



2012 EXECUTIVE MUNICIPAL BUDGET



Timothy P. Dougherty, *Mayor*

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TO: Citizens of the Town of Morristown
Members of the Town Council

FROM: Mayor Timothy P. Dougherty

DATE: April 10, 2012

SUBJECT: **FY 2012 Executive Municipal Budget**

As mandated by New Jersey Local Budget Law, and in accordance with the Town of Morristown Code, I am submitting Morristown's Fiscal Year ("FY") 2012 Executive Municipal Budget ("Municipal Budget") to the Town Council for consideration, review and authorization.

Over two years ago when I became Morristown's Chief Executive Officer, the fiscal condition of our government was poor. With local revenues diminishing, State Aid vanishing, operating costs escalating and our Town's tax base valuation receding, I inherited a budgetary mess and shortfall of nearly \$4 million. The structural imbalance of our Town's financial operation was alarming, and it was quite apparent that Morristown's budgetary habits were in need of change.

Undoubtedly, the only remedy to our financial state of affairs was to inject a large dose of harsh reality into our government organization, and dramatically transform the way it functioned and delivered municipal services. As I stated at the beginning of my term, my fiscal methods would be vastly different from my predecessors and the old tactics and gimmicks of increased spending, deferring expenses and using unsustainable budgetary measures to mask our organization's budget woes would come to an end. Town Department Heads and managers were challenged to reduce operational spending without compromising the level of service our citizens deserved. I believe we have managed to maintain a highly respectable level of municipal service delivery that Morristown residents and business owners have positively recognized.

I am pleased to present to the Citizens of Morristown and the Town Council its Fiscal Year 2012 Municipal Budget, which provides a modest **decrease** in the Municipal Tax Rate and, equally as important, a document that is fiscally sound. This slight decrease in the Municipal Tax Rate is a result of the Municipal Tax Levy dropping by about \$25,000. There are no one-time revenue tricks or appropriation deferrals in this budget. Local revenues and State Aid are stable. Use of Operating and Sewer Utility surplus revenue is lower by over \$750,000. Municipal operation expenses are not only contained, but continue to decline again this year by \$500,000. In fact, municipal operation expenses have plummeted by \$2.2 million since I took office. Lastly, even though Medical insurance costs continued to climb this year by 9.5%, this year's pension obligations declined by closely the same amount.

Furthermore, I am delighted to state that estimated Total Tax Rate for Morristown taxpayers will fall by \$0.02 this year. It has been a long time since a Mayor could proclaim that a Morristown taxpayer will see their total tax bill decrease from the previous year, not from a lower tax assessment valuation but as a result of better financial management practices.

It is important to note that the Municipal Tax Rate decrease will in no way jeopardize our financial status going forward. I believe this budget meets today's challenges, and recognizes tomorrow's. For example, our long term debt

obligations have decreased by over \$20 million over the last several years. Indeed, the Town's annual debt payments will finally decline next year by approximately \$750,000. This downward trend evidences this Administration's aggressive approach and commitment to reducing the Town's debt burden on our taxpayers.

Various development projects, such as Phase I of the Speedwell Avenue Redevelopment Area, as well as several smaller development projects will break ground this year. As a result, the Town will see its tax base valuation grow in the coming years to continue to provide for more municipal tax revenues, thereby increasing the likelihood of further stabilization of its tax rate and levy.

With projections showing limited local revenue growth, future municipal budgets will continue to be tight over the next 2-3 years. Personnel expense containment is imperative, and the Administration is fully aware of this fact in the midst of contract negotiations with all of its collective bargaining units this year. Some future budget relief will surely materialize as a result of the new State Health Benefit and Pension reform law enacted last year. Indeed, pension obligations are \$360,000 lower in Fiscal Year 2012, which is a direct outcome of the new State Pension reform law. Further, the Health Benefit law increased employee cost sharing by \$40,000 this year to about \$240,000 in total. Over the next three years, projected employee cost sharing for health care insurance may rise to approximately \$750,000.

My Administration will continue to implement its system-wide performance management initiative – Morristown Performs - in all levels of Town government policy and operations in order to enhance service delivery efficiency and effectiveness. This new performance management approach will result in increased accountability and communication with our citizens.

Past budget constraints have forced us to sharpen our focus and concentrate on performing municipal services we are charged to do. We ask our Town employees to demonstrate great pride in their responsibilities and continue to deliver great results. Moreover, we will continue to seek shared service opportunities to reduce costs and duplication of services paid by Morristown taxpayers.

A key feature of our Fiscal Year 2012 budget is a financial commitment toward essential public safety services. Over the last two years, attrition has taken a toll on our Police Bureau as 10 police officers retired from their positions. Yet, I have demonstrated my commitment to policing services by hiring 8 new police officers within the last 15 months, several of whom are bilingual, and have budgeted for two more officers to be hired by the end of the year. Further, I will continue to work with our Police and Fire Chiefs to ensure our resident's public safety needs are met.

The Fiscal Year 2012 Capital Budget focuses mainly on road and sidewalk infrastructure projects. Approximately \$225,000 is being allocated to support the Town's joint cooperative funding effort with the County to improve traffic movement and pedestrian safety at the intersection of Morris, Elm and Lackawanna streets; and, as supplemental funding to the Morristown Partnership's \$200,000, the Capital Budget has \$100,000 allocated to beautify the Speedwell Avenue streetscape. Furthermore, two (2) State grant awards will provide \$185,000 to fund the South Street Streetscape Phase III project, and \$85,000 to enhance pedestrian safety for new sidewalks, crosswalks and traffic calming on Lafayette Avenue near the Morristown Train Station.

All of our planned road and sidewalk infrastructure projects will follow a Complete Streets approach, which the Administration hopes, in the near future, to formalize with Town Council cooperation and approval.

These efforts, combined with long-term planning, will ensure our financial sustainability for many years to come. Our Planning Division has continued to evaluate and refine the long term redevelopment plans for Morristown. The comprehensive planning process led to the adoption of the Housing Element and Fair Share Plan, and the Morristown Moving Forward program, which is a “smart growth” inspired initiative. Both are designed to apply best practices and methodologies to develop mobility, urban design and land use policy that are consistent with the Planning Division’s mission to “improve the quality of life in Morristown by guiding and promoting development that creates jobs, builds vibrant neighborhoods, protects natural resources and strengthens the community fabric.”

It is almost always the unforeseeable, emergent events that test a community’s spirit and provide opportunities to turn destruction and despair into a source of renewal and optimism. Devastating weather events last year not only wreaked havoc on our electrical infrastructure, but caused extensive destruction of our community forestry canopy. This is why I am allocating \$100,000 in the Capital Budget to restore our community’s shade tree canopy for the many benefits they provide to our environment. Rest assured, public safety will be a primary consideration in the implementation of all shade tree plans, which is why the Administration will use its Community Forestry Management Plan as main guide through this process. Furthermore, my Administration worked closely with the State Board of Utilities and Governor Christie’s office to secure an independent review of Morristown’s electrical infrastructure. This effort led to a commitment of \$200 million dollars in improvements JCP&L will undertake over the next several years.

Our government will continue to work closely with Town citizens, community partners and business owners to grow and strengthen our municipality through strategic planning and investment. It has been my conviction that all citizens stay engaged and make it their duty to provide a community that is safe, attractive, vibrant, welcoming and open; that all public servants deliver municipal services in a professional, efficient and effective manner, and provide them with the right balance of responsibility and pride. Together, we will continue to transform Morristown into a place where people eagerly want to live, work, eat and shop for years to come. As I had promised from my campaign to the day I took office, I would change the way your Town government would operate. As President John F. Kennedy once said, “Change is the law of life; and those who look only to the past or the present are certain to miss the future.”

The comprehensive FY 2012 operating budget, capital improvements plan and 5-year Financial Trend Analysis were compiled with the assistance of the “Executive Budget Team” – the Business Administrator, Chief Financial Officer, Department Directors and Bureau Chiefs. The 5-year Financial Trend Analysis illustrates a snapshot of the Town’s fiscal condition based on five years of data dating back to FY 2007. The FY 2012 Municipal Budget packet provides the fiscal insight and transparency for the Town Council and our Citizens to understand how past budget policies and decisions impacted the financial health of our municipality, and how this recommended Budget provides for a sufficient level of financial resources to meet spending obligations and service responsibilities this year.

FY 2012 FINANCIAL BUDGET OVERVIEW

The financial summary totals for FY 2012 approximates \$46.7 million and includes appropriations for both the Operating and Sewer Utility Funds and their Capital Improvement Plans. Compared with FY 2011, the total FY 2012 Financial Budget represents a \$443,844, or 0.9% decrease. As shown in the table below, the Municipal Budget and Sewer Utility Budgets are projected to decrease by \$668,045 (1.8%) and \$155,799 (1.7%), respectively. The FY 2012 Capital Improvement Plans combined will require a modest increase of \$380,000, or 24% in funding from last year.

	Financial Summary Totals	
	<i>FY 2011</i>	<i>FY 2012</i>
<u>Operating Fund</u>		
Municipal Budget	\$36,535,043	\$35,866,998
Capital Improvements Plan	\$ 1,200,000	\$1,757,000
<i>Percent Change</i>		(0.3%)
<u>Sewer Utility Fund</u>		
Sewer Utility Budget	\$9,052,443	\$8,896,644
Capital Improvements Plan	\$ 377,000	\$200,000
<i>Percent Change</i>		(3.5%)
Total Financial Budgets	\$47,164,486	\$46,720,642
<i>Percent Change</i>		(0.9%)

OPERATING BUDGET – MUNICIPAL PROPERTY TAX IMPACT

SUMMARY POINTS

- **Slight Municipal Tax Rate Decrease:** The FY 2012 estimated Municipal Tax Rate is \$1.016, down about \$0.001 from last year. Significant salary and wage reductions, other municipal operation changes and health care insurance and pension reform implemented during the last two years have led to this positive budget outcome.

In FY 2012, one cent (\$0.01) of the Municipal Tax Rate is equal to \$222,341 as compared with last fiscal year, which one cent was equal to \$222,294. (FY 2011: \$2,222,943,523). While the Town added \$472,637 in net assessed valuation (NAV), continued tax appeal settlement and judgment losses eroded most of the gain that would have been made from the \$11.8 million in added assessed valuation in FY 2011.

- **\$0.02 Total Property Tax Decrease:** For Morristown's average assessed home of \$350,000, the following table will show the breakdown comparison of a property homeowner's tax bill in FY 2011, and what the estimated total tax bill will look like in FY 2012.

<i>Average Residential NAV (\$350,000)</i>		
<i>Total Property Tax Bill Comparison</i>		
	FY 2011	FY 2012
Municipal Tax	\$3,559.50	\$3,556.00
Morris County Tax	1,088.50	1,074.50
Morris School District Tax	4,420.50	4,378.50
Public Library Tax	154.00	143.50
Total Tax Bill Amount	\$9,222.50	\$9,152.00
Total Property Tax \$ Effect		\$5.88/month or \$70.50/year

- **\$841,834 UNDER Property Tax Levy Cap:** For two consecutive years, the Executive Budget is well under both the 2% Property Tax Levy and Total Appropriations Caps. Under the Property Tax Levy Cap formula, the maximum allowable amount to be raised through the Town's Municipal Levy is \$23,424,160. However, the Municipal Budget requires only \$22,582,326 in property tax revenues this year. In FY 2011, the Town budget was \$1,025,344 under the Property Tax Levy Cap, which it is permitted under the State law to "bank" for three budget years (FY's 2012-14). The FY 2012 budget utilizes \$0 of its prior year Levy Cap bank.

REVENUES

FY 2011 RECAP

Overall, total revenues realized last year were slightly down by over \$22,000. Of the 26 main revenue line-items in the Executive Budget, about seven (7) line-items, or 27% of total realized declines. Line-items that experienced increases totaled \$110,143 more than anticipated as opposed to declining revenue line-items that amounted to \$132,456 in revenue loss. Additionally, the Town collected nearly \$431,077 in Miscellaneous Revenue Not Anticipated ("MRNA") from sources such as sale of municipal assets, recycling and Payments in Lieu of Taxes.

LOCAL AND SPECIAL ITEM REVENUES

- Total Local and Special Item Revenues realized were below anticipated amounts by approximately \$1,700.
- Reversing a downward trend since FY 2006, Municipal Court fines & costs collected were higher than anticipated by \$10,463. Total Court revenues realized last year (\$946,463) were \$184,000 lower than what were collected in FY 2006.
- Swimming Pool fees came in about \$9,000 more than what was expected, yet about \$6,000 below what was realized in FY 2010.
- Interest on Investments and Taxes continue to slump and disappoint as interest rates are at historic lows and returning much lower earnings on deposits compared with the type of returns several years back.

Again, realized revenue from these sources were down \$60,000 than what was expected last year.

- The Town entered into new shared service agreements with the Internal Revenue Service (Police Bureau related) and Morris and Harding Townships for Animal Control services. While the IRS revenue source came in below the amount anticipated, the Animal Control agreements realized about \$1,000 more than expected.
- Municipal Hotel and Motel Occupancy tax revenues continued its upward trend last year. Revenues from this source came in over \$25,000 more than anticipated. This is a good indicator that our local economy is in recovery, as corporations and individual households continue to increase spending for travel and lodging.

DEDICATED UNIFORM CONSTRUCTION CODE FEES

Fees collected were down last year in the Department of Building and Construction. Revenues realized were approximately \$30,000 below what was anticipated, and \$80,000 lower than what was collected in FY 2010.

RECEIPTS FROM DELINQUENT TAXES

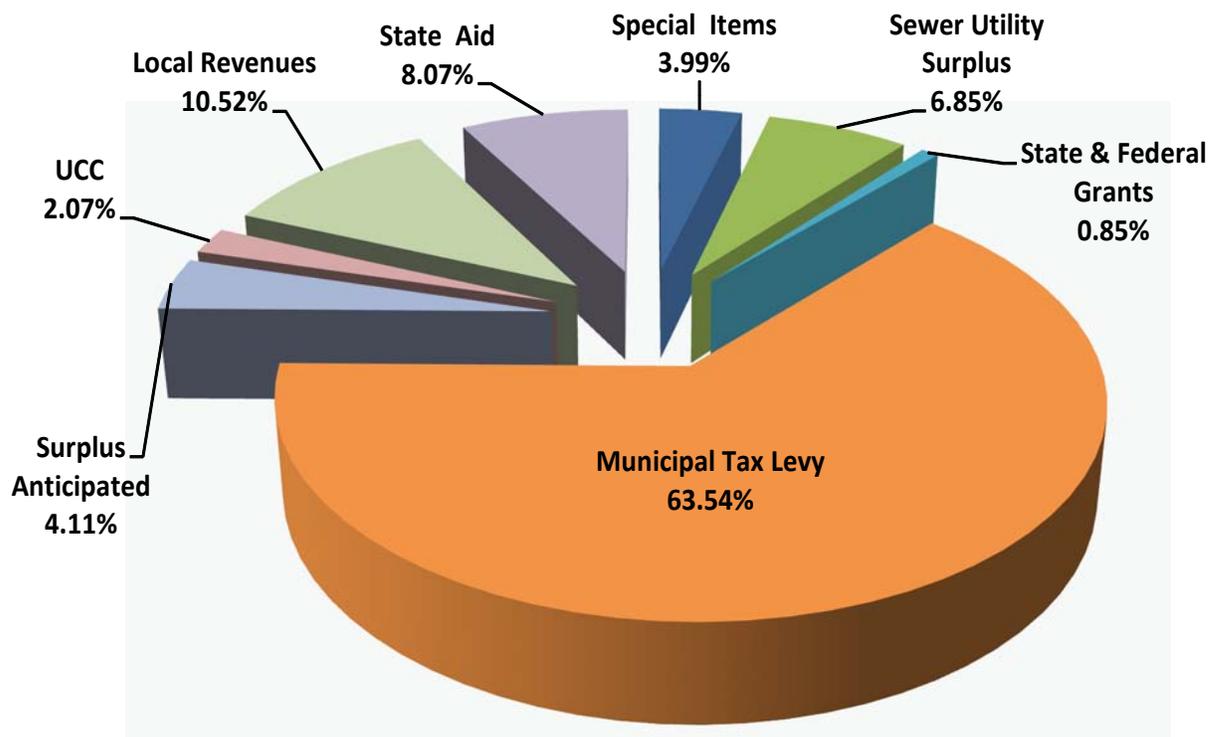
Property tax collection has experienced three consecutive years of very good collection rates. Fortunately or unfortunately, as previous year collection rates increase, revenues anticipated in the Delinquent Taxes line-item will typically decrease. Nevertheless, property taxes remained delinquent from FY 2010, and the Town realized over \$10,000 more than expected.

In FY 2011, Outstanding Property Taxes as a Percentage of the Total Property Tax Levy declined to its lowest level in 6 years (0.54%) after reaching 5.01% in FY 2007 (large percentage of outstanding taxes in FY 2007 were due to the AHS tax appeal -\$1.7 million of \$2.6 million) (see Revenue Analysis: Page 2-10).

FY 2012 GENERAL REVENUES SYNOPSIS

Total projected non-tax revenues (excludes Receipts from Delinquent Taxes) are \$12,656,599, down \$651,100 from FY 2011 anticipated revenues. State aid revenues are anticipated to stay the same. While Local Revenue sources will increase modestly by \$7,000, Special Items of Revenue and UCC fees are expected to be much lower this year by \$161,000 and \$30,000, respectively. In FY 2012, the Administration conservatively expects most revenues to remain stable, and, for some line-items, even increase, such as equitable revenue sharing received from the IRS agreement. Although the Administration recommends using over \$1.46 million of surplus to offset the Municipal Tax Levy (down \$463,000 from last year), just about \$916,000 will be used to fund one-time appropriation reserve line-items such as \$450,000 in the Reserve for Tax Appeals (see Surplus Revenue Allocation table, Page 8). As it does every year, the Town will continue to evaluate new revenue options and determine whether to increase its various sources of Local Revenues, UCC Fees and Special Items of Revenue in order to stabilize or reduce use of its Fund Balance surplus in the future. Below illustrates the percentage breakdown of projected revenues that fund the Town's FY 2012 Municipal Budget (see General Revenue section, Page 4-1 for specific dollar amounts).

FY 2012 ANTICIPATED REVENUES (%)
“WHERE THE BUDGET \$\$ COMES FROM”



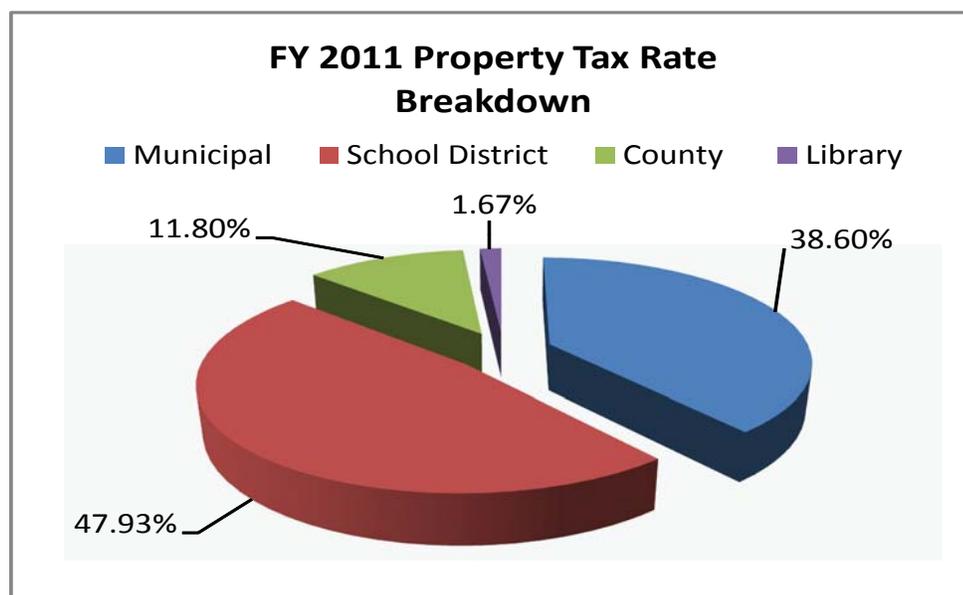
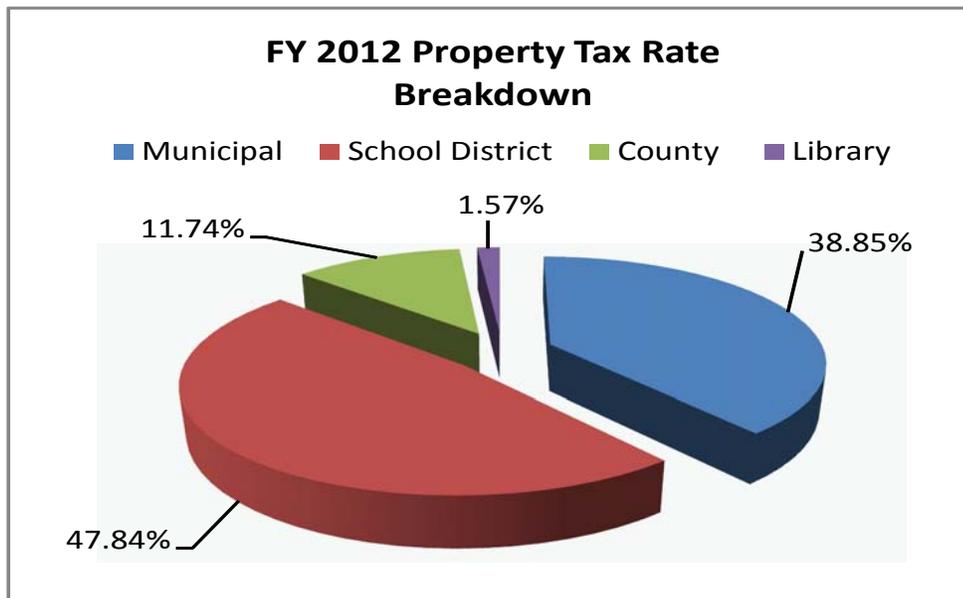
Compared with FY 2011, the percentage of Municipal Levy Taxes to Total General Tax Revenues will increase 1.14% (FY 2012: 63.54% vs. FY 2011: 62.40%). This increase in the Municipal Tax Levy percentage is primarily related to three significant revenue reductions in the Municipal Operating Budget; \$463,000 in Surplus Anticipated, \$450,000 in Grants and \$160,000 in Special Revenue Items.

The chart below shows each component of the total property tax rate for the last four years (plus projected FY 2012). The Property Tax Rate pie charts depict the percentage breakdown of each tax rate for FY's 2011 and 12, and includes the Library Tax Rate created under State Law last year requiring the Town to omit library funding from its Municipal Operating Budget and levy taxes with a separate, dedicated tax rate.

TOTAL PROPERTY TAX RATES

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Municipal	\$0.951	\$1.016	\$1.035	\$1.017	\$1.016
School District	1.098	1.194	1.218	1.263	1.251
County	0.299	0.318	0.332	0.311	0.307
Library*	N/D	N/D	N/D	0.044	0.041
TOTAL	\$2.348	\$2.528	\$2.585	\$2.635	\$2.615

* N/D (Non-Dedicated line-item) - Library Funding included in Municipal Tax Rate until FY 2011.



