was advised by the State that it will require large increases in the City pension contributions during; and second, the City's Police union has filed for binding arbitration, demanding 3.5% annual salary increases (and other changes to the current collective bargaining agreement) that reflect little consideration of the City's financial difficulties.

Given these twin threats to the City's financial position, difficult decisions regarding severe budget cuts, reduced services, and layoffs may be required this year to enable the City to remain with the State's 2% levy cap and the State's appropriation cap, let alone maintain the transitional zero tax increase strategy favored by the City Council and this Commission as a means of attaining financial stability.   We trust that the considered recommendations within this report will be of use to the City Manager and the Council in the development of the 2012 budget, and that it will provide a roadmap to further efforts in subsequent years to improve the City's financial stability through reduced costs and better budgetary processes.

The Commission wishes to thank Joseph Kelly CPA, RMA a private municipal accountant with the firm of Suplee, Clooney and Company, for generously sharing his expertise on New Jersey municipal budgeting as well as Phil Meisner, a government affairs expert who provided valuable expertise regarding state legislation and who helped draft this report, and Ms. Roseanne Sessa, the Mayor's administrative assistant, who kept our schedule of meetings on course and kept financial information flowing to us reliably throughout the process.

We, the members of the Mayor's Commission on Budget and Finance of the City of Englewood, having been constituted by the Mayor on October 17, 2010 under authority granted to him by the Charter of the City of Englewood, hereby submit the within report containing our consensus recommendations and conclusions to the people of the City of Englewood and their representatives.

Hon. Lynne H. Algrant	Gabriel M. Bousbib	Adam R. Brown
Stephen J. Brown,	Charles L. Cobb	Hon. Jack J. Drakeford
Douglas A. Duchak	Marc A. Forman, CPA	Hon. Frank Huttle III

Englewood, New Jersey
June 23, 2011

Biographies of Commission Members
(In alphabetical order)

Hon. Lynne H. Algrant

Councilwoman Algrant presently serves the City as its Councilperson At-Large. She is the founder of H 10 A Consulting, a practice focused on issues of leadership and effectiveness. Her clients include: the Association of Black Foundation Executives; Bergen LEADS, a civic leadership program in Bergen County, NJ; DeLaSalle Academy, a middle school for children from low-income families, the Youth Empowerment Mission, a gang prevention program; and the Cleveland Division of Fire. She serves on the board of Nueva Luz Urban Resource Center, a Latino serving organization in Cleveland.

Lynne has spent most of her career as an administrator in independent schools. As Executive Director of one educational non-profit, she took the organization from bankruptcy to solvency in two years. As Program Manager of The Cleveland Executive Fellowship, Lynne trained innovative, ethical leaders in ways to handle civic challenges by drawing upon the resources of the non-profit, public and private sectors.

Gabriel M. Bousbib

Mr. Bousbib currently serves as Chief Operating Officer for Gottex Fund Management where he has overall responsibility for the firm's operations, treasury, structured products and information technology. Prior to joining Gottex Fund Management in June 2005, he served as President and Chief Executive Officer of PlusFunds, a hedge fund managed account platform, until December 2004. Mr. Bousbib started his career in the securities industry in 1987 with Merrill Lynch Capital Markets, in Merrill Lynch's global derivatives group. Mr. Bousbib holds an M.B.A. from Columbia University Graduate School of Business and is a graduate from Ecole Polytechnique in Paris.

Adam R. Brown

Mr. Brown is a Managing Director of Penobscot Management LLC, a national real estate development and management firm. He has lived in Englewood for over two decades. He is an Honors graduate of the University of Michigan and the University of Chicago Law School. Prior to going into business in 1981, Mr. Brown advised antitrust clients and handled pro bono appeals in significant human rights cases at a prominent Wall Street law firm. He is past president of the Solomon Schechter Day Schools here in Bergen County and is a past board member of the United Jewish Appeal of Northern New Jersey. He was a co-founder in 1979 of the Israel Cancer Research Fund and has served as trustee of the Israel Cancer Association-USA as well as numerous other non-profit organizations.

Stephen J. Brown

Stephen L. Brown serves as Director of Corporate Governance and Associate General Counsel for TIAA-CREF, a major financial services group of companies. Mr. Brown's work involves the enhancement of the governance/social responsibility practices of companies held within his firm's investment portfolios, and he advises management and the boards of the TIAA-CREF group of companies on internal corporate governance operations.

