CITY OF CLIFTON
CITY COUNCIL
SPECIAL BUDGET MEETING AGENDA
MAY 14, 2025
7:00PM

Adequate notice of this meeting has been provided by the Special Meeting Notice which was published as a legal advertisement in the Herald News on May 4, 2025. Further notice of this meeting was given prior to the meeting by posting said notice on the bulletin board at City Hall and on the City of Clifton website, which notice stated that formal action may or may not be taken on the matters to come before the Municipal Council.

1. **CALL TO ORDER**

2. **FLAG SALUTE**

3. **PUBLIC HEARING**

4. **ACTION ITEM**

   - Approval of Storage Pod at 15 Saint Michaels Place from 5/15/25 – 5/31/25

5. **DISCUSSION**

   - 2025 Municipal Budget
   - 2025 Budget Review by Phoenix Advisors

6. **EXECUTIVE SESSION**

RESOLUTION AUTHORIZING EXECUTIVE SESSION

WHEREAS, the Municipal Council deems it essential in the furtherance of the public interest, to discuss, in closed session, as expressly permitted by N.J.S.A. 10:4-12, the following subject(s), to wit:

CON-1 FMBA Negotiations

NOW, THEREFORE, BE IT RESOLVED that the public shall be excused and excluded from that portion of the Council's meeting to be held on May 14, 2025 at which time, said subject(s) shall be discussed; and

BE IT FURTHER RESOLVED, that the discussion held at such closed session can be disclosed to the public on or about the time the matter is concluded.

7. **ADJOURNMENT**

PHOENIX ADVISORS

2025 Budget Review
City of Clifton, NJ
May 7, 2025

Phoenix Advisors has been engaged by the City of Clifton to review the proposed 2025 budget that was prepared by the Chief Financial Officer, Joseph Kunz.

The intent of the review is to determine whether the proposed budget contains the proper levels of revenue anticipation and budgeted appropriations.

With any annual budget discussion, a review and consideration must also be given to the fund balance of the City. How will the levels of revenue anticipation and the appropriation of expenditures affect the maintenance of a proper fund balance?

The governing body of the City is ultimately responsible for setting these levels by the introduction and then adoption of the budget. There are, however, certain New Jersey Budget Law (NJSA 40:4) considerations to be aware of as the budget is deliberated.

APPROPRIATONS

Every municipal budget is a combination of salaries and wages, pension payments, debt service, capital improvements, social and recreation programs, public protection, road maintenance, solid waste collection, snow removal etc.

To understand the totality of the appropriation (spending) side of the budget I have always looked to break the budget into categorized buckets to provide an understanding of how budgetary and management decisions of prior administrations, and in many cases the State of NJ, impact the next budget and future budgets.

The following categorizations will explain that further.

Statutory

Statutory appropriations are comprised of those items of spending that the town is required by the NJ SA 40:4 to budget and pay for. In the case of Clifton that includes:

- Debt service (principal and interest) on already issued debt obligations
- Pension obligations payable to the State of NJ to fund the PERS and PFRS pension systems based on their (State of NJ) actuarial calculations
- Grants- although there is a revenue offset for state and federal grants there is an obligation to appropriate a like amount of the spending side
- Municipal Services Act (NJSA 40:67-23.2 to 23.8) reimbursements for condo association costs
- Capital Improvements- To fund expected capital expenses that will be included in a capital bond ordinance a 5% down payment is required to be available in the current budget, or available from past budgets, that was not utilized.

- Reserve for Uncollected Taxes- While the tax collection rate for Clifton is excellent, it is not 100%. To balance the budget and the tax obligations to the county and school an appropriation for the % of uncollected taxes is required.

The total statutory expense in the proposed budget is $35,525,000, or 26.27% of the proposed budget.

Contractual

Contractual appropriations are comprised of:

- All salary and wage expenses
- Group insurance premiums
- Health care waivers
- Workers' comp and general liability premiums
- Solid waste collection and disposal
- Other commitments made by the town through a resolution, i.e. attorneys, auditor.
- Non-salary commitments that are made as part of a labor contract
- Service agreements for equipment

The total contractual expense in the proposed budget is $91,234,000 or 67.47% of the proposed budget.