The table below shows the apportionment of the overall total property tax levy amount for each of these same years along with the percentage change from FY 2008 to FY 2012.

OVERALL PROPERTY TAX LEVY

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	% Change from FY 2008
Municipal	\$20,647,504*	\$22,611,331	\$23,373,806	\$22,607,344	\$22,582,326	9.37%
County	\$ 6,795,378	\$ 7,077,169	\$ 7,476,378	\$ 6,885,080	\$ 6,825,585	0.45%
Regional School	\$24,954,266	\$26,572,766	\$27,507,088	\$28,073,029	\$27,812,081	11.45%
Library**	N/D	N/D	N/D	\$ 988,534	\$ 922,288	(4.51%)
TOTAL	\$53,363,039	\$56,261,266	\$58,357,272	\$58,553,987	\$58,142,280	8.96%

* In FY 2008, Library portion of Municipal Tax Levy was \$965,891. Amount reduced for % change comparison.

** N/D (Non-Dedicated line-item) - Library Funding included in Municipal Tax Levy until FY 2011.

CURRENT FUND BALANCE (SURPLUS)

The Administration proposes to use \$1,460,000 in Fund Balance surplus for municipal operational purposes, reserves and other uses. The source and use of these surplus funds in the Municipal Budget are stated below.

SURPLUS REVENUE ALLOCATION

Source & Use	Amount
Revenue Source	
<i>Current Fund Surplus</i>	\$ 1,460,000
Total	\$1,460,000
Proposed Appropriation Use	
<i>Municipal Operations</i>	\$ 543,985
<i>Reserve for Tax Appeals</i>	450,000
<i>Reserve for Salary & Wage Increases</i>	164,000
<i>Reserve for Vacation & Sick Time</i>	100,000
<i>Emergency Appropriations - FY 2011</i>	90,000
<i>Fire Truck Lease Payment</i>	58,000
<i>Capital Improvement Fund</i>	45,000
<i>Deferred Charges</i>	9,015
Total	\$1,460,000

LOCAL REVENUES

Cable Franchise fees continue to grow, as the Town will be able to anticipate \$18,000 above the FY 2011 amount realized. Further, Municipal Hotel and Motel Occupancy tax revenues are projected to increase by \$25,000; from \$346,000 anticipated last year to \$371,000.

Last year, the Town entered into shared service agreements with the Internal Revenue Service (Police Bureau related) and Morris and Harding Townships for Animal Control services. These agreements are projected to bring in at least \$254,000 in special items of general revenues this year.

There will be an anticipated loss of \$29,000 in Town property rental loss due to a reduction of leased parking spaces in the Town Hall lot.

STATE AID WITHOUT OFFSETTING APPROPRIATIONS

The Town's total State Aid will remain the same as last year at \$2,868,599, accounting for 7.5% of its total revenues. Just five years ago, State revenues used to account for over 11% of the Town's total revenue sources. Clearly, the loss of approximately \$1.1 million in state revenues has severely restricted the Town's ability to fund its municipal operations and other statutory obligations, which was a large contributing factor to the Town reducing its workforce by 19% the last 3 years and implementation of municipal service delivery reform measures to cut its total appropriations.

Moreover, the State reduced its funding this year, as it has for the last five years, in the Consolidated Municipal Property Tax Relief Act ("CMPTRA") category. In FY 2008, the Town received \$969,932 in CMPTRA revenues. This year, the Town will receive just \$186,179, down 99,304 from FY 2011. Similar to what it did last year, the State will provide \$2,682,420 in Energy Receipts Tax revenues ("ERT"), up from \$2,583,116 in FY 2011, which they increased the ERT revenues by the same amount it reduced the Town's CMPTRA revenues.

UNIFORM CONSTRUCTION CODE FEES

Based on realized revenues collected last year that were lower than expected, this year's projected U.C.C. fees will be \$30,000 lower than budgeted for last year. Given the number, type and size of pending land use development projects and those already approved and starting construction this year, the Town does expect increased building permit and inspection activity to generate more revenues than realized last year.

RECEIPTS FROM DELINQUENT TAXES

Once again, the Town exceeded its anticipated tax collection rate (98.75%) by 0.03%. The average delinquency rate percentage last year on a quarterly basis was about 1.73% (see table below). Property tax delinquencies are slightly up in the first quarter of FY 2012 as compared with the same period last year. As it has done over the last three years, the Administration plans to seek Town Council approval to conduct an accelerated tax sale at the end of the year, if necessary, to ensure the Town meet or exceeds its projected tax collection rate this year of 98.75%.

PROPERTY TAX DELINQUENCIES

FY (QTR)	Total Billed	Receipts	AHS (MMH) Billed but Uncollected	Delinquent Taxes (Excluding AHS)	% of Delinquent Taxes Uncollected of Total Billed
2008 (4th)	\$14,505,060.65	\$13,551,712.87	0.00	\$953,347.78	6.6%
2009 (1st)	13,300,573.64	12,558,841.90	\$219,714.00	522,017.74	3.9%
2009 (2nd)	13,358,991.58	12,713,525.03	219,714.00	426,025.55	3.2%
2009 (3rd)	15,177,543.16	14,403,268.02	251,904.00	522,371.14	3.4%
2009 (4th)	15,569,613.16	15,113,602.39	(691,332.00)*	456,010.77	2.9%
2010 (1st)	14,082,712.14	13,670,632.25	0.00	186,464.78	1.3%
2010 (2nd)	14,093,499.13	14,270,158.43	0.00	(176,659.30)	(1.3%)
2010 (3rd)	14,417,476.75	13,987,865.23	0.00	191,980.70	1.3%
2010 (4th)	15,577,729.14	15,905,665.27	0.00	(327,936.13)	(2.1%)
2011 (1st)	14,597,453.67	14,198,537.11	0.00	398,916.56	2.7%
2011 (2nd)	14,597,453.41	13,975,045.67	0.00	622,407.74	4.3%
2011 (3rd)	14,083,715.80	14,075,560.20	0.00	8,155.60	0.1%
2011 (4th)	15,490,194.00	15,528,617.18	0.00	(38,423.18)	(0.2%)
2012 (1st)	14,692,269.63	13,528,893.78	0.00	461,979.49	3.1%

*First 3 quarters total amount of AHS-related taxes outstanding- internal accounting to net out taxes uncollected.

PROPERTY TAX LEVY CAP

The Property Tax Levy Cap law, which was amended in FY 2010, strictly limits a municipality to a 2% increase over the previous year's Municipal Tax Levy. The number of exclusions were reduced significantly under the amended law to only allow for exclusions such as Change in Debt Service, Allowable Increases in Health Care Insurance and Pension Costs and Capital Improvements. The Property Tax Levy Cap, as well as the Total Appropriations Cap, have an allowable increase for New Construction Value (new values x the previous year municipal tax rate). In FY 2012, the Municipal Budget is \$841,834 under the 2% Property Tax Levy Cap.

APPROPRIATIONS

FY 2011 RECAP

The Town continued to reform its municipal service delivery by way of transferring radio communication dispatching to the County of Morris, and sanitation and recycling collection services to the private sector. By effectuating these changes, the Town further reduced its personnel overhead costs by approximately \$150,000, and operating expenses by \$50,000. Moreover, positions left vacant and unfunded due to retirements provided an additional \$280,000 in personnel cost savings/avoidance.

Tropical Storm Irene and the October snowstorm caused widespread damage to our electrical infrastructure and community shade tree canopy. Dealing with the aftermath of these weather events posed many challenges that required Town employees from public safety, health and public works to work significant extra hours. Given such, for the first time in many years, the Town Council approved \$90,000 in emergency appropriations to cover overtime, and \$400,000 to fund emergency capital improvements for damage caused to Cory Road and Patriots Path from Tropical Storm Irene. At least \$30,000 more in public works and safety overtime costs was incurred as a result of the devastating effects of the October snowstorm, which required weeks of tree debris cleanup town-wide. The good news is that both storms were declared Federal and State emergencies that permitted the Town to seek 75% reimbursement for eligible costs related to those storms.

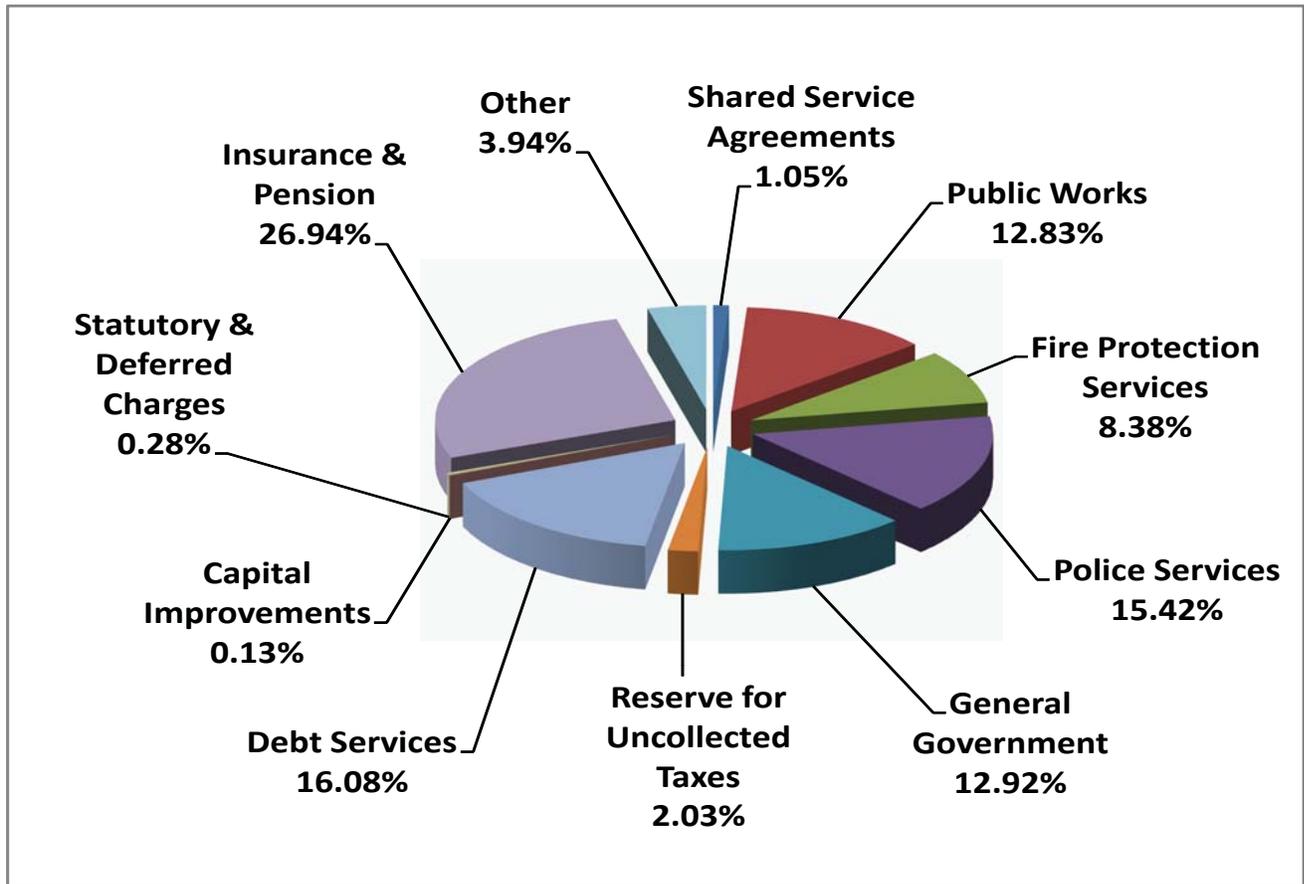
For the second straight year, the Town realized substantial savings in general legal expenses. The decision to hire a full-time, salaried Director of Law/Town Attorney to handle most of its day-to-day municipal law issues instead of paying hourly fees for outside legal counsel services has proven to be tremendously cost effective. For example, the Town spent a combined \$200,000 for salary and other legal expenses last year, down \$50,000 from FY 2010 and \$300,000 from FY 2009. In the tax appeal area, however, legal and appraiser expenses associated with defending new and ongoing tax appeal cases exceeded its \$190,000 budget amount by approximately \$80,000, which includes legal and appraisal costs incurred from the Atlantic Health Systems (Morristown Medical Center) tax appeal litigation.

FY 2012 GENERAL APPROPRIATIONS SYNOPSIS

The Town's projected Total Appropriations will decrease this year by \$1.11 million. More importantly, net appropriations (Total Appropriations minus Reserve for Uncollected Taxes, Grants and one-time items funded by surplus) will decrease by about \$506,048, or 1.46%.

The total percentage breakdown of FY 2012 Municipal Budget appropriations is shown below.

FY 2012 PROPOSED APPROPRIATIONS (%)
“HOW THE BUDGET REVENUES ARE ALLOCATED”



The following tables highlight the projected FY 2012 Municipal Budget top 5 largest appropriation line-items compared with FY 2011, the percentage change from FY 2008 in these same categories, and the 5 largest appropriation increases and decreases this year.

	<i>5 LARGEST APPROPRIATION LINE-ITEMS</i>			
	FY 2011	% of Total Appropriations	FY 2012	% of Total Appropriations
Salary & Wage	\$13,897,380	38.0	\$13,611,890	37.9%
Debt Service	6,025,000	16.3	5,768,739	16.0%
Medical Insurance	5,230,000	14.1	5,546,000	15.5%
Pension Obligations	3,087,800	8.4	2,734,345	7.6%
General Liability Insurance/Workers Compensation	732,500	2.0	763,926	2.1%
FY Total Appropriations	\$36,976,676		\$35,866,998	

5 LARGEST APPROPRIATION LINE-ITEMS			
	FY 2008	FY 2012	% Change from FY 2008
Salary & Wage	\$16,464,358	\$13,611,890	(21.0%)
Debt Service	5,927,000	5,768,739	(2.7%)
Medical Insurance	4,203,100	5,546,000	32.0%
Pension Obligations	2,033,568	2,734,345	32.9%
General Liability Insurance/Workers Compensation	723,820	763,926	5.5%

5 LARGEST APPROPRIATION INCREASES		
	FY 2012 Appropriation Amount	Increase Over FY 2011 Appropriation
Medical Insurance	\$5,546,000	\$316,000
Reserve for Salary and Wage Increases	164,000	164,000
Solid Waste & Recycling Collection Services	474,000	118,500
Emergency Appropriations (FY 2011 Deferred Charge)	90,000	90,000
Morris County Radio Dispatching Services	356,800	70,946

5 LARGEST APPROPRIATION DECREASES		
	FY 2012 Appropriation Amount	Decrease Under FY 2011 Appropriation
Pension Obligations (PERS & PFRS)	\$2,702,000	(\$360,500)
Salary & Wages	13,611,890	(285,490)
Debt Service	5,768,739	(256,261)
Reserve for Unemployment Benefits	0	(231,000)
Reserve for Tax Appeals	450,000	(50,000)

Municipal Operations: Projected Total Appropriations needed to fund municipal services are \$17,772,386, a 2.8% decrease compared with FY 2011 (\$18,278,045). Over the last 3 years, Municipal Operation spending has declined by almost 12%. The majority of Departments, Bureaus and Offices (6 out of 10) will see appropriation reductions, from the highest in Revenue and Finance (5.5%) to the lowest in Building and Construction Code (1.3%) (see Budget Summary, Page 3-1). While the Legal Department reflects a 10.3% increase, the reason for this is because the proposed FY 2012 amount is compared with actual

amounts spent in FY 2011, whereas the adopted budgeted amount was \$442,000. As such, when comparing the actual budget amount this year versus last, it is lower by \$4,000. Finally, the largest single appropriation line-item increase will be for Medical and Dental Insurance premiums, up \$316,000 from last year. The tables below depicts the projected 10 largest Other Expense category appropriations in FY 2012 compared with FY 2011, as well as the projected 5 largest Professional Service appropriation line-items.

10 LARGEST OTHER EXPENSE CATEGORY APPROPRIATIONS <i>(Excludes Professional Service Line-Items)</i> FY 2011 and 2012 Comparison		
	FY 2012	FY 2011
Tipping Fees	\$633,400	\$613,800
Electricity (Street Lights)	360,000	380,000
Electricity (Municipal Buildings)	311,000	381,500
Gasoline/Diesel Fuels	243,700	237,000
Telephones and Maintenance (LAN lines & Cellular)	120,000	80,250
Maintenance of Motor Vehicles and Equipment	116,000	138,000
Maintenance of Office Equipment (includes Software Licensing Renewals)	100,800	107,350
Natural Gas/Propane	95,300	90,000
Education/Training	63,650	57,020
Building Maintenance & Repairs	62,000	62,000

5 LARGEST PROFESSIONAL SERVICE APPROPRIATIONS		
	FY 2012	FY 2011
Legal		
• General	\$250,000	\$250,000
• Tax Appeal	225,000	190,000
• Prosecutor/Public Defender	90,000	95,000
• Planning/Board Adjustment	20,000	40,000
Solid Waste & Recycling Collection	474,000	355,500
Planning Consultant	120,000	125,000
Auditor	43,500	43,160
Information Technology	30,000	47,000

Other Appropriations: Mandatory appropriations, such as Debt Service payments, Pension Obligations, Reserve for Uncollected Taxes, Insurances and the Business Personal Property tax that passes through the municipality for the Morris School District, total \$16,364,420 and account for over 45.62% of Total Appropriations. Discretionary costs, such as Salaries and Wages and Municipal Department Other Expenses, account for 70% and 22%, respectively, of the other 54.38% of Total Appropriations.

SALARY & WAGES

Total Salaries and Wages, which make up 37.9% of Total Appropriations, will decline this year by 2.1%, or \$285,490. This amount includes salary savings from workforce reduction as well as positions that were funded in the budget last year, but left vacant and unfunded in FY 2012. The chart below shows the impact from any salary increase budgeted this year, which is broken down by non-union employees and collective bargaining units.

FY 2012 SALARY & WAGE INCREASES

GROUPS	TOTAL FULL-TIME EMPLOYEES	% INCREASE	Actual \$ Amount
Non-Union Employees	27	1.00%	\$19,755
Municipal Employees Association	54	Pending Collective Bargaining Negotiations	\$0
PBA Local 43 (Patrol Officers & Superior Officers)	49	Pending Collective Bargaining Negotiations	\$0
FMBA Local 43	25	Pending Collective Bargaining Negotiations	\$0
FMBA Local 243	6	Pending Collective Bargaining Negotiations	\$0
Local 255 Supervisors	5	Pending Collective Bargaining Negotiations	\$0

OTHER DEPARTMENTAL EXPENSES (EXCLUDES GENERAL LEGAL LINE-ITEM)

Net total municipal operation Other Expenses (\$4,160,496) will decrease this year by \$139,169, or 3.4% from FY 2011 (\$4,299,665). \$118,500 of total Other Expenses is related to the Town's Solid Waste and Recycling collection service contract with Blue Diamond Disposal and the three months of service costs that were not included in last year's budget (contract start was April 1, 2011). Further, higher Gasoline/Diesel prices and Tipping Fees account for \$26,300 in increased municipal Other Expenses.

INSURANCE

For FY 2012, the Town's medical insurance premium, \$6,037,669, increased by \$546,091, or 9.5% over last year. Even though the Town did not experience as many high catastrophic medical claim amounts of \$25,000 and over as it did over the last two years, its experience ratio in FY 2011 was 89%. A normal year ratio level should be at around 80-83%. Therefore, annual health care cost increases coupled with this higher than normal experience ratio led to the annual premium increase this year. The dental insurance premium will stay about the same as last year at \$235,000

Workers compensation and multi-line liability (e.g., General Liability, Property, Automobile, Excess Public Officials Liability, Police Professional Liability, Crime, Environmental Impairment Liability) insurance policy coverage will increase by \$31,426, from a FY 2011 combined total of \$732,500 to \$763,926 in FY 2012.

PENSION OBLIGATIONS

Mainly due to the State's Pension Reform Law enacted last year, the Town's pension obligations will decrease this year. The FY 2012 pension bill will be \$360,500 lower than last year, or a 13.3% decrease. Prior to the new Pension Reform law, earlier estimated pension obligations from the Division of Pension and Benefits indicated that the Town would have been required to pay at least a 23.5% increase this year. Indeed, pre-Pension Reform, the Town's original estimated PFRS contribution this year would have been \$2,261,436, or \$675,638 higher, and the PERS obligation would have been \$791,703, or \$36,703 higher. The total pension increase, but for the Pension Reform law, would have been \$350,000 higher this year instead of a \$360,500 decrease (essentially \$710,500 of cost savings).

The table below depicts the last nine years of escalating pension obligations, which finally subsided this year.

PENSION OBLIGATION PAYMENTS

Fiscal Year	PERS	PFRS
2004	\$ 38,847	\$ 147,828
2005	79,339	356,853
2006	140,928	699,000
2007	220,980	1,072,622
2008	393,800	1,634,768
2009	282,030*	868,114**
2010	595,900	2,263,000
2011	783,500	2,279,000
2012	755,000	1,947,000

* PERS Full Pension Amount Owed - \$ 507,892

** PFRS Full Pension Amount Owed - \$1,669,720

For historic background, in FY 2004, the State instituted its 5-year "pay back" policy, at which time the Town began budgeting and paying back its Police and Fire Retirement System (PFRS) pension obligations on a twenty percent (20%) annual cost basis. In FY 2005, the Town's Public Employee Retirement System (PERS) obligations were phased-in at 20% for the next five years. Unfortunately, the Town did not set-aside funds for a reserve account back in FY 1999 to prepare for the day it needed to pay back the pension obligations. As a result, the significant increase of appropriations during the time period of FY 2004 - FY 2009 needed to be borne in that particular budget year instead of having reserves to offset the phase-in amount. The table above illustrates what the Town's annual pension obligation payments were as they

phased back in, were deferred again, and then returned to a 100% cost basis.

After years of repaying its pension obligations during the 5-year pay back period, in FY 2009, the Town finally reached 100% full pension cost. Yet, facing the prospect of exceeding the Property Tax Levy Cap, the former Administration opted to defer 50%, or \$1,027,000 of its pension obligations. Although by making that budgetary decision it greatly relieved the burden on taxpayers in FY 2009, unfortunately, the pension bill was fully restored in FY 2010 to 100% of the FY 2009 cost plus annual actuarial adjustments. Moreover, in FY 2012, the Town is required to start repaying the pension amounts deferred (at over 8% interest), and will have up to 15 years to complete repayment. The added cost to this year's pension obligation directly related to the FY 2009 deferral is \$146,413.

RESERVE FOR UNCOLLECTED TAXES

Last year's tax collection rate was 98.78%. The \$727,132 budgeted in FY 2012 is based on a 98.75% collection rate estimate. Further, the Administration will seek Town Council approval to conduct an accelerated tax sale at the end of the year in case the Town's collection rate is in jeopardy of falling below the budgeted amount set aside in the Reserve for Uncollected Taxes.