Prior to joining TIAA-CREF, Mr. Brown practiced corporate and securities law in private practice, representing clients in a variety of securities enforcement matters and corporate internal investigations. Prior to practicing law, Mr. Brown was a financial analyst with Goldman Sachs.

Mr. Brown's pro bono practice has included advising several New York City charter schools and economic development organizations. He is currently a member and immediate past president of the Englewood Public School Board in Englewood, New Jersey, a member of the boards of Harlem Renaissance Economic Development Corporation, Queens Economic Development Corporation and the Public Interest Law Foundation at Columbia University Law School. Mr. Brown received his B.A. with honors from Yale University and his J.D. from Columbia University Law School where he was a Harlan Fiske Stone Scholar and an Olin Law & Economics Junior

Charles Cobb

Mr. Cobb is an audit manager at AllianceBernstein. As audit manager, he is responsible for assessing business risk, developing and implementing the annual audit plans and execution of operational and financial audits of Sanford C. Bernstein's domestic and international subsidiaries of AllianceBernstein. In addition, he is responsible for recruiting, developing staff, and audit planning, as well as working with senior management in developing and implementing internal controls. He has managed audits of Research, Trading, Sales, Operations and Global Wealth Management Private Client Business.

Charles received his B.S. in Business Management from West Virginia Institute of Technology. He is a Certified Financial Services Auditor, a Financial Services Authority (FSA) CF 28 controlled function approved person and a member of the Institute of Internal Auditors.

Hon. Jack J. Drakeford

A native of Englewood, Councilman Drakeford represents the City's Fourth Ward and is also a consultant for Labor Union Local 108 RWDSU. He has served on the Englewood City Council as President in three different decades: 1976, 1999, 2002 and 2004. Before and in between those years, he served as a fireman, City Clerk, City Manager, acting Director of the DPW and acting Public Safety Director.

Presently, he serves on the board for Habitat for Humanity of Bergen County, the Englewood Housing Authority. He has served as Board President of the Bergen County Technical School District, which includes the Bergen County Academies, a school honored by Intel as the best math and science school in the Nation.

Douglas A. Duchak

Mr. Duchak has been President and CEO at Englewood Hospital and Medical Center since 2004. Prior to that he was Chief Financial Officer at EHMC since 1991. He is currently on the Board of the New Jersey Hospital Assn. and serves also on various committees of the American Hospital Assn. He is former Chairman of the Board of the Alpine Learning Group, a school for autistic children and former President of the NJ Chapter of the Hospital Financial Mgmt. Assn.

Marc A. Forman, CPA

Mr. Forman is a Certified Public Accountant with over 35 years of experience, with specific expertise in taxation, budgets and finance. A native of Englewood, he graduated from Dwight Morrow High School in 1968 and received a Bachelor of Science in Accounting from Fairleigh Dickinson University. While serving on the Commission, Marc received the Democratic nomination for City Council from the First Ward.

Hon. Frank Huttle III

Mayor Huttle, a lifelong New Jerseyan, has been a resident of Englewood for almost fifteen years along with his wife Valerie, Assemblywoman of the 37 District. He is an attorney and retired licensed Certified Public Accountant and has had the important positions of Partner in leading firms in both fields. He is Executive Vice President and General Counsel for Hudson Media, Inc. He has been active in numerous charitable foundations and spearheaded the reopening of Englewood's historic John Harms Theatre in 2003 as the founding Chairman and President of the Bergen Performing Arts Center ("bergenPAC"). Upon Mr. Huttle's retirement from the Board of Trustees in 2010, the Board honored him with the designation of the Founder of bergenPAC.

Mayor Huttle received his B.S. from Rider College in 1976 and his J.D. from Rutgers University School of Law in 1985. He also received an LL.M. in Taxation from New York University School of Law in 1992.

Joseph F. Kelly, Certified Public Accountant, Registered Municipal Accountant

Mr. Kelly has twenty years experience in auditing and financial consulting for governmental entities. His areas of expertise include audits and financial advisory services for municipalities, public school districts, "Abbott" school districts and public authorities.

Mr. Kelly's additional credentials include certifications a Licensed Public School Accountant and as a Certified Municipal Finance Officer. He is a graduate of Fairfield University in Fairfield, CT with a Bachelor of Science degree in Accounting.