Utilities

Utility appropriations are comprised of:

- Street lighting
- Electric
- Gas
- Telephone
- Cell phones
- Fuel oil

The total utilities expense in the proposed budget is $3,190,000, or 2.36% of the proposed budget.

The total of these three categories is $129,950,000, or 96.1% of the proposed budget

The $5,276,000 remaining, or 3.9% of the proposed budget, are the expenses to manage the operations of all the departments, administrative, public safety and public works, parks, playgrounds, etc.

To further illustrate this point, I reviewed the last two municipal audits (2022,2023) and the 2024 Annual Financial Statement (AFS) filed with the Department of Local Government

Services (DLGS). The unencumbered appropriations from any adopted budget automatically lapse to fund balance in the year following the year in which they were budgeted.

- The balance of the 2021 budget ($134,070,432) that was uncommitted/ unspent at the end of 2022 was $2,752,671. That represents 2.05%. So, 97.95% of the adopted budget was committed and spent.
- The balance of the 2022 budget ($136,883,573) that was uncommitted/ unspent at the end of 2023 was $2,091,189. That represents 1.53%, so, 98.47 % of the adopted budget was committed and spent.
- The balance of the 2023 budget ($136,769,282) that was uncommitted/ unspent at the end of 2023 was $4,257,012. That represents 3.11%. So, 96.89% of the adopted budget was committed and spent.

It was stated above that for the 2025 proposed budget 96.1% is committed for statutory, contractual or utility costs. Over the past three years, the City's budget allocations have been committed by 97% or more each year. It can be clearly stated that the cost of managing the departmental day-to-day operations, as well as the cost for statutory and contractual obligations, has been properly budgeted.

REVENUES

The budget law with respect to the anticipation of revenue is very restrictive and conservative. Simply stated, no individual revenue included in the budget may be anticipated at a level greater than the prior year's actual collections. There are some minor exceptions to this:

- Grants - Since the amounts fluctuate and are offset by appropriations the awarded grant amount must be budgeted.
- Shared Services - If the contract includes provisions for an escalator of revenue, then a higher amount may be anticipated. This must be supported by contract language.
- If the actual receipt was greater than last year and has already been received prior to the introduction of the budget, then a higher amount may be anticipated. This must be supported by proof that the revenue has already been received.
- An increase in revenue to be generated by a change in fees may be anticipated. This must be supported by an adopted fee ordinance and a calculation as to the expected increase in revenue.
- A contract for the sale of municipal property - This must be supported by a signed contract or the actual receipt of the revenue prior to the adoption of the budget.
- Fund Balance - The amount of fund balance available at the end of the prior year determines the level that can be used as revenue in the current year's budget.
- Delinquent taxes - The maximum level of delinquent tax revenue that may be anticipated is determined by the amount outstanding as of the end of the prior year. The maximum is stated on sheet 26 of the AFS.

The proposed budget anticipates $38,262,472 in revenue (not including the current year's taxation level).

If every revenue was anticipated to the maximum level permitted by the budget law, another $1,490,840 could be anticipated. This would include:

- Delinquent taxes - another $496,000 -could be anticipated based on the maximum calculation on sheet 26 of the AFS
- UCC fees - another $247,000 could be anticipated based on 2024 realized revenue
- Interest in investments - another $441,000 could be anticipated based on 2024 realized revenue.
- Uniform Fire fees- another $125,000 could be anticipated based on 2024 realized revenue

Taking any of these revenues to their permitted maximums comes with its own risks. Any revenue that falls short of the anticipation levels has a negative effect on the fund balance of the City.

- There is no guarantee that the UCC fees/fire safety fees will be at the same level as the prior year. An analysis should be done based on historical data, as well as speaking to the Construction Official/Fire Marshall to gauge the level of work in the office.
- There is no guarantee that interest rates will remain at the same level as in 2024.
- In 2023, the amount of delinquent tax collections was $44,530 less than anticipated. In 2024, that amount was $201,173 more than anticipated.