TOTAL APPROPRIATIONS CAP

Under the Total Appropriations CAP law, the State allows exclusions, or CAP base adjustments, to appropriation limits. Some of these exclusions are Debt Service, Reserve for Uncollected Taxes and Tax Appeals, Capital Improvements, Deferred Charges and Inter-local Service agreements. Even though the CAP Index is 2.0%, the Town will be well-under its allowable Total Appropriation limit again this year by \$8,162,186.

FY 2013 AND FY 2014 APPROPRIATION PROJECTIONS

The 2-year projected total General Revenue and Appropriation figures are based on the following annual assumptions:

- 1% Anticipated Total General Revenues
- 2% Salary & Wage increase
- 2-5% Other Expense increases
- 10% Health Care Insurance increase
- 10% Pension Obligation increase
- Town Net Assessed Valuation (NAV) Stable at FY 2012 level

	<i>FY 2012</i>	<i>Projected FY 2013</i>	<i>Projected FY 2014</i>
Non-Tax General Revenues	\$12,981,599	\$13,111,415	\$13,242,529
General Appropriations	\$35,140,068	\$35,459,786	\$36,780,422
Reserve for Uncollected Taxes	<u>726,930</u>	<u>730,000</u>	<u>735,000</u>
Total Appropriations	<u>\$35,866,998</u>	<u>\$36,189,786</u>	<u>\$37,515,422</u>
Amount to be Raised by Taxes (Municipal Tax Levy)	\$22,582,326	\$23,078,371	\$24,272,893
Municipal Tax Rate	\$1.016	\$1.038	\$1.091
Percent Effect on Projected Municipal Tax Rate		2.20%	5.11%

Be mindful these are only projections, but do provide some sense of what to expect in the coming years. The projected FY 2013 increase is much lower due to the Town's estimated debt service payments dropping by over \$750,000. Further, at this time, it is unclear how the Pension Reform law will affect future obligations as the assumed 10% increase may actually be lower.

OPERATING POSITION

The Town's operating position relies on its ability to: (1) balance its budget; (2) maintain emergency reserves; and (3) have adequate liquidity to pay its current liabilities in a timely manner. Whereas the Town is statutorily mandated to pass a balanced budget every year, failure to do so is not an option. Balancing increasing fiscal mandates and service demands with fluctuating, limited financial resources is the real budget challenge each year. Further, the Town evaluates its reserve funds continually throughout the year to determine which reserve fund needs replenishment in the upcoming budget cycle. While the Town has done an adequate job in building and maintaining its various reserve funds, in recent years, the combination of shrinking State revenues and escalating real estate tax appeals has placed serious downward pressure on the municipality's ability to meet unexpected short-term obligations and grow its Operating Budget Fund Balance. Moreover, during any given fiscal year, the Town often receives its revenues in small or large installments, at infrequent periods of time. Therefore, it is imperative for the Town to make every effort to stabilize and increase its taxable base, experience high, consistent tax collection rates and, if necessary, solicit the financial market to borrow monies on a short-term basis to provide sufficient liquidity.

TAX BASE

A vital source to any local public entity, the Town's tax base generates its largest amount of revenues to fund its municipal budget (63.54%). For this primary reason, it is essential for the Town to make every effort to preserve and defend its existing tax base in tax appeal litigation, and to carefully plan new development to maximize economic utilization of its rather small geographic area of 2.9 square miles.

A more complete picture of the Town's NAV is shown below.

ASSESSED VALUATIONS (LAND IMPROVEMENTS BY CLASS)

FY	Vacant Land	Residential	Commercial	Apartment	Industrial	TOTAL
2012	\$26,496,100	\$1,242,453,642	\$701,858,700	\$227,140,400	\$11,253,500	\$2,209,202,342*
2011	34,550,100	1,242,654,342	708,794,700	211,285,200	11,445,300	2,208,729,642*
2010	56,476,200	1,247,516,242	717,666,000	211,285,200	11,445,300	2,244,388,942*
2009	23,271,200	1,238,444,242	761,433,900	176,421,700	11,665,100	2,211,236,142*
2008	49,435,100	1,195,501,242	824,460,800	176,921,700	11,665,100	2,257,983,942*
2007	55,989,100	1,194,136,942	758,006,900	177,599,100	11,665,100	2,197,397,142*
2006	20,973,400	1,186,237,542	810,147,900	168,248,100	11,665,100	2,197,272,042*
2005	22,030,900	1,184,769,182	821,217,000	185,625,900	11,665,100	2,225,308,082*

* An estimated \$14.2 million of Business Personal Property Tax Valuation (Verizon) is not included in the total NAV amount shown above.

The following table provides the change in FY 2012 NAV from last year in all real estate classifications:

<i>FY 2011 and FY 2012 NAV Comparison</i>				
	FY 2011	FY 2012	\$ Difference	% Change
Vacant Land	\$ 34,550,100	\$26,496,100	(\$8,054,000)	(23.31%)
Residential	1,242,654,342	1,242,453,642	(200,700)	(0.02%)
Commercial	708,794,700	701,858,700	(6,936,000)	(1.00%)
Apartment	211,285,200	227,140,400	15,855,200	7.50%
Industrial	11,445,300	11,253,500	(191,800)	(1.68%)

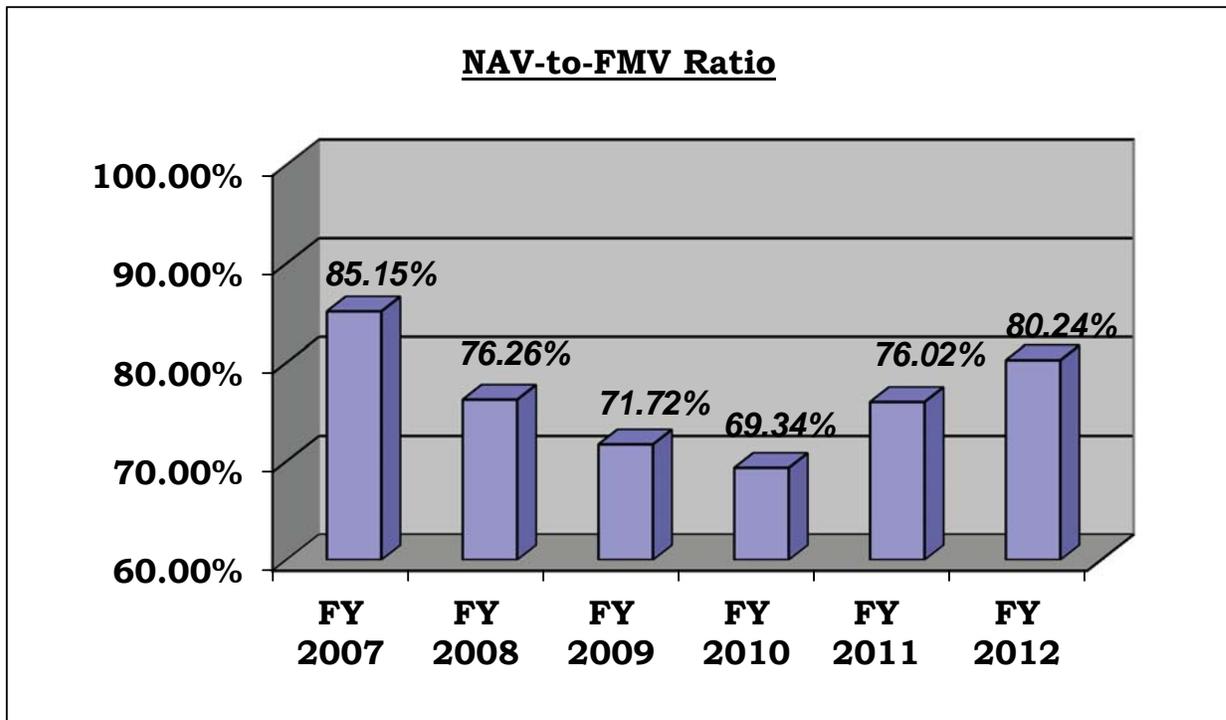
Unlike FY 2011, which the Town had to deal with a net total loss in NAV of about \$35 million, the NAV is \$472,637 higher this year. Even though the Town added over \$11.8 million in new assessed valuation during FY 2011, a combination of tax appeal settlements, tax court adjudications and the Town Tax Assessor's strategically aggressive approach to reduce real estate tax assessments on specific condominium and townhouse complexes offset this added valuation gain.

Exactly 228 total tax appeals were filed last year, of which 162 were adjudicated or settled. The table below addresses only the 162 adjudicated tax appeal cases, and breaks down the type of property classification, number of appeals filed in that respective classification, the 2011 old and new total NAV of those properties and the differential amount.

<i>FY 2011 Tax Appeal Summary State & County Appeals</i>				
<u>Class</u>	<u># of Appeals</u>	<u>NAV</u>	<u>Adjudicated/ Settlement NAV</u>	<u>Difference</u>
Vacant	4	\$ 837,200	\$ 803,900	\$ 33,300
Residential	122	52,654,700	51,141,500	1,513,200
Commercial	31	24,515,400	24,120,400	395,000
Apartment	3	1,573,400	1,573,400	0
Exempt	2	64,580,800	64,580,800	0
	162	\$144,161,500	\$142,220,000	\$1,941,500

The April 1st tax appeal application filing date has passed, and it appears that the Tax Assessor's proactive approach last year to voluntarily reduce over-assessed properties helped avoid approximately 103 tax appeals from these property owners. Indeed, tax appeal filings are down by 13 this year. Total number of County tax appeals filed (assessed property values under \$1 million) are 137; and total number of tax appeal applications filed with the State Tax Court amount to 78 (total tax appeals filed 215).

The Town's NAV-to-Fair Market Valuation ratio (or "Ratio") is a primary factor used in tax appeal litigation, and determines whether a property owner has a likelihood of success under State tax law. From FY 2006 through FY 2010, the Town saw its NAV-to-FMV ratio steadily decline, meaning that the FMV amount has been increasing above a property owner's assessed valuation. The Ratio is a lagging indicator as it provides property sale data from a period dating back one year in addition to a weighted average of property sales data from the 2 years preceding last year from the time the County provides the ratio number in July of each year. For example, the Town's FY 2012 ratio, which was established in July 2011, is based on weighted sales data from July 2008 to June 2010, and from selected sales from July 2010 until June 2011. The graph below illustrates the Town's Ratio for FY 2012, and the preceding five years.



Since FY 2011, the Town’s Ratio has trended back upward as FMV real estate sales data decreased vis-a-vis NAV. The over 10% Ratio move from 69.34% in FY 2010 to 80.24% this year is more in line with the housing market reality that has existed since 2008.

RESERVES

The Town will continue to fund a high appropriation amount for its Reserve for Tax Appeal line-item in anticipation of covering property tax revenue losses from any tax appeal judgment or settlement. Based on the Town’s property tax appeal professionals, the reserve amount needed in FY 2012 is \$450,000, down from \$500,000 last year. While tax appeals filed this year are down 6.0%, these new cases as well as over 150 pending property tax appeal cases from prior years could result in tax revenue refunds or credits to the prevailing property owner.

Last year, the Town paid out over \$456,000 to employees for accrued time who either resigned, retired or were subject to a workforce reduction plan (\$136,000 for vacation and \$320,000 for sick days). Thus, the Town needs to replenish its Reserve for Vacation and Sick Pay, and has budgeted \$100,000 for such.

In FY 2011 budget, the Town reserved \$231,000 in its Reserve for Unemployment Benefits to cover a number of former employees who experienced job layoffs over the last couple of years and were entitled to unemployment payments. However, last year, the Town only expended \$111,000 of this amount. Therefore, the Administration believes \$120,000 left in the Reserve is sufficient to cover any potential unemployment obligations it incurs this year.

CASH FLOW

As is typical in the first quarter of every year, this year the Town incurred and met current liabilities such as debt service, State pension obligations and Morris School District monthly payments, that amounted to over \$12 million. Moreover, the Town does not receive its State Aid revenue until the 8th month of the year. Consequently, to meet its current liabilities at a time of year when revenues are flowing in rather low, the Town generally issues Tax Anticipation Notes (“TANs”) to inject liquidity into its current fund in order for it to meet current liabilities until third quarter tax revenue payments, which commences the heavier cash flow period of the year. First quarter tax payments collected this year, 96.9%, are slightly below 97.4%, which reflects the 1st quarter average for the last three years.

DEBT STRUCTURE

The Town’s overall debt service obligations will decrease by \$256,261 this year. The decrease would have been larger, but for the FY 2009 tax appeal settlements and refunds that were financed using Tax Appeal Refunding Notes, which must be paid off by FY 2016. Otherwise, the Town’s debt service would have decreased by an additional \$162,000.

In January 2012, Standard & Poor’s credit rating agency assigned its ‘AA’ rating, and stable outlook, to the Town’s Series 2012 General Obligation (GO) refunding bonds and affirmed its ‘AA’ rating on its existing GO debt (Standard & Poor’s, Public Finance Analysis, Ratings Direct Publication Date January 19, 2012). This bond rating highlights the Town’s financial strength, which translates directly into lower interest rates on existing and future debt.

The chart below presents a summary of the Town’s General Obligation Bonds (Operating Budget) and Sewer Utility Debt Obligations, which are funded by property taxes and user fees, respectively.

SUMMARY OF DEBT OBLIGATIONS

		Principal Outstanding 12/31/2011	2012 Principal Payment Due	2012 Interest Payment Due	Final Maturity	Primary Funding Source
<i>General Obligation Bonds</i>						
2007	General Refunding Bonds	\$2,588,394	\$1,544,151	\$98,990	2015	Property Taxes
2002	General Obligation Bonds	6,133,000	1,280,000	127,573	2016	Property Taxes
2002/ 2011	General Refunding Bonds	1,754,150	264,720	47,094	2018	Property Taxes
2005	General Refunding Bonds	5,812,882	607,082	375,918	2019	Property Taxes

2007	General Obligation Bonds	9,583,000	750,000	359,362	2019	Property Taxes
2009	General Obligation Bonds	1,150,000	0.00	53,849	2023	Property Taxes
Total GO Debt		\$27,021,426	\$4,445,953	\$1,062,786		
Sewer Utility Bonds						
2006	Sewer Refunding (non-callable)	\$2,250,000	\$2,250,000	\$62,888	2012	Sewer Users Fees
1997/ 2007	Sewer Refunding Bonds	906,605	540,849	34,672	2015	Sewer Users Fees
2002/ 2011A	Sewer Refunding Bonds	3,780,850	570,280	100,219	2018	Sewer Users Fees
2007	Sewer Obligations	1,192,000	80,000	44,700	2019	Sewer Users Fees
1995/ 2005	Sewer Refunding Bonds	3,427,115	357,919	221,632	2019	Sewer Users Fees
2002/ 2011B	Sewer Obligations	900,000	90,000	25,612	2022	Sewer Users Fees
1993/ 2009	Sewer Obligations	2,475,000	0.00	114,988	2023	Sewer Users Fees
TOTAL Sewer Utility Bonds		\$14,931,570	\$3,889,048	\$604,711		

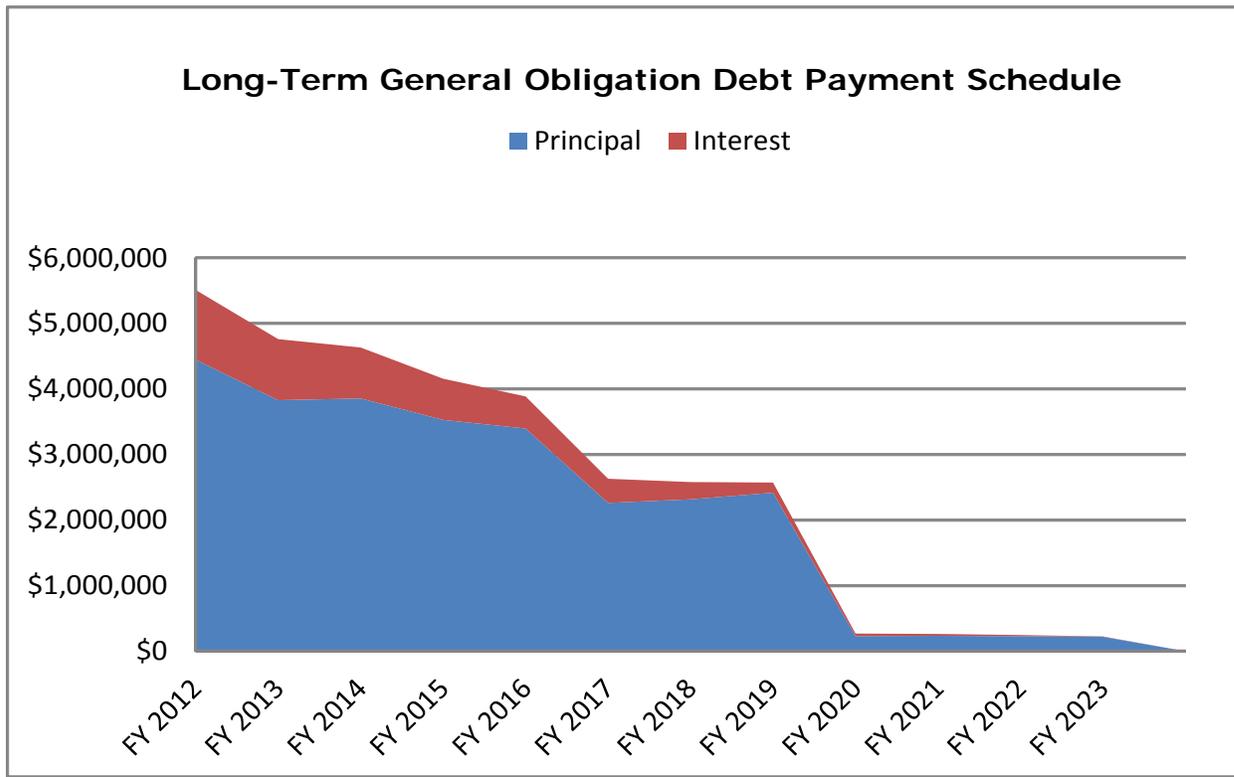
POSITIVE DEBT STRUCTURE TRENDS

Total Net Debt has steadily declined since FY 2007 by about \$20 million (see Debt Structure Analysis: Page 2-21). Though it is important for the Town to continue prudent long-term debt management practices, it should maintain a flexible adherence to its six (6) year capital improvement plan that may necessitate taking on new debt obligations. Sometime within this decade, the Town will finally be in a better position to allocate monies annually into its Capital Improvement Fund to “pay-as-you-go” for certain capital projects.

As of December 31, 2011, the Town’s Total Net Debt (excludes Sewer Utility debt, but does include short-term Bond Anticipation Notes (BAN’s) is \$30,849,788. The percentage of the Total Net Debt to Equalized Valuation (\$2,964,665,587) is 1.34%. This percentage has dropped 1.65% from 2.99% in FY 2005. While the Town’s annual Equalized Valuation (FY 2011 - \$2,752,654,090) is equal to the NAV multiplied by its NAV-to-FMV ratio in that given year, the Equalized Valuation calculated into the Net Debt ratio above is an average of the Town’s last 3 years of annual Equalized Valuations. Although rising property values as it relates to the Equalized Valuation contributed to this percentage drop, over the last several years, the Town has demonstrated a real commitment to lower its debt burden well below the 3.5% statutory maximum limit of its Equalized Valuation.

Undeniably, the Town’s Net Debt Service expense (Long-term GO debt minus long-term Sewer Utility Debt) as a percentage of Total Revenues is still too high. This percentage has ranged between 14.86% and 15.95% over the last 5 years. (see Debt Structure Analysis: Page 2- 23). Nevertheless, last year’s percentage continues to evidence a declining trend off of its peak in FY 2009, which the Town expects to see continue over the next decade as future long-term debt service payments are scheduled to decline (assuming no, or

minimal amounts of new debt being authorized, and Total Revenues increasing or remaining steady). The graph and data below sets forth the Total General Obligation debt service schedule for long-term debt from FY 2012 to FY 2023.



Fiscal Year	Total Long-Term GO Debt Payments	Principal	Interest
2012	\$5,508,739	\$4,445,953	\$1,062,786
2013	4,759,413	3,828,329	931,084
2014	4,631,430	3,854,818	776,612
2015	4,155,558	3,527,406	628,152
2016	3,885,697	3,396,620	489,077
2017	2,629,716	2,261,491	368,225
2018	2,579,211	2,316,362	262,849
2019	2,572,063	2,417,447	154,616
2020	269,138	230,000	39,138
2021	263,375	235,000	28,375
2022	246,750	230,000	16,750
2023	225,500	220,000	5,500

Next year, the Town’s long-term debt service payments will considerably decrease by about \$749,326. Smaller declines in debt service payments will be realized for a couple until FY 2017, when the Town’s GO debt service payments are scheduled to drop substantially by about \$1.22 million.

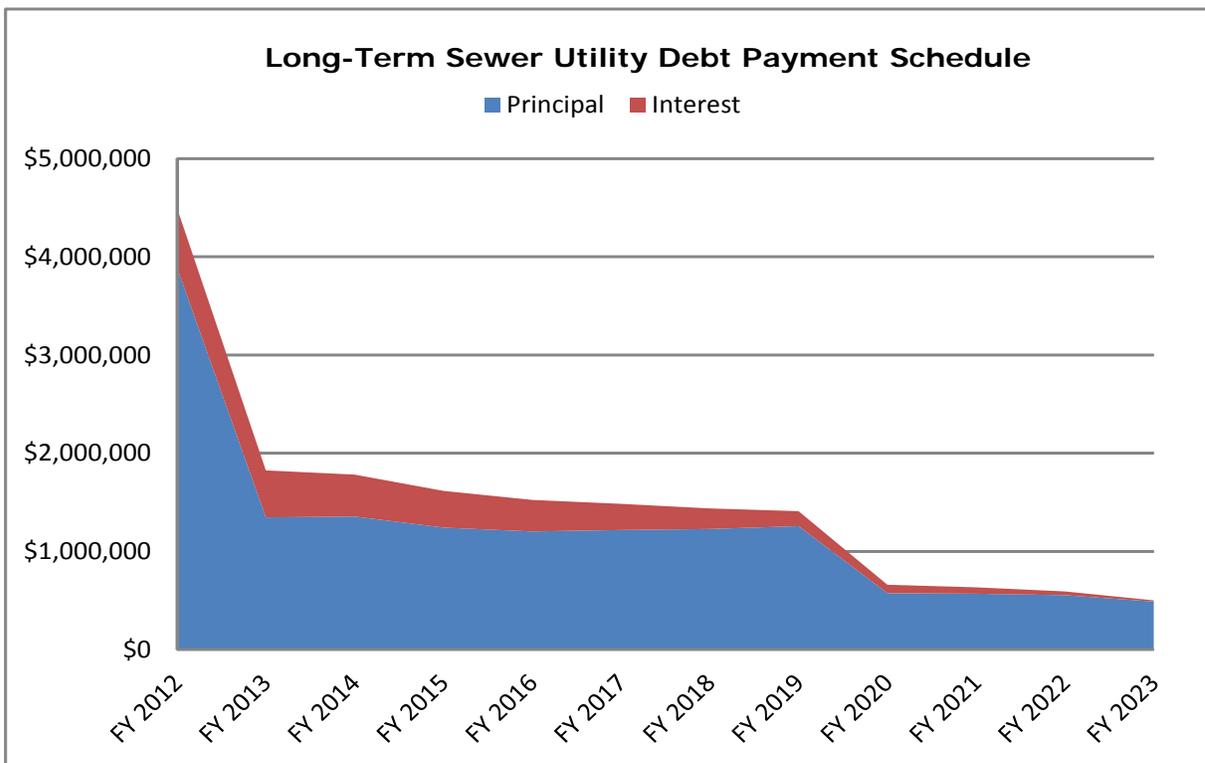
Debt reduction will continue to be a high priority of this Administration, and key to this effort is to remain steadfast to a policy of not taking on more than 40% of new debt for capital expenditures vis-a-vis existing principal debt payments during that same year. For example, in FY 2012, total principal payments will exceed proposed new debt (\$1,757,000) for capital improvement projects by about \$2,689,000, roughly a 1 to 2.5 ratio of new debt to debt reduction. The graph and data below provides ample evidence of how the Town has improved its debt management practices since FY 2002, realizing a total net debt reduction of over \$18.68 million.

