

### Summary

- ☐ Camden's structural budget deficit is growing rapidly as revenues fail to keep pace with expenses
- ☐ The current process for appropriating state aid is fatally flawed and does not promote sound planning or accountability.
- ☐ The City and State should work together and with outside experts to develop a realistic plan and process for the next five years, in which, barring drastic change, at least \$50 million in special state aid will be needed annually.

Thank you for the opportunity to provide testimony today. I testify from my personal perspective as a researcher employed by CAMConnect. As an objective, nonpartisan research organization, CAMConnect has prepared a number of reports about Camden on a wide variety of topics, including extensive analysis of the City's municipal budget.

Simply put, the budgetary process is broken. The first four years of the Camden Recovery did not alleviate the long-term structural deficit and reliance on special forms of state aid. The Recovery has not provided the City of Camden with timely appropriation of state aid to create improved management, planning, efficiency, and accountability.

### STRUCTURAL DEFICIT

Since FY 2003, the amount of special state aid required to close the City's budget gap has increased from \$9 million annually to over \$47 million annually. Unless dramatic changes occur, this gap can be expected to increase by at least \$4-6 million annually for the next 3-5 years.

For an explanation of the increase, I would refer you to page 7 of the COO's Progress Report, in which Mr. Primas states: "The deferral of several significant budgetary actions from previous years resulted in the need for the city to request an increase in state aid." Exhibit A of the Progress Report, beginning on page 80, highlights some of the causes for the ever-increasing amounts of special state aid, including labor contracts and health care costs. After reviewing the City's budgets and audits for the past five years, I largely concur with the assessment of Mr. Primas of the causes of the Camden budget's imbalance.

Like other cities in New Jersey, Camden receives an annual appropriation for Comprehensive Municipal Property Tax Relief Aid (CMPTRA). This recurring state aid, when coupled with the Energy Receipts Tax, has not increased since FY 2003, providing \$55.2 million for Camden annually (By comparison, Newark receives \$111 million annually and Trenton \$53 million annually).

While CMPTRA has held steady, the City's property tax rates are also frozen by the Recovery legislation. Payment in Lieu of Taxes (PILOT) arrangements and improved property tax collections have accounted for the only revenue growth in the past four years, as most of the City's longer-term economic development projects have not yet materialized.

There are a few sobering anecdotes that illustrate the dire straits of Camden's fiscal health:

The amount the City spends on health insurance for employees (\$19 million) is more than the amount it is able to collect and keep for local tax purposes (~\$15 million) after funds for the County and the School District are distributed.

At the current rate of growth of the structural budget deficit, the City would need to attract 5 new developments on the magnitude of the Lockheed Martin complex on the Camden waterfront each year just to generate enough revenue to maintain the deficit at its current \$47 million.

While revenue growth has been slow, salary expenditures increased by 46% from FY 2003 to FY 2006. The police and fire departments account for nearly  $\frac{3}{4}$  of the City's salary expenditures. To support these costs, the State has needed to appropriate increasing amounts of special state aid. However, the process of these appropriations has been deeply flawed.

## **PROCESS**

The list of special fixes arranged between the State and the City reflects the dysfunction inherent in the budgetary process. This dysfunction existed before the Recovery period and persists through the current budget year. The status quo when it comes to the budgetary relationship between the City and the State does not serve the best interests of anyone, including City government, City residents, and State taxpayers. City government is left operating in a permanent crisis mode without an approved budget. City residents are left uncertain whether their City will have sufficient funds to pay police officers and firefighters. State taxpayers have no reasonable expectation of how much State aid will be required for Camden each year.

- ➔ The FY 2004 budget included a one-time revenue item of \$13.9 million from sale of the city's tax liens through the Tax Lien Financing Corporation. Although this budget was approved on June 30, 2004, the last day of the fiscal year, as Mr. Primas noted, "This revenue never came in. Additionally, the ultimate action of a bulk lien assignment has still not occurred as of October 2006 due to the TLFC Board not meeting." Not receiving this revenue resulted in an \$8.5 million cash deficit for FY 2004.
- ➔ The FY 2005 budget required \$8.5 million in "Extraordinary Aid" and \$36 million in "Rehabilitation Aid." \$8.5 million of these funds was required to alleviate the cash deficit of the previous fiscal year. The City passed its FY 2005 budget on June 30, 2005. The State did not approve the special state aid required to balance the budget until a special session on July 8, after the fiscal year had already ended.
- ➔ The FY 2006 budget required \$47 million in "Distressed Cities Aid." The State attached certain conditions to receipt of this aid, including signing a memorandum of understanding regarding oversight of municipal operations.

City Council approved a budget on June 30, 2006. This memorandum was not signed until December 2006, nearly six months after the end of the fiscal year. In the interim, Mr. Primas announced his resignation largely because of this memorandum.

## **RECOMMENDATIONS**

1. A public accounting of the projected budget deficit for Camden should be developed and released for the next five years to avoid the recurring cycle of *ad hoc* solutions.
2. Once this public accounting is complete, the State and City should work out a realistic plan to reduce the size of the deficit over the next five years, considering the impact of existing labor contracts.
3. The State should consider a model similar to the Pennsylvania Intergovernmental Cooperation Agency (PICA), which monitors Philadelphia's municipal budget with a long-term perspective in mind. The creation of PICA, in conjunction with the leadership of then-Mayor Ed Rendell, resulted in Philadelphia solving its dire fiscal situation that existed in the early 1990s while at the same time cutting taxes.
4. State aid should be appropriated and certified in the state budget in the same year that it is to be expended, not at the end of the municipal fiscal year or in the year following which is the current practice. This may mean that in the first year that this is accomplished the legislature will have to appropriate 2 years of special state aid.
5. Incentives for shared services and consolidation with any property tax reform package should include extra enhancements for municipalities partnering with municipalities operating under MRERA.
6. The legislature should clarify the differences in interpretation of the MOU requirement for the Distressed City Aid and the provisions in the MRERA for recovery aid.
7. The City's health insurance costs should be assessed to determine if cost savings could be achieved with a different structure than the current self-insurance situation.