



SHPOA

Stone Harbor Property Owners Association

P.O. Box 155 | Stone Harbor, NJ 08247 | www.stoneharborpoa.org

April 29, 2023

Re: Revision to letter dated April 18, 2023 (revisions shown in green)

Hon. Judith M. Davies-Dunhour, Mayor
Borough of Stone Harbor
9508 Second Avenue
Stone Harbor, NJ 08247

Dear Mayor Davies-Dunhour,

Consistent with prior years' practice, the Stone Harbor Property Owners Association (SHPOA) has reviewed the 2023 Borough budget proposal based on information provided during the April 4, 2023 Borough Work Session meeting and related posts on the Borough web site. Many of the comments and themes will be familiar to those who have followed our engagement with the Borough on this issue for the past several years.

We respectfully offer the following comments and observations and will be happy to work with the Borough Administration and Finance Committee and Borough Council to discuss these recommendations in more detail.

OVERVIEW

- From the information shared at the meeting on April 4, 2023, it appears that the proposed 2023 budget has been developed to address the current year's needs without a comprehensive, long-term financial plan including the significant long-term challenges facing Stone Harbor. SHPOA has for years recommended the development of such a 10-year financial plan incorporating operating, capital and debt service requirements. In fact, we prepared such a plan with the assistance of the CFO and Borough officials in 2022 which demonstrated the potential for significant tax increases over the period in the absence of a change in approach.
- The budget provides an increase in spending of approximately 9% with an increase in taxes of only 3.4%. This gap is filled by the use of prior years' surplus and an increase in debt.
- There is no capital funding in the 2023 budget for bulkhead upgrades and other infrastructure needs, a critical requirement for addressing flood management. We understand that this expenditure has been deferred to 2024 despite the demands of the Borough for homeowners to upgrade their individual bulkheads.

- There should be a separate capital budget, adopted by ordinance, that ties all of the money in the capital line of the operating budget to specific capital items. Unspent funds on capital projects should be released by ordinance into the general capital account and made available for reallocation for other capital assets.

BUDGET SURPLUS

- The surplus balance as a percent of the budget, post adoption, is 6.7%. Best practice, and the expectations of rating agencies, would be for the surplus balance to be 12% to 14% of the budget and for that surplus to be regenerated each year.
- Because previous budgets have failed to regenerate adequate surplus, the current surplus balance permits only a modest use of surplus to fund this year's budget, totaling \$2.7 million or 13% of revenue. Over the next several years, surplus will have to be regenerated to build the balance back to a level which is needed to support future borrowing needs.

DEBT

- While the use of debt relieves the Borough of the difficult task of prioritizing spending and rationing the use of tax dollars to meet Borough needs, it pushes the challenge to future years when the debt will be required to be repaid.
- Using debt to fund short-life assets or ordinary spending needs should be avoided. Debt service in the 2023 budget is up \$864,433 over last year for a total of \$4,968,688 or 23% of the budget. That percent will continue to increase every year, crowding out other spending.
- \$1.7 million in beach-fill costs is being funded with debt. This is also a regularly recurring expense that should not be funded with debt. The Borough should develop a plan for beach maintenance to avoid future debt issuance for this expense.
- Over \$300,000 in maintenance and repair costs are being funded with debt. Maintenance and repairs are regularly recurring costs and should be funded with current tax dollars, not debt.
- \$1.34 million is being spent on a new fire truck, funded with debt. The replacement of the truck was based on the statement that the Borough follows the industry-standard replacement schedule for heavy equipment, in this case 15 years. However, we are aware that it is not uncommon in New Jersey for communities similar to Stone Harbor to utilize well-maintained equipment such as a fire truck for 25 or more years. The replacement of this truck should be evaluated in light of the other capital demands facing the Borough and consideration should be given to extending the use of such equipment.
- The disposal of all Borough assets should be done at auction to maximize the residual value of municipal assets.

OTHER OBSERVATIONS

- This budget continues to demonstrate the need for alternative recurring revenue streams, for example, a short-term rental tax, a hotel/motel tax, or other fees. The continued reliance on property taxes will result in decades of large tax increases paid by property owners with little contribution from vacationers and visitors toward beach maintenance and other municipal amenities.
- The use of American Recovery Plan revenues (a pandemic-related non-recurring revenue source) in previous years to fund the operating budget, has led to an \$85,000 hole that has to be filled this year. Better budgeting policy would be to avoid the use of similar one-time revenue flows in the operating budget but rather reserve for “a rainy day”.

We appreciate the opportunity to be heard and are always ready to assist the Borough in any way we can.

On behalf of the Stone Harbor Property Owners Association.



Richard Fuchs, President



Paul Grady, Treasurer



Homi Kapadia, Chief Information Officer



Anthony Tinari, Solicitor



Heidi Yacker, Secretary



Christopher Yates, Chairperson,
Borough Engagement Committee

cc: Stone Harbor Property Owners Association Members
Councilperson Frank Dallahan, President
Councilperson Robin Casper
Councilperson Victor Foschini
Councilperson Jennifer Gensemer
Councilperson Reese Moore
Councilperson Bunny Parzych
James Craft, Borough Chief Financial Officer
Manny Parada, Borough Administrator
Kim Stevenson, Borough Clerk
Stone Harbor Property Owners Association Trustees