OPERATING BUDGET DEBT REDUCTION VS. NEW DEBT AUTHORIZED

Fiscal Year	GO Debt Principal Paid	New Debt Authorized	Reduction/(Increase)
2002	\$2,235,000	\$2,377,000	(\$142,000)
2003	3,160,000	2,242,000	918,000
2004	2,476,673	1,822,000	654,673
2005	2,782,153	2,610,000	172,153
2006	2,970,228	1,895,000	1,075,228
2007	3,212,293	2,226,000	986,293
2008	3,769,928	1,293,900	2,476,028
2009	4,037,340	485,000	3,552,340
2010	4,227,000	1,190,000	3,037,000
2011	4,320,000	1,200,000	3,120,000
2012	4,445,953	1,757,000*	2,688,953

* Administration request in FY 2012 Executive Budget (not yet authorized by Town Council).

Below illustrates the Sewer Utility Debt Service Payment Schedule until the final principal payments on sewer long-term debt issuances are paid off. Similar to what happens with General Obligation long-term debt obligations, in FY 2013, the Sewer Utility’s debt service payments drop considerably by \$2.7 million.



Fiscal Year	Total Sewer Utility Debt Payments	Principal	Interest
2012	\$4,493,758	\$3,889,048	\$604,710
2013	1,825,132	1,346,672	478,460
2014	1,782,050	1,355,180	426,870
2015	1,616,745	1,242,596	374,149
2016	1,524,772	1,203,379	321,393
2017	1,484,377	1,218,508	265,869
2018	1,437,955	1,228,637	209,318
2019	1,409,892	1,257,550	152,342
2020	660,925	575,000	85,925
2021	634,659	570,000	64,659
2022	592,806	555,000	37,806
2023	502,250	490,000	12,250

MUNICIPAL PERSONNEL

Since FY 2010, the number of Town employees has greatly declined due to attrition, involuntary workforce reductions and new shared and professional service agreements. The table below shows the employee loss by Department and classification according to the number of hours worked. This substantial personnel staff reduction results in over \$3.16 million of cost savings/avoidance in this year's budget. More astounding is the compounded budget savings over FY 2010 through FY 2012, which amounts to over \$7.5 million.

<i>Department</i>	<i>Division</i>	<i>Attrition/ Vacant Positions Unfunded (FY 2010-FY 2012)</i>		<i>Involuntary Workforce Reduction (FY 2010-FY 2012)</i>		<i>Cost Savings/Avoidance (Includes Benefits) in FY 2012 Budget</i>
		<i>FT</i>	<i>PT</i>	<i>FT</i>	<i>PT</i>	
Administration & Public Safety	<i>Administration</i>			1		\$ 77,671
	<i>Police Bureau</i>	11		2		1,339,832
	<i>Fire Bureau</i>	2				170,436
	<i>Clerk</i>			1		50,879
	<i>Municipal Court</i>			2		112,406
Building & Construction			1	1	1	138,634
Human Services	<i>Aging</i>			2		102,325
	<i>Animal Control</i>		1			17,761
	<i>Code Enforcement</i>			2		124,233
	<i>Health</i>	1				98,108
	<i>Recreation</i>				1	26,697
Public Works	<i>Bus Transportation</i>	1				50,860
	<i>Engineering</i>			1		88,339
	<i>Land Use</i>			1		69,082
	<i>Public Works</i>	5				335,820
	<i>Sanitation & Recycling</i>	4				321,304
Revenue & Finance					1	39,576
TOTALS		24	2	13	3	\$3,163,443

The FY 2012 Municipal Budget includes 4 fewer personnel for a total of 174 positions (165 full-time and 9 part-time), with 157 of these full-time positions funded through the Operating budget (a 3.0% reduction). There are 4 vacant full-time positions unfunded in the FY 2012 budget, and account for approximately \$427,000 of the \$3.16 million in cost savings/avoidance over the last 3 years. The other

8 full-time positions are located in the Sewer Utility, whose budget is funded by user fees. Since FY 2007, the number of Town personnel has precipitously dropped by 20%. The following table depicts all full-time and part-time municipal employees (excluding seasonal or temporary workers and elected officials), broken down by Department, Bureau, Division and Office over the last 6 years.

TOTAL MUNICIPAL EMPLOYEES FY 2007– 2012

Departments	FY 2007		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	FT	PT										
Administration	4	0	4	0	4	0	3	0	3	0	3	0
Town Clerk	5	0	5	0	5	0	4	0	4	0	4	0
Police	69	0	67	0	66	0	60	0	55	0	54	0
Superior Officers	17	0	16	0	17	0	15	0	14	0	14	0
Detectives	7	0	7	0	7	0	6	0	6	0	5	0
Patrol Officers	37	0	36	0	34	0	32	0	31	0	31	0
Admin. Staff Comm. Officers	8	0	8	0	8	0	7	0	4	0	4	0
Fire	32	0	33	0	33	0	33	0	32	0	31	0
Superior Officers	6	0	7	0	6	0	6	0	6	0	6	0
Firefighters	25	0	25	0	26	0	26	0	25	0	24	0
Admin. Staff	1	0	1	0	1	0	1	0	1	0	1	0
Legal	1	0	1	0	1	0	1	0	1	0	1	0
Revenue & Finance	8	2	7	2	7	2	7	0	7	1	7	1
Treasurer	4	0	3	0	3	0	3	0	3	0	3	0
Tax Collector	4	0	4	0	4	0	4	0	4	0	4	0
Tax Assessor	0	2	0	2	0	2	0	0	0	1	0	1
Human Services	17	2	15	5	15	6	12	2	12	1	12	2
Code Enforcement	7	0	6	0	6	0	5	0	4	0	4	0
Health	4	0	4	1	3	2	3	0	3	0	3	1
Animal Control	0	1	0	2	0	2	0	1	1	0	1	0
Recreation	4	0	3	1	3	1	3	0	3	0	3	0
Aging	1	1	1	1	2	1	0	1	0	1	0	1
Rent Leveling	1	0	1	0	1	0	1	0	1	0	1	0
Public Works	54	2	52	2	50	2	46	2	40	3	38	3
Public Works	30	0	27	0	25	0	24	0	25	2	23	2
Sewer Utility	7	0	8	0	8	0	8	0	8	0	8	0
Sanitation & Recycling	7	0	7	0	7	0	7	0	1	0	1	0
Planning/ Land Use	5	0	5	0	5	0	3	0	3	0	3	0
Engineering	4	0	4	0	4	0	3	0	3	0	3	0
Bus Transport (Colonial Coach)	1	1	1	1	1	1	1	1	0	1	0	1
Clean Communities	0	1	0	1	0	1	0	1	0	1	0	1
Building/U.C.C. Enforcement	6	3	9	1	9	1	8	0	8	0	8	0

Inspectors	3	3	6	1	6	1	6	0	6	0	6	0
Admin. Staff	3	0	3	0	3	0	2	0	2	0	2	0
Municipal Court	9	4	9	4	9	4	7	3	7	2	7	2
Admin. Staff	9	0	9	0	9	0	7	0	7	0	7	0
Judges	0	2	0	2	0	2	0	2	0	2	0	2
Prosecutors	0	2	0	2	0	2	0	0	0	0	0	0

Town Personnel	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Full Time	205	202	199	181	169	165
Part Time	13	14	15	8	8	9
TOTAL	218	216	214	189	177	174

HEALTH CARE INSURANCE PREMIUM COSTS

Through the assistance of our health care insurance broker, the Town has chosen to stay with Horizon Blue Cross/Blue Shield for another year (February 2012 - January 2013). Fortunately, the Town’s claim experience improved significantly in FY 2011 compared with FY’s 2009 and 2010. Indeed, it’s experience rate of medical claims-to-premiums paid came in around 89% for the last 12 month period, a vast improvement from the extremely poor 105% ratio that the Town experienced in FY’s 2009 and 2010 when its health care insurance provider was Cigna Healthcare. However, unrelenting increases in health care costs, and a lack of insurance providers submitting competitive quote proposals to the Town provided minimal negotiation leverage over our current insurance provider. Consequently, as stated earlier, the Town will see a 9.5%, or \$546,091 medical insurance premium increase over last year. It is important to note that, since FY 2010, the Town has set a fixed commission amount for its health care insurance broker to receive each year. By mandating an annual fixed commission fee below the industry standard, the Town has realized a cumulative 3-year savings of \$150,000.

Last year, when the Town changed medical insurance providers from Cigna Healthcare to Horizon Blue Cross/Blue Shield, the Town owed Cigna approximately \$843,000 to cover contractual liability obligations that accrued over the two year period they provided coverage for the Town’s employees and retirees. In anticipation of this liability, the Town Administration managed to reserve over \$500,000 in appropriations from prior year budgets to offset this liability. Horizon recognized how this accrued liability place the Town in a difficult financial position, and offered to defer two months of insurance premiums owed in FY 2011 - allowing one month to be paid in FY 2012 and the other in FY 2013. As such, the Town prudently managed to reserve \$408,000 in appropriations last year to offset the one (1) month premium deferral due this year.

The Town continued its 20+ year relationship with Delta Dental to provide dental insurance coverage for the next year. Over the last six years, the Town has experienced only one dental premium increase (8%), which occurred in FY 2009. Again, this year, the Town’s dental premium will remain about the same as last year at \$235,000.

In sum, medical and dental insurance appropriations will total approximately \$6.55 million. However, when you deduct health care employee premium cost sharing (\$267,000), premium deferral reserve

(\$408,000) and allocation of insurance benefit costs to the Sewer Utility (\$225,000), the operating budget amount for medical and dental insurance is \$5.68 million (includes roughly \$140,000 for health insurance benefits allocated in the Department of Building and Uniform Construction Code).

“OPT-OUT” INCENTIVES

In FY 2010, the Governor signed legislation that placed limits on how much a municipality pays a public employee who chooses to “opt-out” of its employer’s health care insurance plan. The law states that employers must now only pay up to a maximum \$5,000 per year for any employee/new enrollee who opts-out after May 21, 2010. However, for Non-Union employees, PBA, FMBA and Local 255 union members who had opted-out prior to the effective date of the new law, the Town’s contractual and municipal code obligations still apply, and allows for the employee to receive forty percent (40%) of total medical and/or dental premiums; for MEA union members, fifty percent (50%); and Town Elected Officials, up to thirty percent (30%) unless a new enrollee after May 21, 2010, in which case they would receive a maximum amount of \$5,000. Further, pursuant to O-12B-10, newly elected or reelected officials in FY 2012 shall not receive any opt-out payments if they choose to forgo health care insurance coverage.

While the change in State law may diminish the financial incentive for an employee to opt-out if already covered by a spouse’s insurance policy, the Town’s efforts over the last several years to educate employees and retirees about the “opt-out” choice will continue to result in cost savings for those who are unaffected by the new law as well as for the Town. Indeed, the Town will not have to insure 12.0% of its full-time employees for medical and/or dental coverage this year, realizing an overall total savings of \$353,120 in total medical and/or dental insurance premiums.

**MEDICAL AND DENTAL INSURANCE “OPT-OUT” SAVINGS
FY 2006-2012**

Fiscal Year	Number and Type of Employees “Opting-Out”	Total Insurance Premiums	Total Payments to Employee	Total Premium Savings to Town
2012	19 Current Employees 2 Retirees	\$576,239	\$223,119	\$353,120
2011	18 Current Employees 3 Elected Officials 2 Retirees	568,827	218,522	350,305
2010	22 Current Employees 3 Elected Officials 2 Retirees	620,627	\$262,564	358,063
2009	22 Current Employees 3 Elected Officials 2 Retirees	537,092	236,210	300,882
2008	21 Current Employees 2 Elected Officials 2 Retirees	398,870	177,890	220,980
2007	17 Current Employees 2 Retirees	251,469	111,499	139,970
2006	6 Current Employees 0 Retirees	56,061	25,801	30,260

MEDICAL AND DENTAL COST SHARING TERMS

Starting this year, in accordance with the new State Health Benefits Reform Law, Chapter 78, P.L. 2011, a Town employee’s health care insurance contribution is determined as a specified percentage of the medical/dental coverage plans premium within a salary range expressed in the law, but not less than 1.5% of an employee’s current pensionable salary. Employees employed on the date of the health care contribution starts are subject to a four (4) year phase-in of the full contribution amount. Various circumstances prescribed in the law may affect whether the phase-in applies to certain employees. For example, an employee who is hired on or after the commencement date, in the Town’s case January 1, 2012, shall contribute at the highest level (Year 4) appropriate to their salary range, or at 1.5% of pensionable salary, whichever is greater. It is estimated that current Town employees will contribute approximately \$240,000 toward insurance premium costs, about \$40,000 more than last year. Retirees insurance cost sharing obligations are about \$27,000.

Moreover, the Town Council adopted Ordinances O-12A-10 and O-12B-10, which mandates that Town Council Members and the Mayor, whose existing terms started prior to FY 2012, must contribute twenty-five (25%) from their base salary for both their single and family medical and dental insurance coverage. For any newly elected or reelected officials whose term started January 1, 2012, they must pay 100% of their health care insurance premiums (single or family coverage). The chart below delineates the Town’s estimated annual cost savings from the State law as well as other medical and dental insurance cost-sharing terms as it relates to each specific group of employees.

MEDICAL AND DENTAL INSURANCE COST SHARING TERMS

Group	Effective Date	New Jersey Statute, Public Law 2011, c. 78, Mandated Health Care Insurance Cost Sharing Terms (unless Town Promulgated or Negotiated Cost Sharing Terms)	Estimated Annual Savings
<i>Non-Union</i>	1/1/2012	1.5% of Pensionable Base Salary	\$ 9,137
		% of Health Insurance Premium	12,366
		Dental Insurance Paid (Opted Out of Medical Coverage)	1,416
		Traditional Premium Differential	6,280
		<i>Group Sub Total - \$29,199</i>	
<i>FMBA #43</i>	1/1/2012	1.5% of Pensionable Base Salary	\$ 2,237
		% of Health Insurance Premium	33,498
		Dental Insurance Paid (Opted Out of Medical Coverage)	1,416
		Traditional Premium Differential	0
		<i>Group Sub Total - \$37,151</i>	
<i>FMBA #243</i>	1/1/2012	1.5% of Pensionable Base Salary	\$ 0
		% of Health Insurance Premium	11,967
		Dental Insurance Paid (Opted Out of Medical Coverage)	0
		Traditional Premium Differential	0
		<i>Group Sub Total - \$11,967</i>	

EXECUTIVE BUDGET MESSAGE

Local #255	1/1/2012	1.5% of Base Salary	\$ 2,342
		% of Health Insurance Premium	5,583
		Dental Insurance Paid (Opted Out of Medical Coverage)	0
		Traditional Premium Differential	1,445
		<i>Group Sub Total - \$9,370</i>	
MEA	1/1/2012	1.5% of Base Salary contribution	\$ 24,067
		% of Health Insurance Premium	26,821
		Dental Insurance Paid (Opted Out of Medical Coverage)	2,235
		Traditional Premium Differential	3,952
		<i>Group Sub Total - \$57,075</i>	
PBA #43 (Patrol Officers)	1/1/2012	1.5% contribution of pensionable Base Salary	\$ 21,573
		% of Health Insurance Premium	31,689
		Dental Insurance Paid (Opted Out of Medical Coverage)	0
		Traditional Premium Differential	0
		<i>Group Sub Total - \$53,262</i>	
PBA #43 (SOA)	1/1/2012	1.5% of Base Salary Contribution	\$ 2,017
		% of Health Insurance Premium	18,666
		Dental Insurance Paid (Opted Out of Medical Coverage)	2,832
		Traditional Premium Differential	0
		<i>Group Sub Total - \$23,515</i>	
Elected Officials	7/1/2010 Town Ordinance	25% of Single and Family Medical & Dental Coverage	\$ 6,804
		Fully Paid Dental by Official	1,416
		<i>Group Sub Total - \$8,220</i>	
Retirees	In accordance with respective Collective Bargaining Agreement	Traditional Plan Premium Differential	19,138
		Dental Price Increase Differential	7,864
		<i>Group Sub Total - \$27,002</i>	

MUNICIPAL SERVICES

The Administration is firmly committed to having our government operate innovatively, and demonstrate best practices. Town employees are expected to evaluate whether their respective functions are operating efficiently, deliver municipal services in the most effective manner, and act professionally at all times when interacting with the general public. Notwithstanding a 19% reduction in municipal government positions since FY 2009, placing more of burden on existing employees, our government continues to provide vital, public services in the most professional, effective and efficient manner. Below sets forth a brief synopsis of Municipal Department efforts to be more fiscally responsible, accountable and service-oriented to all residents and entities interfacing with our Town government.

DEPARTMENT OF ADMINISTRATION AND PUBLIC SAFETY

Over the last six years, the offices of Business Administration and Central Purchasing have substantially reduced its overall appropriation needs. Since FY 2006, significant cost-cutting has occurred, with total appropriations (Salary & Wages and Other Expenses) lowered by \$125,000, or a 21% decrease. Approximately \$68,000 of this reduction is attributed to professional service, telephone and postage cost cuts, while the remaining amount is related to the elimination of one staff position.

BUREAU OF POLICE PROTECTION

The Police Administration continues its efforts to reduce overtime costs. The Morristown Bureau of Police is the only police department in the area that utilizes an “adequate staffing” management philosophy instead of a “minimum staffing” approach. Supervisors are to consider a variety of factors before submitting requests for additional personnel that will result in the expenditure of overtime. Those requests are then reviewed by the Division Commander for possible approval.

The Town and the Police Bureau continue their agreement with the Internal Revenue Service (IRS), which requires that a member of the agency be assigned to an IRS task force. In 2011, over \$70,000 was turned over to the Town as a result of the proceeds of investigations into task fraud. According to the IRS, the Town expects to receive at least \$210,000 this year that has been approved for disbursement. Further, there is a possibility that, based on an analysis of the proceeds of current IRS investigations, over \$620,000 may be approved and received by the Town in the future.

Currently, the Police Bureau employs fifty (50) sworn police officers, two (2) of whom are deployed with the United States Military. Eight (8) of the current sworn officers were hired off of the “RICE” list, a list of laid-off officers from around the State. The benefit to the Town is that these officers are veteran police officers who are well-trained and experienced requiring little additional training. They are on regular patrol after a period of about six (6) weeks of field training. By comparison, a civil service applicant hired must attend an academy for a period of twenty-two (22) weeks, followed by field training of fourteen (14) weeks, before that officer is ready for patrol duty.

BUREAU OF FIRE PROTECTION

The Fire Bureau continues to operate and provide the highest quality of service to its Town residents. Due to the retirement of the Fire Chief and another Firefighter in 2011, the Town hired a new firefighter in February 2012, who started fire training academy in March.

The Fire Bureau Administration is continuously striving to reduce costs in all areas. For FY 2012, the Bureau will be providing in-house training for all of our members by New Jersey State Certified Instructors at no additional cost to taxpayers. Further, the Fire Bureau will be participating in the reduced rate training with our Mutual Aid Alliances, which will save taxpayers money. Lastly, the Fire Bureau aggressively seeks all Federal, State, and Private Grant monies to further reduce future costs with personnel, training, and equipment.

The Fire Prevention Office anticipates Life Hazard Use (LHU) fees to be approximately \$51,000 in FY 2012, slightly higher than FY 2011. Non Life Hazard Use (LHU) fee collections are expected to be about \$9,000 this year, an increase of 20% over FY 2011. Fire Permit fees are projected to remain flat in FY 2012. Finally, this year, Fire Prevention plans to increase its exposure in all Morris District schools to promote Fire Safety awareness as well to educate the General Public about such.

MUNICIPAL COURT

The Municipal Courts of New Jersey continue to decide more cases than any other court in the State. What contributes to the Court Administration's ever increasing burden are such factors as new legislation, the most recent being Directive #09-11 that promulgates procedures to be followed in the municipal court to inform defendants that a guilty plea to, or conviction of certain municipal court offenses may negatively affect their immigration status. The defendants in this situation have the right to seek advice from an attorney. This Directive, along with enlarging jurisdiction, stricter penalties for drunk driving and drug-related offenses, increased drug enforcement, more vigilant code enforcement and case management complexity, all contribute to the ever demanding burden to run an efficient and effective court office.

Here are additional facts about our Municipal Court:

- Morristown Municipal Court continues to be number one in added cases in Morris County.
- DWI cases continue to burden the court schedule with many cases requiring a special session because of expert testimony and motions filed by defense attorneys.
- Our Community Dispute Resolution Committee continues to resolve minor citizen matters not only for Morristown, but for Morris Plains and Morris Township.
- Recent changes to Court Rule 1:41-3 makes educational requirements mandatory for individuals holding the title of Deputy. All three of Morristown Municipal Court Deputies have completed the first two requirements prior to the March 13, 2012 mandatory date, and will continue towards their full compliance.

- Funds from the court's POAA fund recently covered a \$5,000 upgrade to its court recording system, which now includes a Hearing Assistance System that will be shared with other departments for meetings held in the Court/Council room.
- Flex-time schedule continues to be used to reduce overtime cost.

DEPARTMENT OF BUILDING AND CONSTRUCTION CODE ENFORCEMENT

The Department of Building and Construction Code Enforcement instituted several new initiatives and controls in FY 2011. The main initiative was a process control improvement, which was adopted to ensure that all developers and contractors involved in large residential and/or multi-use projects be given a list of permit and submittal requirements that provides a concise set of objectives that are necessary to secure required project permits. Among other efforts, a standardized "Guidance Document" was developed to assist "Solar/Photovoltaic" permit applicants. Additionally, other Building Department documents were updated to be coordinated with the Town's new "Affordable Housing" requirements.