Additionally, the collection of revenue greater than the anticipated level will have a positive effect on the fund balance of the City.

In 2022, the excess collection of anticipated revenues (not including taxes) was $2,282,983. In 2023, that amount rose to $3,005,565, but, in 2024 that dropped to $1,770,283.

The reliance on maximizing the anticipated levels of revenue can, and will, have a negative effect on the fund balance of the City.

FUND BALANCE

Every year, decisions on the appropriate levels of anticipated revenues and appropriations will have an impact on the fund balance of the City. The maintenance of an adequate fund balance is a cornerstone of sound fiscal management. Over the past 10 years, we have seen significant increases in all insurances, solid waste and recycling. Couple that with the inability to generate new revenue sources and you have municipalities struggling every year to deliver services and be fiscally responsible with taxpayers' money.

The fund balance available at the end of any calendar year is permitted to be used as revenue in the succeeding year to balance the budget without relying solely on property tax increases. The City has a policy that they will not use more than 60% of the available fund balance as a source of revenue in the succeeding year's budget. This is a sound policy and is seen as positive when the ratings agencies are reviewing the City in relation to any debt financing.

An additional consideration should be how much of the fund balance that is used as revenue you are likely to regenerate to maintain a fiscally responsible level.

The following two tables illustrate these points. The first table is an analysis of the fund balance for the last three years.

	2022	2023	2024
Fund Balance at the beginning of the year	13,739,658.00	14,877,647.00	13,333,424.00
Fund Balance used as revenue in that years budget	(8,660,000.00)	(10,000,000.00)	(8,404,000.00)
Fund Balance regenerated	9,797,989.00	8,455,777.00	9,893,526.00
Fund Balance at the end of the year	**14,877,647.00**	**13,333,424.00**	**14,822,950.00**
Fund Balance remaining as a % of the budget	10.87%	9.75%	10.33%
Fund Balance used as revenue as a % of the beginning balance	63.03%	67.21%	63.03%

Year-end fund balance has been very consistent over the last three years, in the 10% range, while the use of fund balance is in the mid 60% range. The following table illustrates the regeneration of fund balance for the past three years.

REGENERATION OF FUND BALANCE	2022	2023	2024
All Anticipated Revenues	2,282,983.00	3,005,565.00	1,770,283.00
Delinquent Tax Revenue	45,843.00	(44,530.00)	201,173.00
Taxation			
From Added/Omitted Taxes	719,445.00	511,116.00	463,984.00
From Collections greater than anticipated collection rate	2,541,671.00	2,416,989.00	2,226,874.00
Current Year Appropriations (Debt Service)	49,191.00	117,283.00	49,788.00
MRNA	609,161.00	752,756.00	847,654.00
Prior Year Appropriations lapsed	2,752,452.00	2,091,189.00	4,257,012.00
Interfunds	11,798.00	(106,716.00)	76,758.00
Cancelled Accounts Payable	806,502.00		
Miscellaneous	(21,057.00)	(287,875.00)	
Fund Balance regenerated	**9,797,989.00**	**8,455,777.00**	**9,893,526.00**

This majority of fund balance regeneration is derived from three sources:

- Anticipated revenues - This is the result of actual revenue collections being greater than anticipated.
- Current year's tax collection - This is a result of anticipating taxes to be collected at a set percentage vs the actual percentage of collection. Given the size of the overall city tax levy ($320,000,000) this is not uncommon and does play a role in maintaining the fund balance at an appropriate level.
- Prior year appropriations lapsed - this was mentioned above. While it is a significant amount in terms of fund balance regeneration, it is not when compared to the budget for that year.

CONCLUSION

The analysis contained here should not be taken as recommendations, but rather as advice, on the levels of anticipated revenue and appropriations. These are our comments and conclusions based on the preliminary budget data provided by the City and any official financial documents filed with DLGS.

The analysis is rooted in the interpretation of the applicable budget laws as well as an understanding of the implications of budgetary decisions and actions.

The team at Phoenix Advisors welcomes any comments on the analysis. We are also available to meet with City officials to discuss any aspects of the analysis.