Over the last several years, this Department has made various procedural, technological and policy changes to improve service and ensure consistency, transparency and uniformity for its customers as it relates to issuing and managing inspections and permits. While the changes are numerous, some examples are:

- Process improvements made last year to ensure that Board approved projects be built exactly as approved (e.g., Board Approval Checklist and Affidavit) have been very successful and are working as anticipated. The partnerships established with the General Contractor, the Board Engineer, the Zoning Division and the Building Department have protected and maintained the integrity of all Board approved projects.
- Implementation of a permit Ordinance to address new commercial tenants or property sales (i.e., Commercial Certificate of Continuing Occupancy or "CCCO") has benefited new tenants and owners alike. Visual inspections have revealed issues regarding non-functioning emergency lights and other CCCO checklist compliance requirements. Moreover, the CCCO permits generated an additional \$6,250 toward the Department's FY 2011 revenue intake.
- In FY 2012, the Department is actively participating in the Town's performance management initiative and is using a performance measurement software program for tracking, trending and benchmarking efforts in order to maximize its efficiencies and improve effectiveness wherever possible.
- Code inspections done every workday to meet customer service commitments as opposed to the previous Monday, Wednesday and Friday inspection schedule that existed prior to FY 2006.
- Open door policy for meeting and assisting customers with any questions or concerns with regard to permit, inspection and plan reviews.
- With the use of its Mitchell Humphrey software program, the Department can review weekly and monthly reports to mainly identify open permits without current inspections, pending temporary certificates of occupancy expirations, and stop-work orders. Form letters are generated and sent, and

follow-up calls are made to bring closure to the matter. Lastly, monthly permit activity reports are forwarded to the Tax Assessor's office to ensure property NAV is kept current.

- The Department continues to address open permits. Open permits are problematic to a municipality for a couple of reasons. One impact is that open improvement permits equate to new tax revenues that are not being assessed and collected. Second, open permits can affect property owner insurance claims and/or real estate sales. Thus, the Department will vigilantly pursue completion and close-out of open permits.

INSPECTION COUNTS

Fiscal Year	Building	Electric	Plumbing	Fire	Total Inspections
2012 (Through 3/30)	494	317	367	316	1,494
2011	1,674	1,159	1,535	896	5,264
2010	2,526	1,612	1,290	1,686	7,114
2009	3,777	1,838	1,933	1,655	9,203
2008	2,750	1,498	1,333	1,144	6,725
2007	1,876	1,424	1,250	823	5,373
2006	1,245	874	625	320	3,064

RESIDENTIAL & COMMERCIAL PERMITS

Fiscal Year	Residential Permits	Commercial Permits	Voided Permits	Total Permits
2012 (Through 3/30)	150	75	0	225
2011	618	300	0	918
2010	655	276	0	931
2009	849	259	-5	1,113
2008	778	305	-5	1,078
2007	798	327	-15	1,110
2006	650	331	-10	971

The chart above illustrates that while residential permits steadily increased during the period FY 2006-2009, this trend reversed in FY 2009 seemingly because of the dramatic economic downturn and its effect on the housing market. Ironically, commercial permit activity increased again last year, reversing a previous 3-year downward trend. Overall, total permits were down last year by only 1.4%. Total UCC fees collected

were off by \$79,827, or 9.8% from what was collected in FY 2010. The Department, as required by the NJ Uniform Construction Code, waived approximately \$78,000 in total permits fees for permits issued to Morris County, the Town of Morristown and the Morris School District. For the Morris School District, 80% of the permit fees are waived, and 100% of the fees are waived for the other two (2) entities. Regardless, all required plan review and inspection services were provided to ensure that safety and code requirements were strictly adhered to.

The Value of Construction declined last year by \$4,247,578, which peaked in FY 2008 at over \$140 million. The table below illustrates FY 2009 through FY 2011 comparisons of these key construction revenue indicators.

<i>Construction Revenue Comparison</i>					
<i>FY 2009 - FY 2011</i>					
	FY 2009	FY 2010	FY 2011	Net Change from FY 2009	Percent Change from FY 2009
Number of Total Permits	1,113	931	918	(195)	(17.5%)
Value of Construction	\$27,652,066	\$30,807,378	\$26,559,800	(\$1,092,299)	(4.0%)
Total Fees Collected (Town's Share)	\$706,254	\$816,156	\$736,329	\$30,075	4.3%

Regarding the outlook for FY 2012, the immediate picture looks positive with the following redevelopment/development projects currently in the pipe-line, and scheduled for ground-breaking/application for construction permits this year:

- Phase 1 of the Speedwell Redevelopment Area (268 residential units)
- Pulte Homes Project on Maple Avenue (18 Townhouses)
- 66 Morris Street – major fit-up for Panera Bread
- Ridgedale Avenue (3 Residential Projects)
- Morristown Memorial Hospital façade and Interior Fit-ups
- 29 Elm St (Red Cross Bldg.) – Major project – New Dental Practice
- Mayo Performing Arts Center – Addition/Renovation

DEPARTMENT OF HUMAN SERVICES

DIVISION OF PROPERTY MAINTENANCE

In FY 2011, the Division of Property Maintenance maintained its vigorous and efficient inspection efforts across all 28 categories of responsibility. The areas range from Certificate of Habitability, Occupancy Standards, Multiple Dwelling, Overcrowding, Systematic Area Vacant Structures - Lots, Ground Surface Hazards, Emergency Management, Lead, Asbestos, Infestation, Overgrowth, Winterization and more. While the housing market has shown signs of improvement this past year, this Division has remained watchful of areas still adversely affected from several years of economic hardship and decline. The Division looks forward to another challenging year as it continues to improve its Certificate of Habitability inspection turnaround time, identification of residential exterior violations and regularity of code enforcement inspections in the Central Business District.

Total inspections performed last year were 1,492, which were down about 154, or 9.3% from FY 2010 (859 total Certificate of Habitability inspections conducted; 633 total inspections performed in other categories such as occupancy of rooming/dwelling units, exterior maintenance, garbage disposal, and required utilities). Moreover, the Division realized over \$106,000 for inspection fees, and approximately \$150,000 for code enforcement violations. In FY 2011, inspection fees collected were down \$62,000, or 35.9%, and violation fines were up \$75,000, or 100%, from FY 2010. Overall, total revenues collected last year in this Division remained the same as the prior year.

DIVISION OF HEALTH

This Division serves a highly important public health function for our community and employees to protect them through proactive educational methods and health code enforcement. The Division is involved in a wide variety of initiatives from holding numerous flu virus clinics, collaborating with community members on lead abatement education and training for local officials and contractors, partnering with other local health centers to effectuate public health campaigns such as Smoking Cessation, and planning and implementing a “Adopt a Stray and Get a Free Spay” pilot program that is funded through a dedicated animal control trust fund.

While the Division had many accomplishments last year, here are some measurable examples:

- In FY 2011, the Division generated \$131,170 (excludes Animal Control revenues), which is over \$24,000, or 22% more than the prior year. Some examples of revenue sources are Plan Reviews, Temporary Licenses, Annual Fees, Vending Licenses, Pool Permits and Re-inspection Fees. Undoubtedly, more frequent inspections, new fees and stricter enforcement of the Town Health Code have led to greater revenues generated from this Division over the last three years.
- Set up a comprehensive program to verify every retail food establishment has been inspected at least once, and each school twice per year. There are a total of 156 retail food establishments, 4 nursing homes, 4 group homes, 6 mobile restaurants, 11 day care centers, 9 public/private schools and 13 vending machines. Additionally, the Division issues and inspects for temporary food licenses throughout the year for events such as the Farmers Market, Festival on the Green and the St. Patrick’s Day Parade. The Division also inspects pet shops, 8 pools and 5 massage parlors. Over 1,000 health

inspections were conducted last year.

- The Division received \$35,000 in FY 2011 grants to offset part-time wages and capital equipment purchases. One particular grant funded the purchase of a digital, solar-powered, portable message board that will be used for public health and safety notification purposes. The software purchased allows for 24/7 emergency notification from any location by way of smart phone or computer.
- The Animal Control Office has dramatically increased the number of dog/cat licenses provided over the last three years. Through aggressive licensing and the census program, the Animal Control Office substantially increased license compliance and, as a result, total revenues were up \$1,305 from FY 2010 (FY 2011- \$18,121) and over \$8,000 since FY 2009. The Office has upgraded its current Animal Control computer software, which has improved efficiency of dog/cat licensing and the census program.

Additionally, the Town renewed its two (2) annual Shared Service Agreements to provide Animal Control services for Morris Township and Harding Township. These service contracts generated over \$44,000 in new revenues last year to offset salary and other expense costs in the Town's Animal Control office.

DIVISION OF RECREATION

In FY 2011, this Division maintained all programs previously offered, including the Morristown Travel Basketball League, which has 13 teams. Further, it continues to organize, manage and supervise hundreds of participants in various youth sport programs during all seasons at camps and playgrounds. The Division arranged other special events for during the year.

Pool membership and revenues remained consistent last year. Pool revenues totaled \$149,053 last year, which was a marginal decrease from FY 2010.

As it has in past years, the Morristown Recreation is partnering with the Morris County Park Commission as a designated community to participate in the ACHIEVE Grant (Action Communities for Health, Innovation and Environmental Change). Various programs were offered in FY 2011 that focused on these topics.

DIVISION OF RENT LEVELING

Rent Leveling protects tenants in privately owned residential properties from excessive rent increases by mandating reasonable and gradual rent increases while at the same time, ensuring that landlords receive a fair return on their investment. Last year, this Division collected over \$61,000 in registration fees, which is fairly consistent with totals from previous years. The Division of Rent Leveling continues to improve procedural operations and data management with minimal resources. Through the National Council on Aging, the Division Manager has been able to obtain clerical support at no cost to the Town. Increased coordination and communication with other Departments and Divisions, aggressive enforcement and the availability of more comprehensive, current data should continue to result in better rent control organization and revenue generation. Also, the Rent Leveling Division continues to provide Morristown residents with information regarding fair housing and tenancy rights.

DIVISION OF AGING

This Division provides for various activities and programs for Town residents. These include Flex and Stretch exercise classes, 60+ Club meetings, a Book Club, A.A.R.P. tax help, defensive driving courses, informational forums, monthly movies, insurance counseling, health-related check-ups and bimonthly newsletters. In all areas, participant numbers increased in FY 2011. Last year, we began offering free local trips (i.e. Washington Headquarters, The Seeing Eye) to Morristown Seniors. The Division also sponsors an annual picnic and Holiday party. Participation in both events has greatly increased. Costs for these affairs have been greatly reduced due to the generosity of local restaurants and other Town businesses. Furthermore, the Division of Senior Services delivers hundreds of meals to home bound seniors, through the Morris County nutrition program, and provides food/shopping transportation to individuals on Monday, Tuesday and Wednesday mornings. Through the National Council on Aging, the Division Manager has been able to obtain clerical support at no cost to the Town.

DEPARTMENT OF PUBLIC WORKS

Last April, the Town's sanitation and recycling collection services were privatized. Through this municipal service change, staffing was reduced in this Division by way of retirements (3 Sanitation Truck Drivers and 1 Sanitation Worker) and lateral transfers (2 employees) to the Division of Public Works. While cost savings for the first nine months only amounted to roughly \$32,000, the projected savings this year is over \$115,000. Over the 5-year contract period, the Town estimates to save in excess of \$700,000 in personnel salary and benefit costs and other expenses. The Town's collection schedule remained the same, and DPW supervisory personnel continue to handle oversight and customer service for the collection operation.

Despite a considerable reduction in personnel over the last several years, this Department continues to provide the following:

- Field and park maintenance at 14 recreation sites.
- Street sweeping of major roads every night and residential streets once a week during the day.
- Snow plowing, removal and salting of 30 miles of Town streets; and sidewalk shoveling at various locations and crosswalks across Town.
- Maintenance of streets and sidewalks, such as pothole filling, repair and cleaning of catch basins and storm drains, and sidewalk repair.
- Collection of appliances, small metal, tires and batteries from residents and condominiums six times a year.
- Maintenance of municipal buildings and grounds at various locations.
- Municipal tree maintenance and removal.
- Traffic signal maintenance, sign installation and striping.
- Setup and clean-up for Town special events, such as the First Night, St. Patrick's Day parade and the Fall Festival.
- Vehicle and equipment maintenance for the Town's municipal fleet.

The Engineering Division, among other responsibilities, designs and inspects construction of municipal capital projects, administers the soil disturbance ordinance and issues permits, programs and places traffic counters at various street locations, assists the Tax Collector's office in reconciling sewer billing accounts and oversees the Town's Clean Communities program.

UTILITY AND ENERGY COSTS

Total Electricity costs (buildings, traffic and street lights, and sewer utility plant) are projected to decrease by over \$103,000 (\$83,000 in Operating Budget and \$20,000 in Sewer Budget) in FY 2012 due to the Town's online electricity auction held in early January. The lowest bidder, Reliant Energy, came in with a \$0.07425 basic generation cost fixed price for a 24 month term, with 50% of this electricity generation coming from various renewable energy sources. Over this two year period, the Town expects to save approximately \$250,000 in electricity costs.

Unfortunately, retail gasoline/diesel fuels are projected to increase as a result of surging oil/gasoline prices this year. Therefore, the Administration is budgeting a \$10,000 increase over last year for this line-item. The natural gas and propane line-item is slightly higher than last year by about \$5,000.

SEWER UTILITY (WASTE WATER TREATMENT PLANT)

In FY 2009, the Town completed the installation of New Jersey's largest municipally-owned solar energy project. Not only does this project generate clean, pollution-free electricity representing an average of 640,000 kwh of electricity per year, or 45% of the WWTP's usage, but it also enables the Town to realize electricity savings and additional revenues by selling Solar Renewable Energy Certificates ("SRECs") in the market to offset the project's cost. Indeed, since FY 2009, total electricity cost savings related to this solar project have been about \$240,000, or \$80,000 per year; and total SREC revenues realized are near \$1 million. Further, the Town has performed other minor capital projects to increase energy efficiency use by over 100,000 kwh per year.

In FY 2011, the Town generated 614 SRECs in the calendar year, and sold 498 SRECs last year in an open market/auction forum generating a total of \$288,544 in revenues. In May 2011, the Town sold 185 SRECs, generated during the period November 2010 through March 2011, at \$660 per SREC for a total \$121,100. Unfortunately, shortly after this sale, the New Jersey SREC auction market experienced dramatic price declines by over 60%. This price drop is directly correlated to the oversupply of SREC's in the 2012 energy year (June 2011 - May 2012). Notwithstanding the average SREC sale price of \$200 near the end of last year, the Town's second sale in December 2011, which 313 SREC's were sold, managed to realize \$296 per SREC, or \$166,444 in revenues. Nevertheless, the Town projects SREC prices to continue its downward path and fluctuate within an average range of \$150-\$175 in FY 2012.

Sewer Utility capital projects planned this year, totaling \$200,000, are as follows:

- **\$200,000 for Sanitary Sewer Repairs** - The Town's ongoing TV inspection of sanitary sewers identified sewer mains in need of repair. Priority will be given to streets that need to be paved in the near future and know problem areas. Funding for these repairs will reduce or eliminate the need for call-outs to deal with emergent sewer blockages or repairs.

CAPITAL IMPROVEMENT BUDGET

The total amount of capital improvement financing requested this year is **\$1,757,000**. A total of \$45,000 is allocated in the Operating Budget for a down payment (\$20,000, or 5%) to finance the capital improvement items listed below, and new computer hardware and software purchases (\$25,000).

- **\$1,235,000 for Town Road and Sidewalk Projects:** The Town must allocate funds toward this pivotal work to maintain and repair our roads and sidewalks. The type of work to be conducted is milling and resurfacing, crack sealing, curb, sidewalk and drainage on various streets in the Town's 30 mile road network. \$100,000 of these capital monies will be allocated for streetscape improvements on Speedwell Avenue in addition to \$200,000 of funding that the Morristown Partnership will be applying to this capital improvement. Lastly, due to the extensive damage caused by Tropical Storm Irene and the October snowstorm last year to our public shade tree canopy, the Administration requests \$100,000 be funded for the purchase of trees to be planted in our right-of-ways and on other Town lands in accordance with the Community Forestry Management Plan.

Moreover, the Town has received State Aid grants in the amount of \$185,000 for the South Street Streetscape Phase III project, and \$85,000 under the Safe Streets to Transit program for traffic movement and pedestrian safety improvements on Lafayette Avenue near the Morristown Train Station.

- **\$225,000 for Park Improvements:** These improvements include rehabilitation construction of the Cauldwell Park pool facility, and tennis court fence replacement at Jacob Ford, Hillairy and Lidgerwood playgrounds.

- **\$217,000 for Municipal Building Improvements:** These improvements include Town Hall roof and plumbing repairs, replacement of two (2) 10 HP HVAC circulation pumps, HVAC controller and heating valve actuator assemblies, and installation of a new exhaust system at the Speedwell Firehouse.

- **\$80,000 for Two Seven-yard Dump Bodies and Two Salt Spreader inserts (5.2 cubic yards):** Replaces Bodies on Dump Trucks #3 and #5. Current Bodies have outdated and severely worn salt conveyor systems that limit use of trucks for general purpose. New Salt Spreader inserts can be removed, and trucks can be used for general hauling all year.

TOWN OF MORRISTOWN FIVE YEAR FINANCIAL TREND ANALYSIS

Years ended December 31, 2007
through December 31, 2011



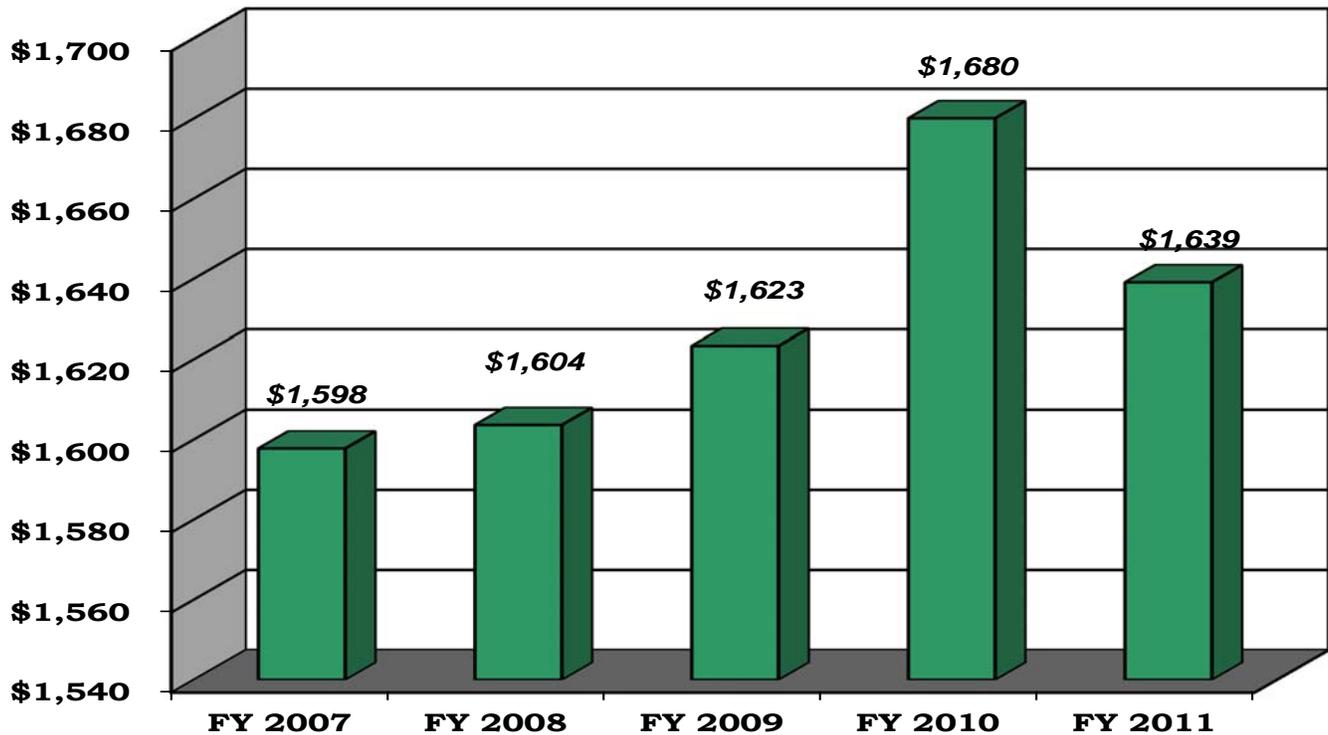
REVENUE ANALYSIS

OPERATING REVENUE PER CAPITA

Warning Trend: Decreasing Operating Revenue Per Capita.

Formula:

$$\frac{\text{Net Operating Revenue (Constant Dollars)}}{\text{Population}}$$



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Operating Revenue (Actual)*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
CPI Index	207.3	215.3	214.5	218.0	224.9
CPI Constant	117.12	121.64	121.19	123.16	127.06
CPI In Decimals	1.171	1.216	1.212	1.232	1.271
Net Operating Revenue (Constant)	\$30,552,603	\$30,664,978	\$30,689,161	\$31,762,011	\$30,177,616
Population	19,122	19,122	18,905	18,905	18,411
Operating Revenue Per Capita	\$1,598	\$1,604	\$1,623	\$1,680	\$1,639
Dollar Change	\$(8)	\$6	\$20	\$57	\$(41)
Percent Change	-0.51%	0.37%	1.23%	3.49%	-2.44%

*Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

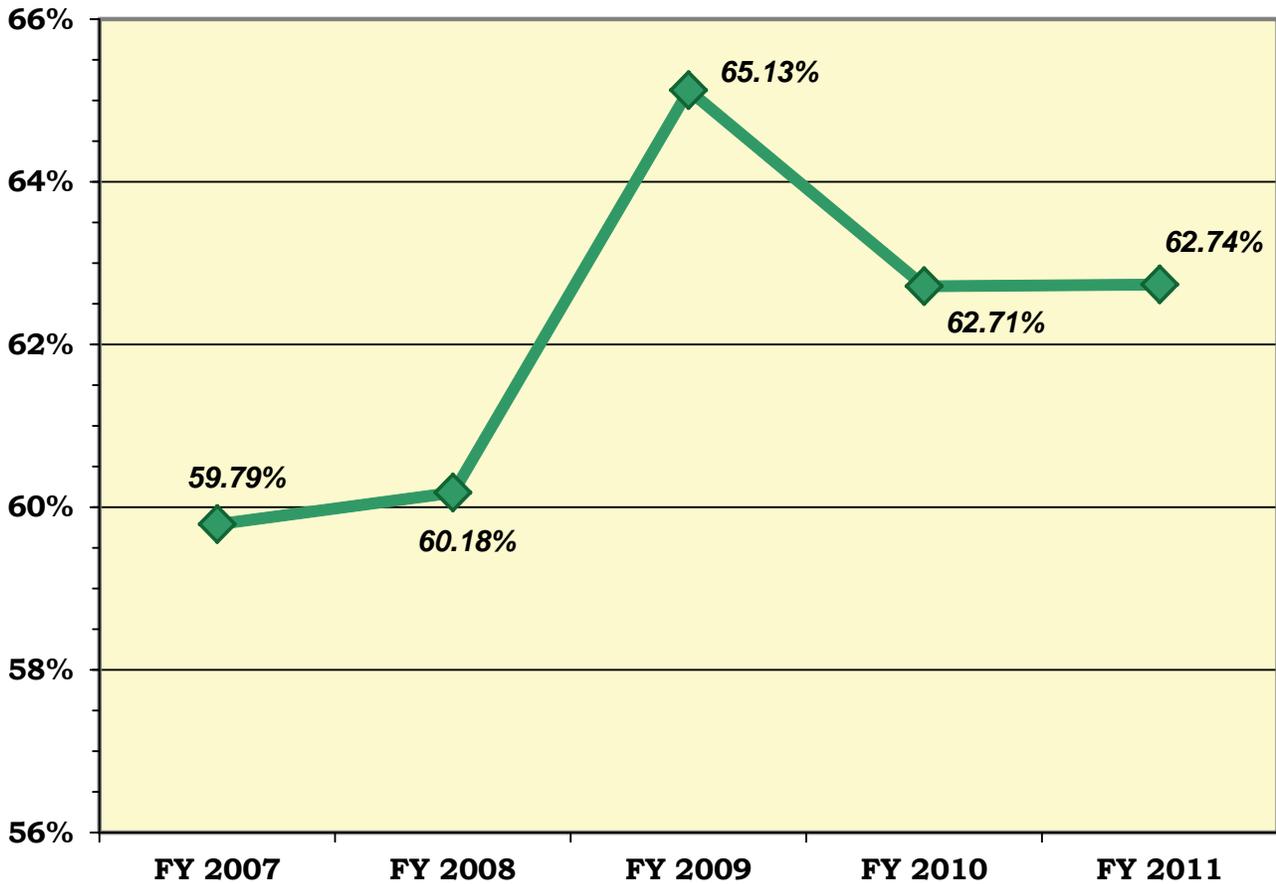
As population increases, it is expected that revenue and the need for service would increase proportionately. Per Capita Revenue shows changes in revenue relative to population. For a municipality to remain financially stable, Revenue Per Capita should remain at least constant. Revenue Per Capita should be examined relative to Expenditure Per Capita.

PROPERTY TAX REVENUE AS A PERCENTAGE OF TOTAL OPERATING REVENUE

Warning Trend: Steady increase in the reliance of property tax revenue to balance the municipal budget.

Formula:

$$\frac{\text{Property Tax Revenue}}{\text{Total Operating Revenue}}$$



YEAR END	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total Operating Revenue*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
Property Tax Revenue	\$21,394,763	\$22,447,165	\$24,221,031	\$24,533,234	\$24,055,720
Percent of Total	59.79%	60.18%	65.13%	62.71%	62.74%

* Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

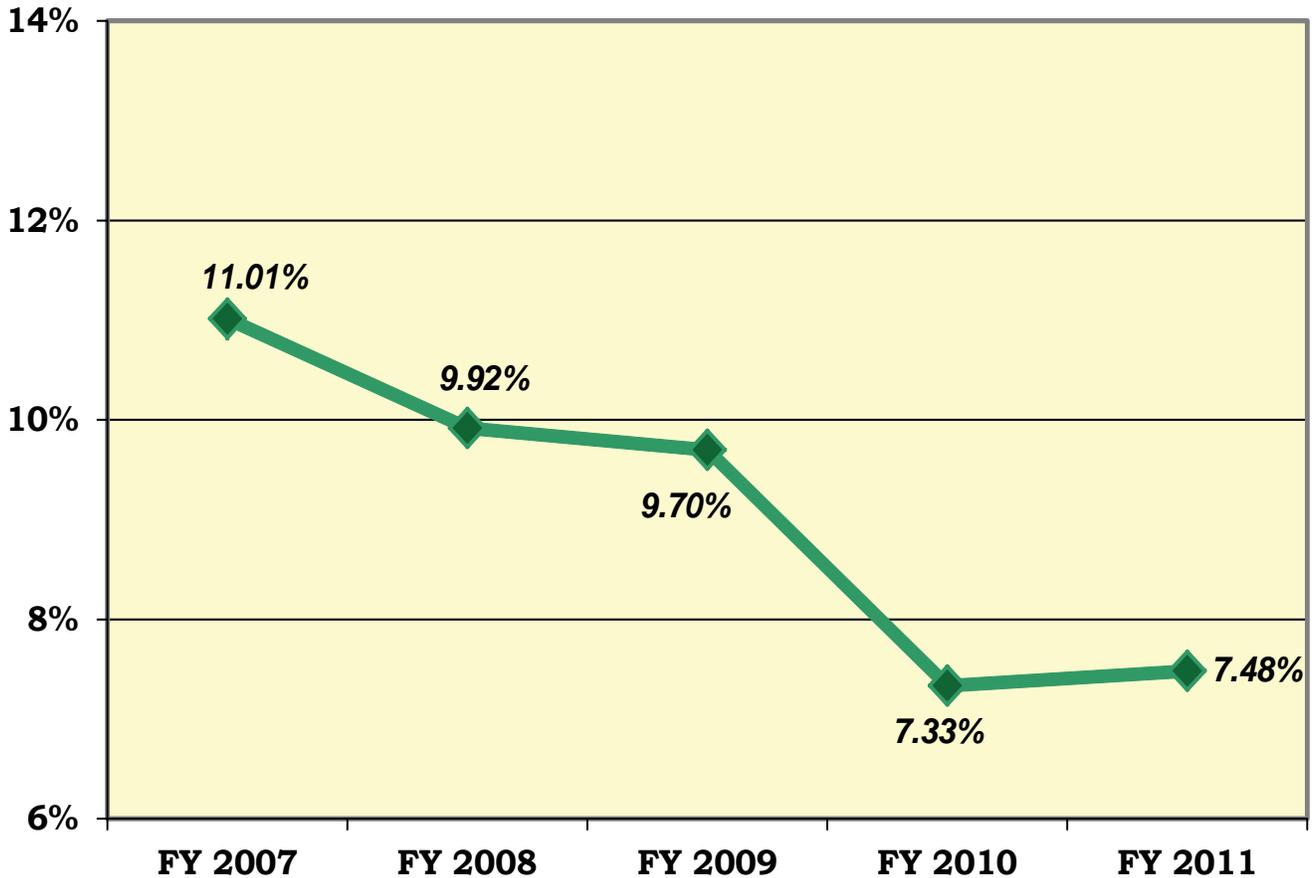
This indicator shows changes in revenue structure. Strong shifts in the percentage of any revenue source may be a warning of financial problems.

STATE AID REVENUE AS A PERCENTAGE OF TOTAL OPERATING REVENUE

Warning Trend: Decreasing amount of State Aid Revenue as a percentage of Total Operating Revenue.

Formula:

$$\frac{\text{State Aid Revenue}}{\text{Total Operating Revenue}}$$



FISCAL YEAR	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total Operating Revenue*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
State Aid Revenue	\$3,939,956	\$3,698,495	\$3,606,033	\$2,868,599	\$2,868,599
Percent of Total	11.01%	9.92%	9.70%	7.33%	7.48%
CPI In Decimals	1.171	1.216	1.212	1.232	1.271

* Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

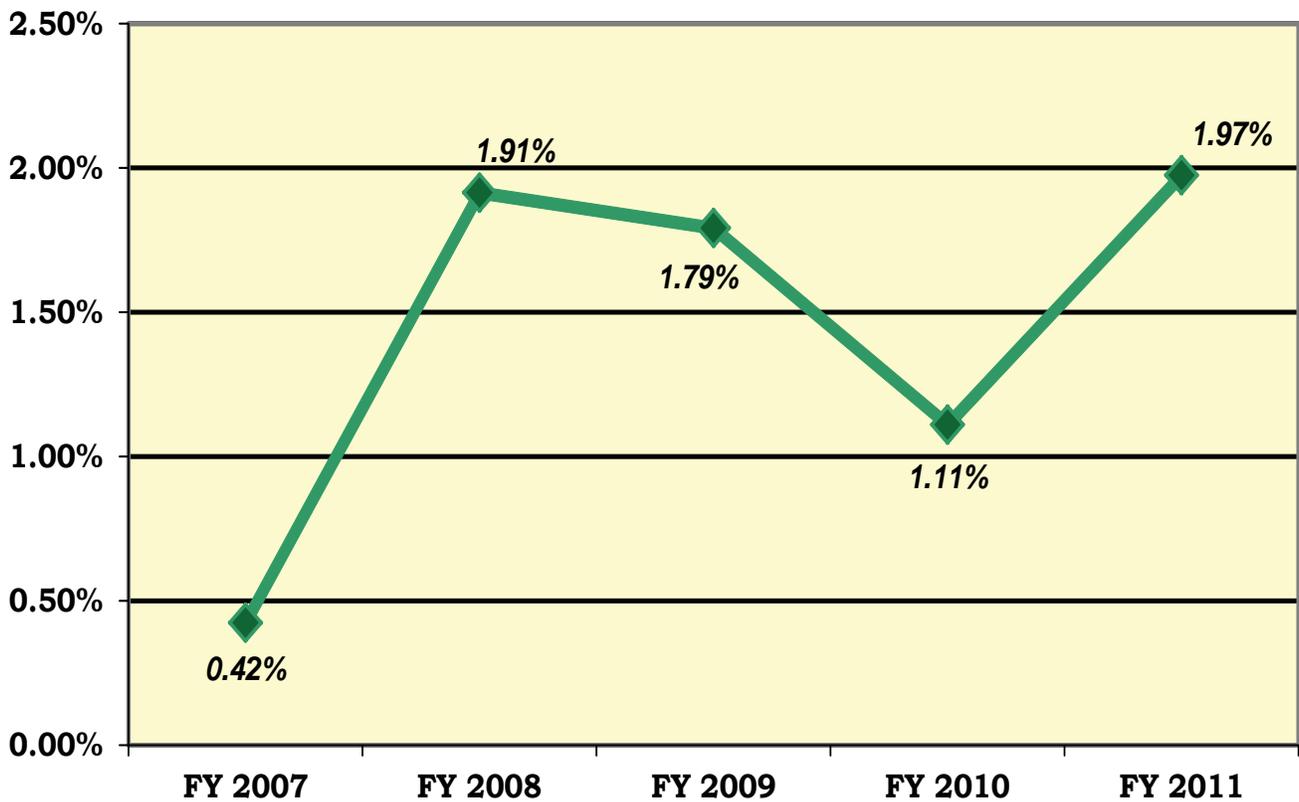
State aid includes: Consolidated Municipal Property Tax Relief Aid and Energy Receipts Tax. This revenue is not earmarked and may be allocated towards any purpose. Decreasing State Aid Revenue and overdependence on its use to balance budget may create financial inflexibility and signal immediate financial vulnerability. For the first time in years, FY 2011 State Aid revenue was equal to the previous year.

**GRANT REVENUE AND INTERLOCAL AGREEMENTS
AS A PERCENTAGE OF TOTAL OPERATING REVENUE**

Warning Trend: Decreasing amount of Grant and Interlocal Agreement Revenue as a percentage of Total Operating Revenue.

Formula:

$$\frac{\text{Grant Revenue \& InterLocal Agreements}}{\text{Total Operating Revenue}}$$



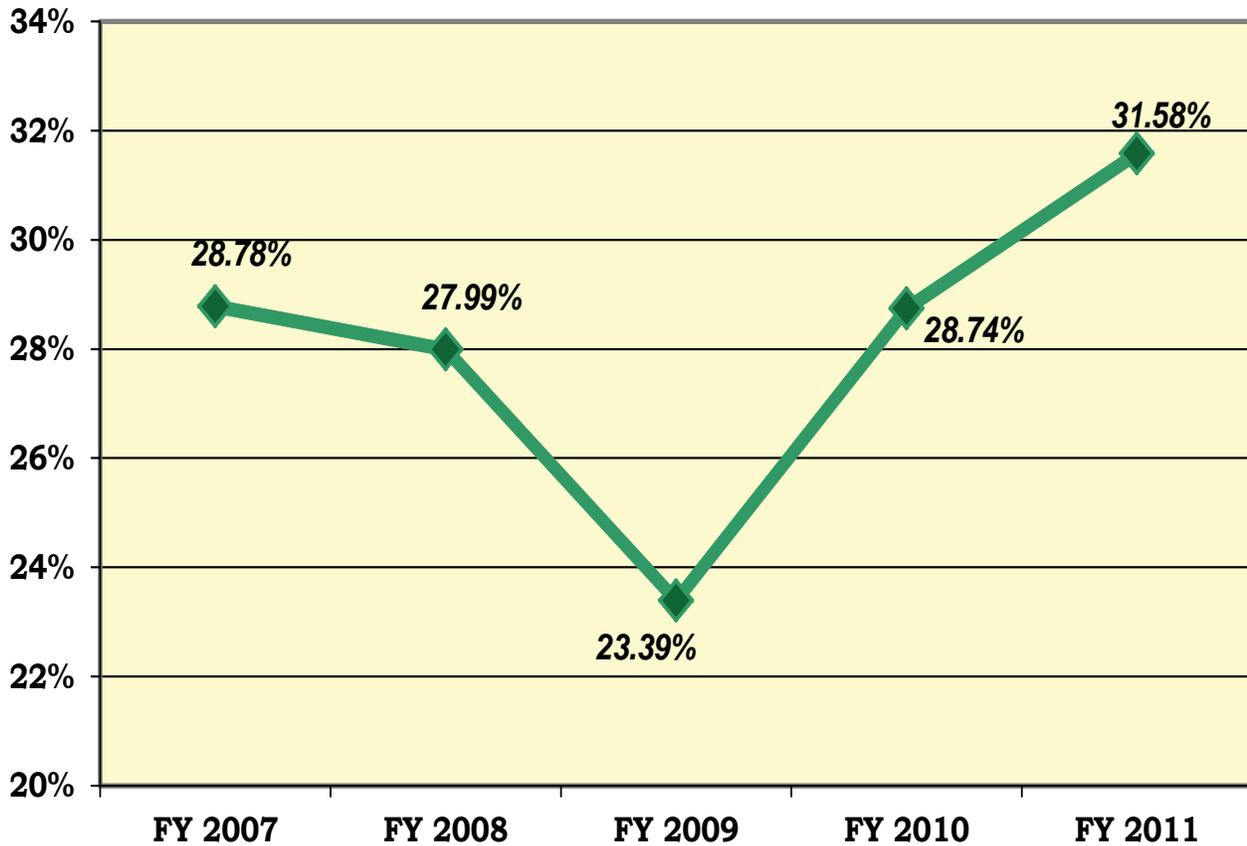
<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Operating Revenue*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
Grant Revenue	\$151,691	\$713,487	\$666,008	\$434,428	\$756,633
Percent of Total	0.42%	1.91%	1.79%	1.11%	1.97%

* Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

Grants and Interlocal Agreements include Clean Communities, Municipal Alliance, Drunk Driving, Public Health Priority, Environmental, Protection, Body Armor Replacement program and various programs for Police Services. The grants are earmarked for specific purposes, often to implement State or Federal Programs. Decreasing Grant Revenue places a greater burden on the tax rate to balance the budget.

LOCAL REVENUE AS A PERCENTAGE OF TOTAL OPERATING REVENUE

Warning Trend: Decreasing amount of Local Revenue as a percentage of Total Operating Revenue.



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Operating Revenue*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
Local Revenue*	\$10,296,714	\$10,441,591	\$8,698,373	\$11,244,147	\$12,109,954
Percent of Total	28.78%	27.99%	23.39%	28.74%	31.58%

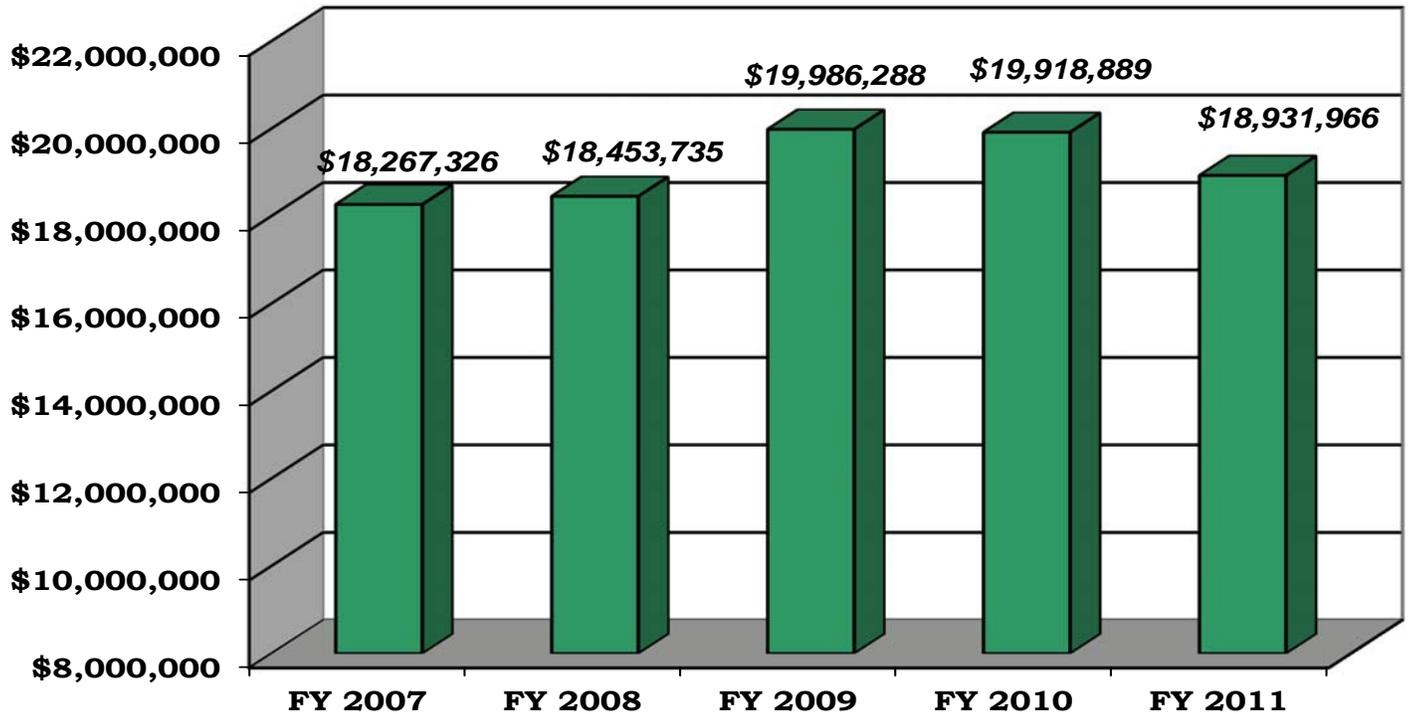
* Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

PROPERTY TAX REVENUE

Warning Trend: Decline in total Property Tax Revenue

Formula:

$$\frac{\text{Property Tax Revenue (Constant)}}{\text{CPI In Decimals}}$$



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Property Tax Revenue (Actual)*	\$21,394,763	\$22,447,165	\$24,221,031	\$24,533,234	\$24,055,720
CPI Index	207.3	215.3	214.5	218.0	224.9
CPI Constant	117.12	121.64	121.19	123.16	127.06
CPI In Decimals	1.171	1.216	1.212	1.232	1.271
Property Tax Revenue (Constant)	\$18,267,430	\$18,453,839	\$19,986,401	\$19,919,002	\$18,931,966
Dollar Change	\$(42,108)	\$186,410	\$1,532,562	\$(67,399)	\$(986,923)
Percent Change	-0.23%	1.02%	7.67%	-0.34%	-4.95%

* Property tax revenues are audited figures that include prior year delinquencies.

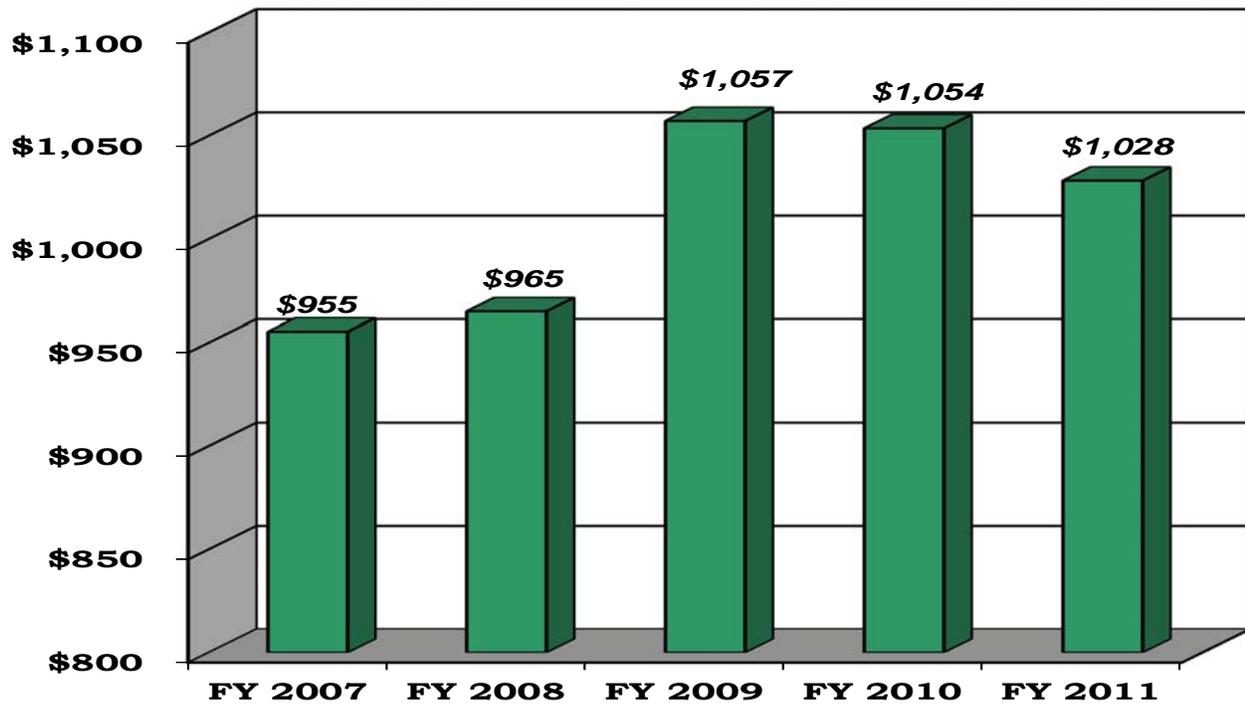
Fluctuations in Property Tax Revenue can be caused by many factors including new development, decline or rise in property values, age of property or a general decline in the regional economy. Towns that rely heavily on Property Tax Revenue are susceptible to serious economic disruption.

PROPERTY TAX REVENUE PER CAPITA

Warning Trend: Decreasing Property Tax Revenue Per Capita.

Formula:

$$\frac{\text{Property Tax Revenue (Constant)}}{\text{Population}}$$



YEAR END	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Property Tax Revenue (Actual)*	\$21,394,763	\$22,447,165	\$24,221,031	\$24,533,234	\$24,055,720
CPI Index	207.3	215.3	214.5	218.0	224.9
CPI Constant	117.12	121.64	121.19	123.16	127.06
CPI In Decimals	1.171	1.216	1.212	1.232	1.271
Property Tax Revenue (Constant)	\$18,267,430	\$18,453,839	\$19,986,401	\$19,919,002	\$18,931,966
Population	19,122	19,122	18,905	18,905	18,411
Property Tax Revenue Per Capita	\$955	\$965	\$1,057	\$1,054	\$1,028
Dollar Change	\$(27)	\$10	\$92	\$(3)	\$(26)
Percent Change	-2.73%	1.02%	9.55%	-0.28%	-2.47%

* Property tax revenues are audited figures that include prior year delinquencies.

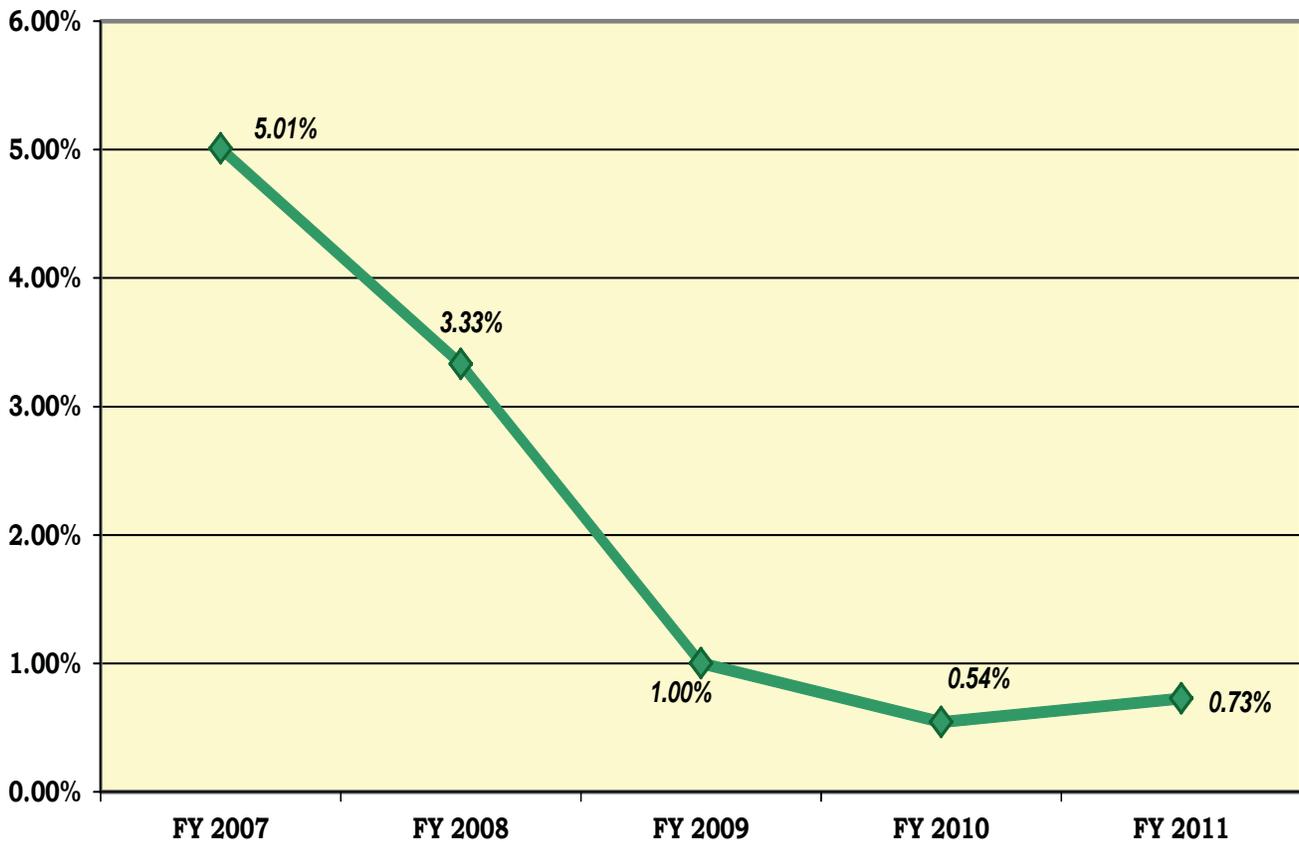
As population increases, it is expected that revenue and the need for service would increase proportionately. Per Capita Property Tax shows changes relative to population. For a municipality to remain financially stable, losses in Property Tax should be offset by increases in other forms of revenue.

OUTSTANDING PROPERTY TAXES

Warning Trend: Increasing Outstanding Property Tax Revenue as a percentage of Property Tax Levy.

Formula:

$$\frac{\text{Outstanding Property Taxes}}{\text{Property Tax Levy}}$$



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Tax Levy	\$52,405,388	\$54,143,200	\$56,519,873	\$58,495,486	\$58,700,648
Outstanding Property Taxes	\$2,624,596	\$1,802,682	\$564,995	\$318,158	\$426,339*
Percent of Total	5.01%	3.33%	1.00%	0.54%	0.73%*

* Includes added and/or omitted tax assessed billings made in the 4th quarter of FY 2011 and not due until 1st quarter, FY 2012.

Increases in the percentage of property tax not collected indicates a serious financial problem. High levels of outstanding uncollected Property Tax decreases liquidity and the ability for the Town to meet its current bills and liabilities.

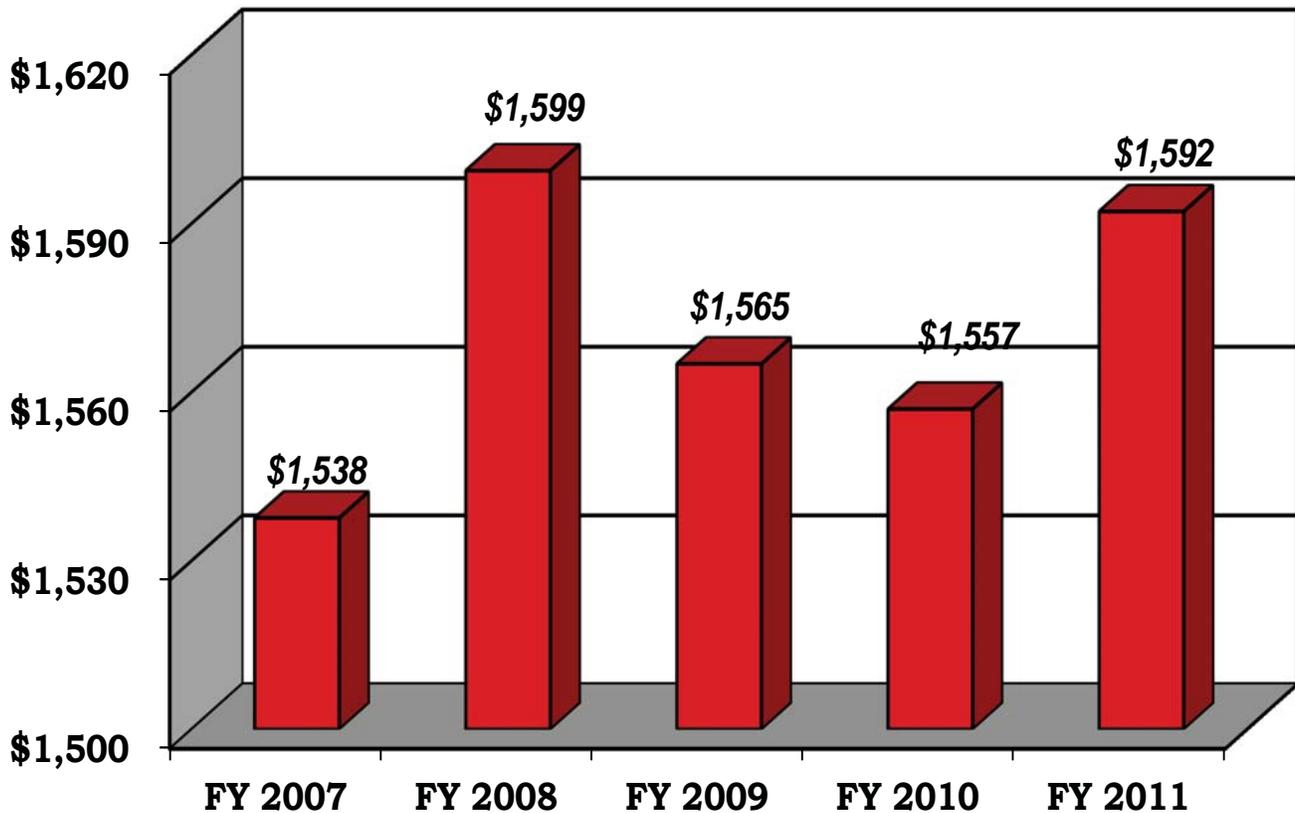
EXPENDITURE ANALYSIS

EXPENDITURE PER CAPITA

Warning Trend: Increase in Expenditures per Capita.

Formula:

$$\frac{\text{Total Expenditures (Constant)}}{\text{Population}}$$



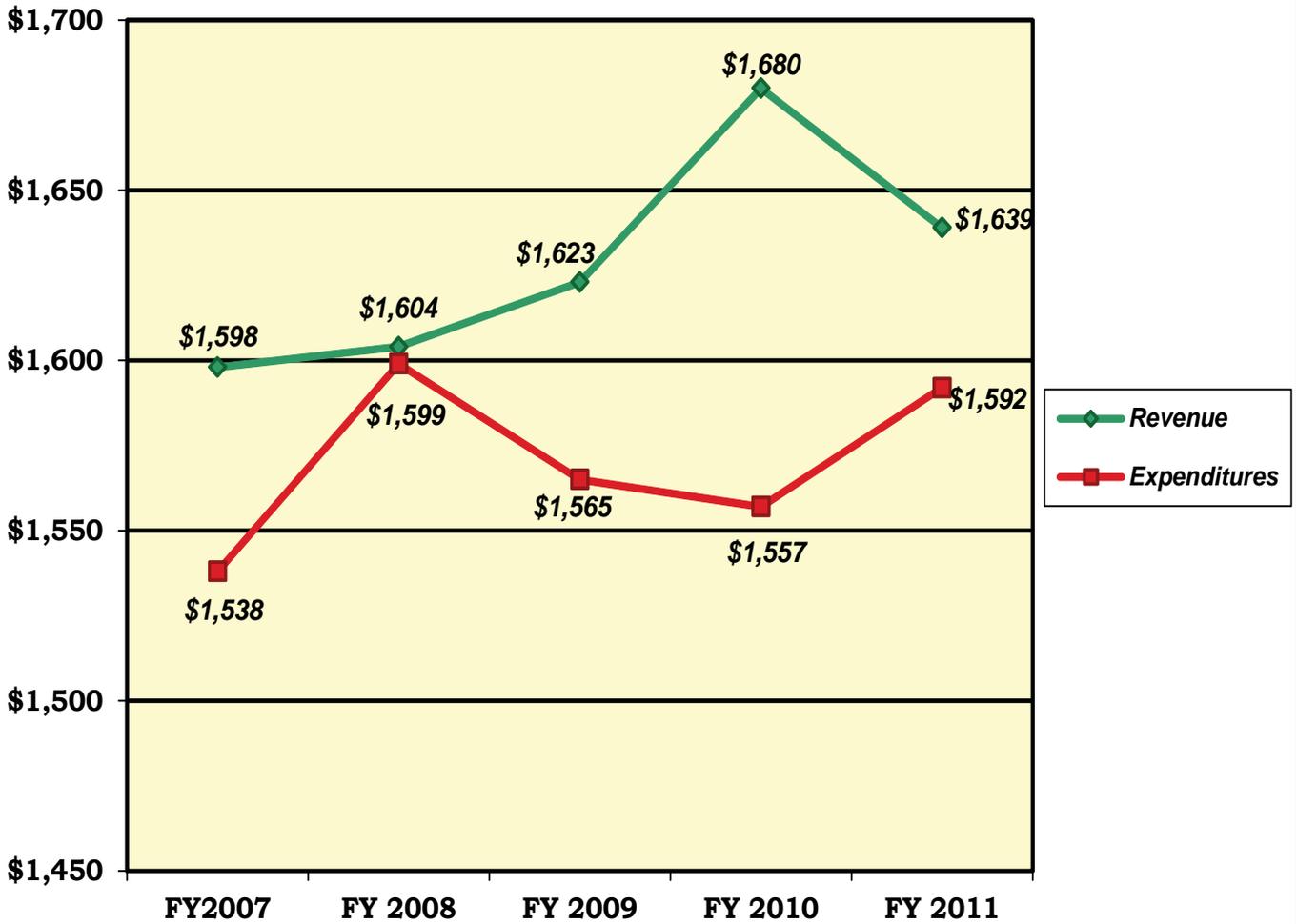
<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Expenditures (Actual)*	\$34,435,885	\$37,202,004	\$35,855,624	\$36,253,398	\$37,245,956
CPI Index	207.3	215.3	214.5	218.0	224.9
CPI Constant	117.12	121.64	121.19	123.16	127.06
CPI In Decimals	1.171	1.216	1.212	1.232	1.271
Total Expenditures (Constant)	\$29,402,294	\$30,583,809	\$29,586,886	\$29,434,827	\$29,312,744
Population	19,122	19,122	18,905	18,905	18,411
Expenditure Per Capita	\$1,538	\$1,599	\$1,565	\$1,557	\$1,592
Percent Change	-0.33%	4.02%	-2.15%	-0.51%	2.26%

* Final budget amounts spent in respective FY that differs from adopted FY budget amounts.

Fluctuations in Expenditures can be caused by many factors including new development, debt service, contractual obligations, changes in health and/or liability insurance.

REVENUE & EXPENDITURE PER CAPITA

Warning Trend: Expenditure Per Capita greater than Revenue Per Capita.



	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
OPERATING REVENUE PER CAPITA	\$1,598	\$1,604	\$1,623	\$1,680	\$1,639
EXPENDITURES PER CAPITA	\$1,538	\$1,599	\$1,565	\$1,557	\$1,592

PROPERTY TAX LEVY AS % OF EXPENDITURES PER PROPERTY OWNER

Appropriations	As Modified after Adoption FY 2011	Portion Funded through Tax Levy	Cost per Property Owner	Proposed FY 2012	Portion Funded through Tax Levy	Cost per Property Owner
Municipal Operations						
Town Clerk	\$384,960	\$238,208	\$54.92	\$386,530	\$243,364	\$56.06
Business Administration/ Purchasing	514,860	318,588	\$73.46	491,890	309,700	71.34
Police	5,801,080	3,589,622	\$827.67	5,530,990	3,482,383	802.21
Fire	3,073,050	1,901,558	\$438.45	3,006,230	1,892,761	436.02
Revenue and Finance	907,300	561,424	\$129.45	857,595	539,953	124.38
Human Services	1,079,795	668,161	\$154.06	1,102,561	694,187	159.91
Public Works	4,754,080	2,941,754	\$678.29	4,602,360	2,897,705	667.52
Legal	397,000	245,658	\$56.64	437,970	275,752	63.52
Building and Construction	851,770	527,063	\$121.53	840,630	529,272	121.92
Municipal Court	514,150	318,148	\$73.36	515,630	324,647	74.79
Total Municipal Operations	\$18,278,045		\$2,607.84	\$17,772,386		\$2,577.68
Insurance	\$5,938,500	\$3,674,656	\$846.50	\$6,309,926	\$3,972,811	\$915.18
Contributions to Organizations	148,700	92,013	\$21.20	167,700	105,586	24.32
Morris School District	207,654	128,493	\$29.60	204,480	128,743	29.66
Shared Service Agreements	305,154	188,825	\$43.50	376,404	236,989	54.59
Support of Library	0	0	\$0.00	0	0	0.00
Pensions and OASI	3,662,300	2,266,177	\$522.04	3,354,345	2,111,939	486.51
Deferred Charges & Judgment	10,690	6,615	\$1.52	99,015	62,341	14.36
Reserves and Contingent	836,000	517,304	\$119.17	719,000	452,692	104.28
Grants	335,000	207,293	\$47.75	323,073	203,411	46.86
Capital Improvements	45,000	27,845	\$6.41	45,000	28,333	6.53
Debt Service	6,025,000	3,728,181	\$858.83	5,768,739	3,632,073	836.69
Reserve for Uncollected Taxes	743,000	459,757	\$105.91	726,930	457,685	105.43
Total Other Appropriations	\$18,256,998		\$2,602.43	\$18,094,612		\$2,624.42
Total Appropriations	\$36,534,043	\$22,607,344		\$35,866,998	\$22,582,326	

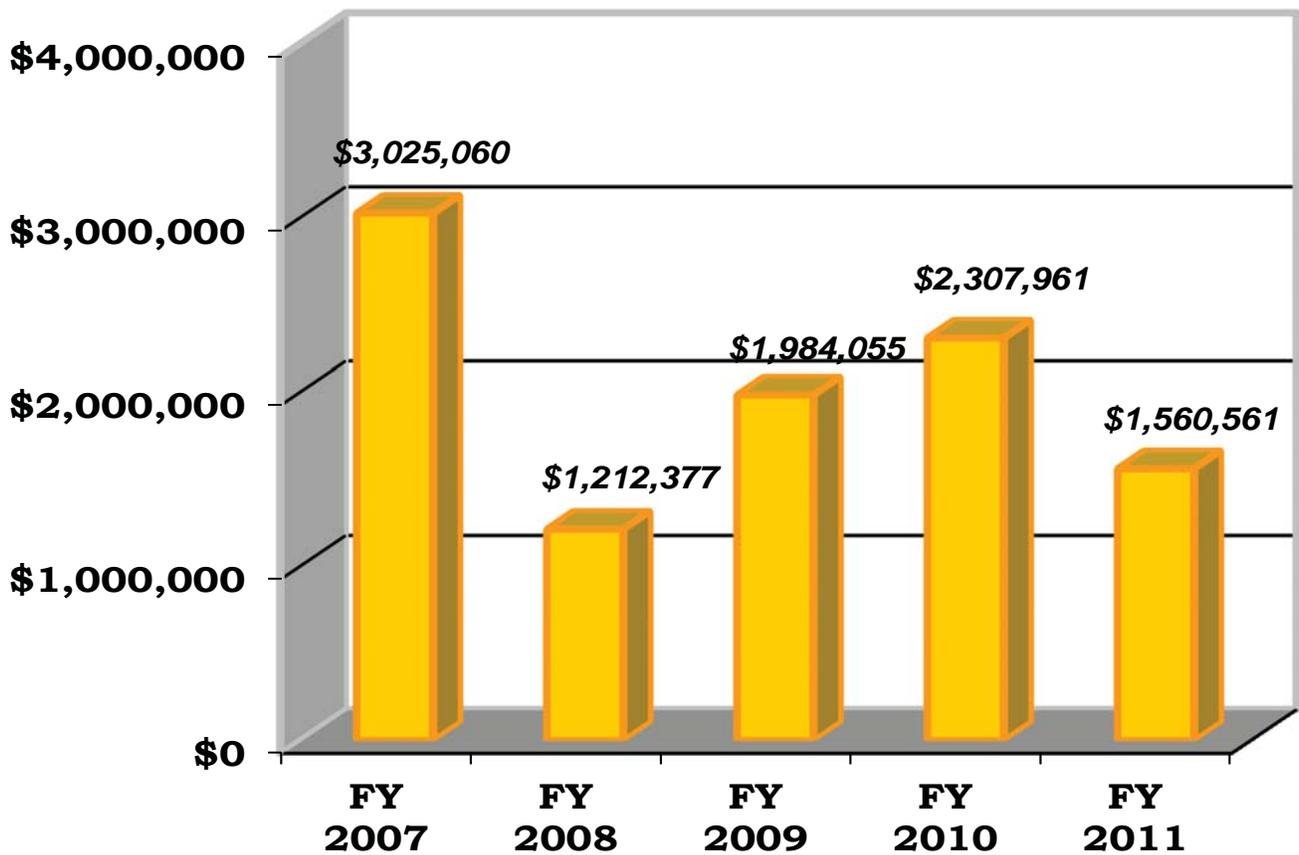
Tax Levy	\$22,607,344		\$22,582,326
Total Taxable Property Units	4,341		4,341

Tax payers should be aware of what municipal services and other expenditures are funded through the budget as well as how much of their tax dollars are being spent for each appropriation purpose. To illustrate these costs in a different manner, the chart above shows how much a property owner would pay annually for each area of the municipal budget if the tax levy was not based upon Net Assessed Valuation ("NAV"), but was determined simply by owning a property in the Town.

OPERATING POSITION

CHANGE IN FUND BALANCE

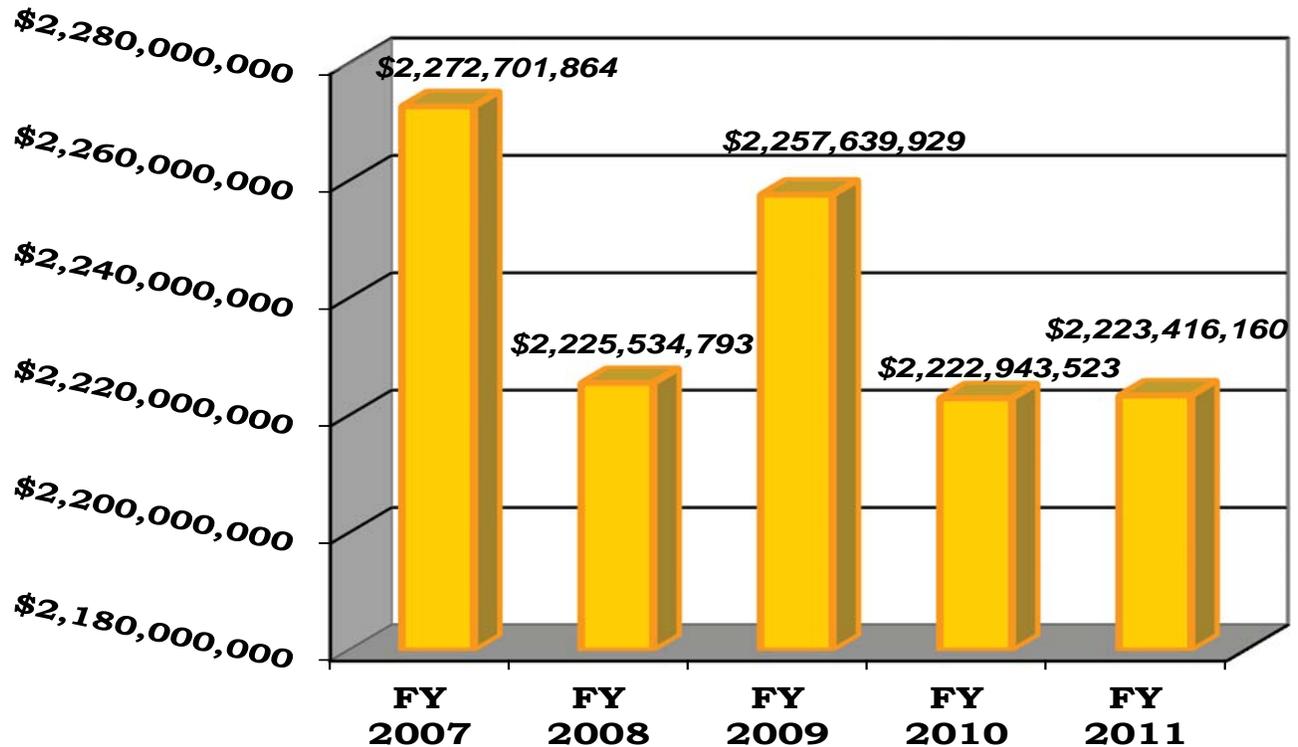
Warning Trend: Decrease in Fund Balance - 6% of the operating budget is an acceptable level of fund balance (approximately \$2 million).



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Fund Bal. January 1st	\$2,924,713	\$3,025,060	\$1,212,377	\$1,984,055	\$2,307,961
Fund Bal. December 31st	\$3,025,060	\$1,212,377	\$1,984,055	\$2,307,961	\$1,560,561
Change in Fund Balance	\$100,347	\$(1,812,683)	\$771,678	\$323,906	\$(747,400)
Percentage Change	3.43%	-59.92%	63.65%	16.33%	-32.38%

CHANGE IN NET ASSESSED VALUATION

Warning Trend: Decrease in Net Assessed Valuation.

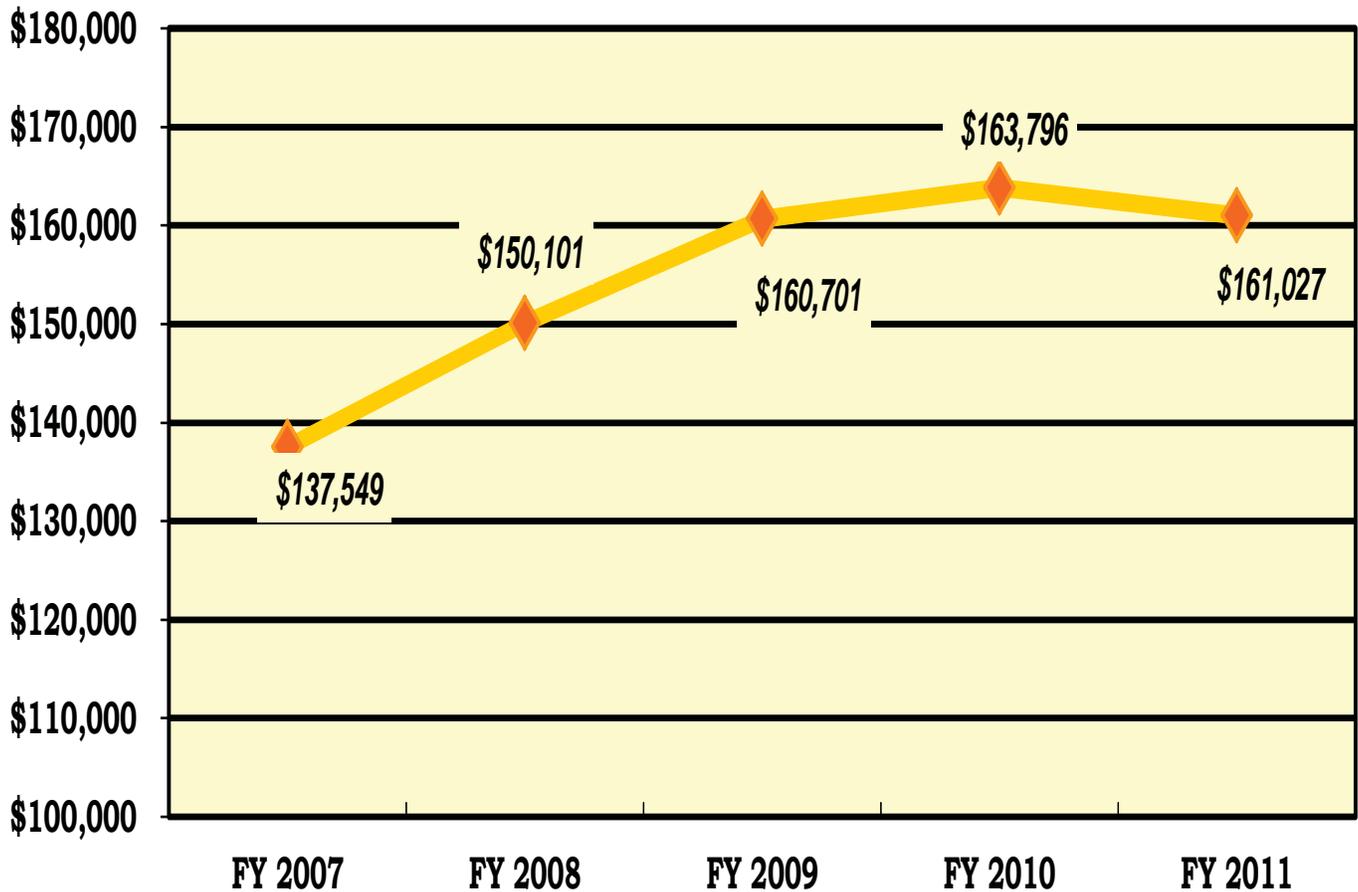


<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
NAV Bal. January 1st	\$2,213,619,563	\$2,272,701,864	\$2,225,534,793	\$2,257,639,929	\$2,222,943,523
NAV Bal. December 31st	\$2,272,701,864	\$2,225,534,793	\$2,257,639,929	\$2,222,943,523	\$2,223,416,160
Change in NAV (\$)	\$59,082,301	\$(47,167,071)	\$32,105,136	\$(34,696,270)	\$472,637
Percentage Change	2.67%	-2.08%	1.44%	-1.54%	0.02%

The graph above clearly shows the Town’s year-to-year struggle with, on the positive side, NAV increases due to new development projects and, on the negative side, tax appeal losses as a result of the severe real estate market downturn.

EQUALIZED VALUE PER CAPITA

This indicator is used for comparison purposes only.

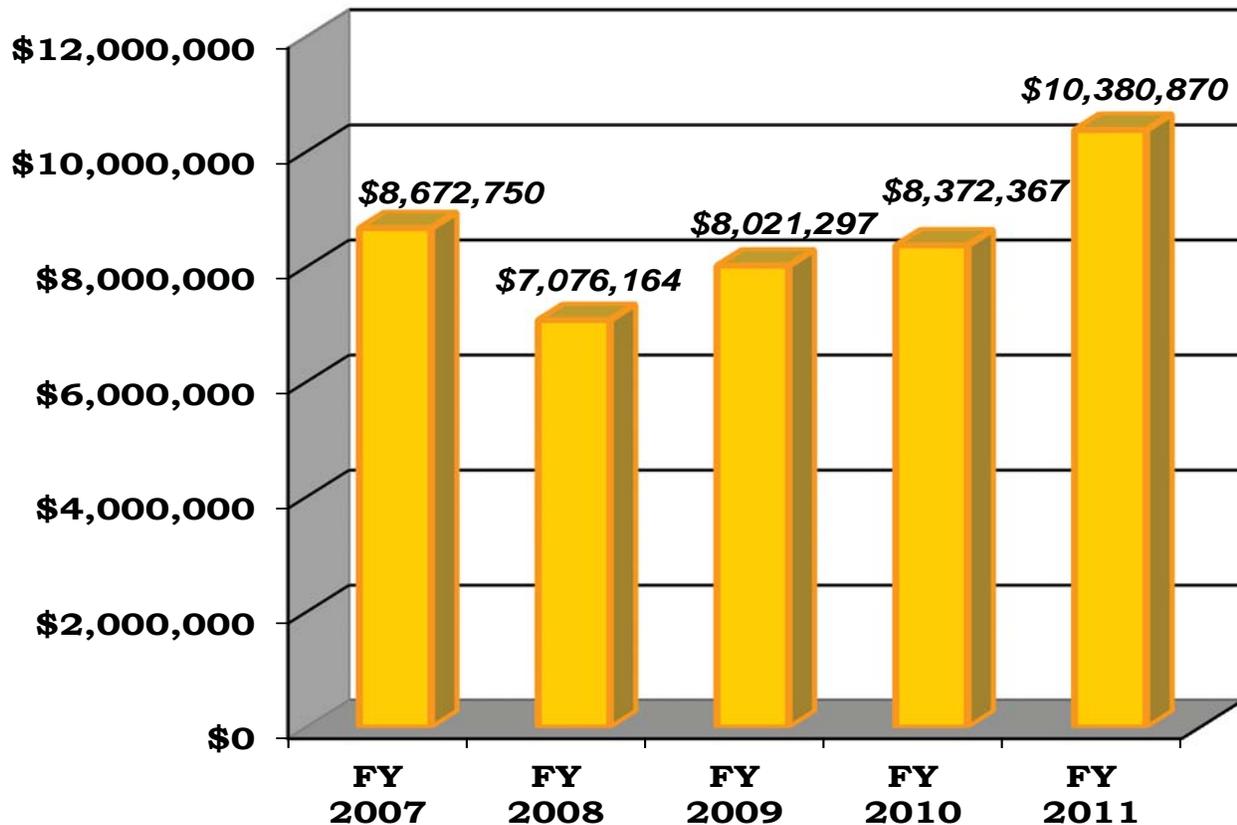


YEAR END	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
3 Yr. Avg. Equalized Valuation	\$2,630,217,618	\$2,870,223,314	\$3,072,921,003	\$3,096,558,331	\$2,964,665,587
Population	19,122	19,122	18,905	18,905	18,411
Equalized Value Per Capita	\$137,549	\$150,101	\$162,545	\$163,796	\$161,027

CASH FLOW

Warning Trend: Decline in Cash Balance.

Formula:
Cash Balance as of December 31st



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Cash Bal. (Jan. 1st)	\$6,856,748	\$8,672,750	\$7,076,164	\$8,021,297	\$8,372,367
Cash Bal. (Dec. 31st)	\$8,672,750	\$7,076,164	\$8,021,297	\$8,372,367	\$10,380,870
Change in Cash Balance	\$1,816,002	\$(1,596,586)	\$945,133	\$351,070	\$2,008,503
Percentage Change	26.48%	-18.41%	13.36%	4.38%	23.99%

Liquidity determines a Town's ability to meet its short term obligations. Poor levels of liquidity may be a sign of future economic disruption.

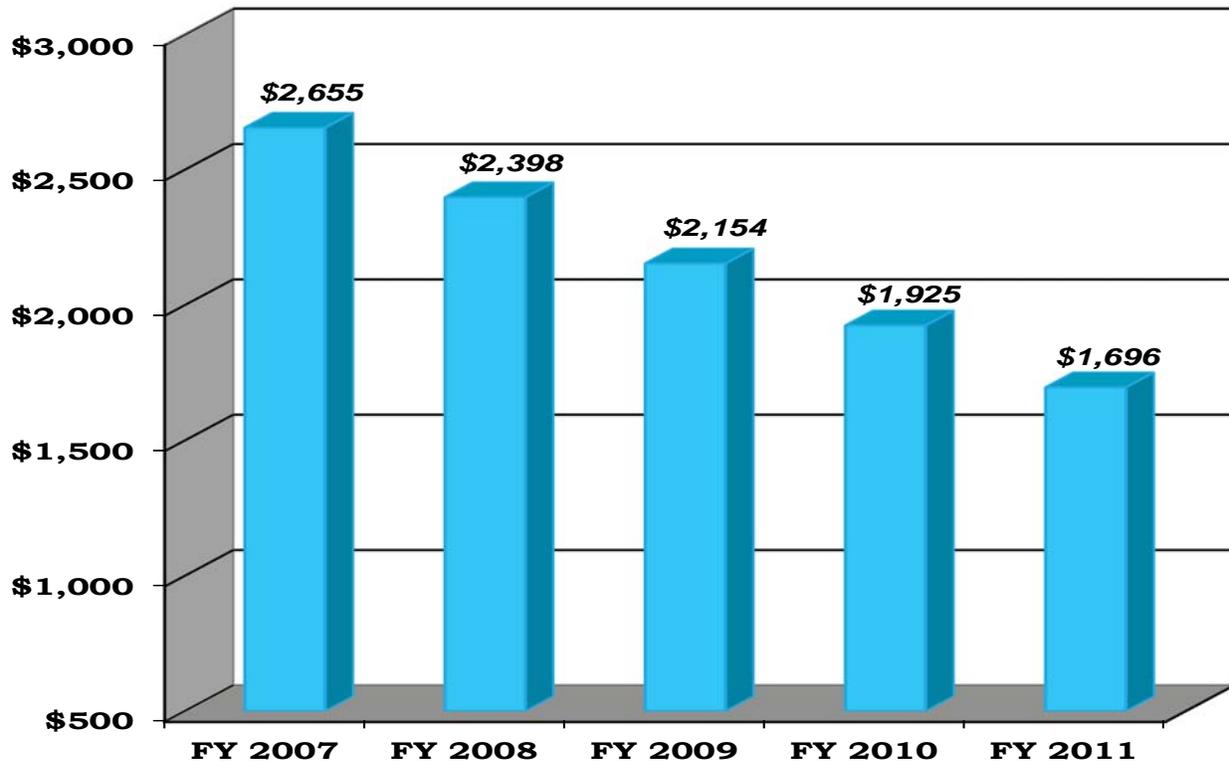
DEBT STRUCTURE

NET DEBT PER CAPITA

Warning Trend: Increasing Bonded Long Term Debt Per Capita.

Formula:

$$\frac{\text{Net Debt (Constant)}}{\text{Population}}$$



FISCAL YEAR	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total Net Debt	\$59,462,634	\$55,775,393	\$49,339,393	\$44,811,391	\$39,673,439
CPI Index	207.3	215.3	214.5	218.0	224.9
CPI Constant	117.12	121.64	121.19	123.16	127.06
CPI In Decimals	1.171	1.216	1.212	1.232	1.271
Net Debt (Constant)	\$50,771,279	\$45,853,435	\$40,713,250	\$36,383,225	\$31,223,185
Population	19,122	19,122	18,905	18,905	18,411
Net Debt Per Capita	\$2,655	\$2,398	\$2,154	\$1,925	\$1,696
Dollar Change	\$(240)	\$(257)	\$(244)	\$(229)	\$(229)
Percent Change	-8.29%	-9.69%	-10.19%	-10.64%	-11.88%

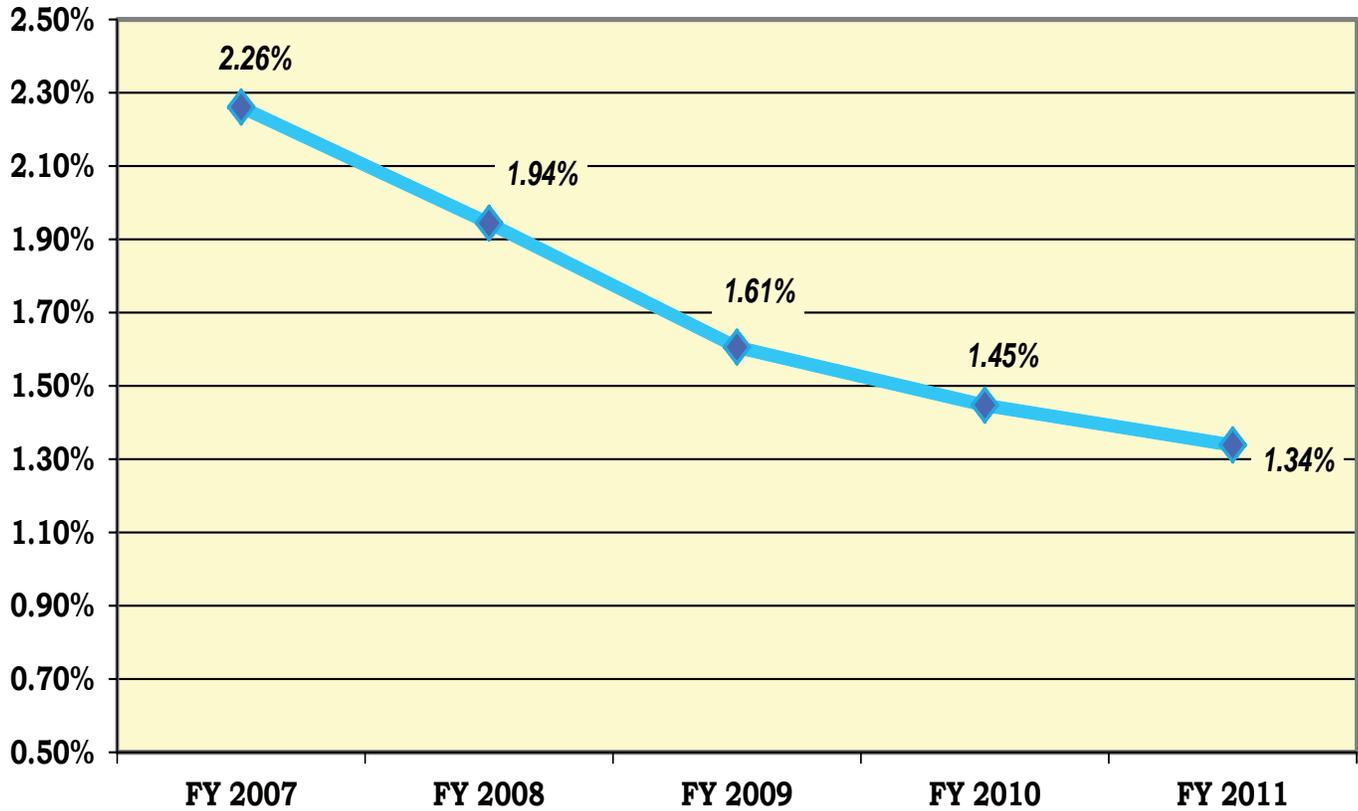
Increased Debt Per Capita presents a threat to the ability of property owners to pay their taxes. This may lead to an increase in outstanding property taxes. The Town’s more fiscally prudent long-term debt management policy over the last 5 years has led to a steady reduction (\$4-5 million per year) in its Net Debt.

NET DEBT AS A PERCENTAGE OF EQUALIZED VALUATION

Warning Trend: Increasing Net Debt as a percentage of average equalized valuation.

Formula:

$$\frac{\text{Net Debt}}{\text{3-yr. Avg. Equalized Valuation}}$$



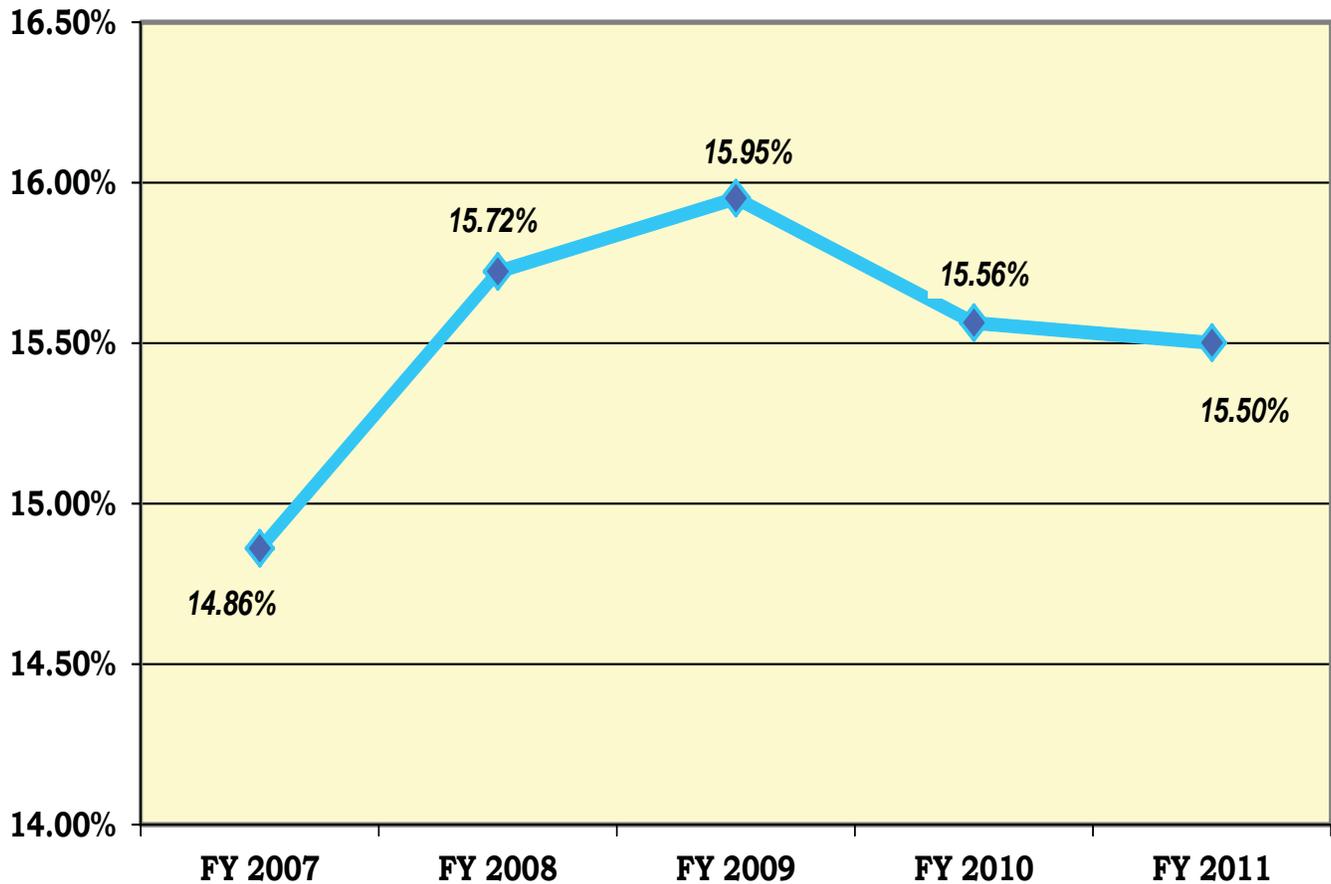
YEAR END	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
3 Year Average Equalized Valuation	\$2,630,217,618	\$2,870,223,314	\$3,072,921,003	\$3,096,558,331	\$2,964,665,587
Net Debt per Annual Debt Statement	\$59,462,634	\$55,775,393	\$49,339,393	\$44,811,391	\$39,673,439
Percentage Change	2.26%	1.94%	1.61%	1.45%	1.34%

DEBT SERVICE EXPENSE AS A PERCENTAGE OF TOTAL OPERATING REVENUE

Warning Trend: Increasing Debt Service expense as a percentage of Operating Revenue (8% is an acceptable general guideline).

Formula:

$$\frac{\text{Debt Service Expense}}{\text{Total Operating Revenue}}$$



<u>YEAR END</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Operating Revenue*	\$35,783,124	\$37,300,738	\$37,191,445	\$39,119,674	\$38,344,897
Debt Service Expense**	5,317,704	5,864,673	5,932,270	6,088,230	5,943,557
Trend	14.86%	15.72%	15.95%	15.56%	15.50%

* Audited Figures that include Miscellaneous Revenues Not Anticipated (MRNA).

**Increasing Debt Service decreases expenditure flexibility by adding to a Town’s fixed cost obligation (includes interest on BAN).