



BOROUGH OF STONE HARBOR – 2023 AUDIT/BUDGET/DEBT & CAPITAL PRESENTATION

Prepared by:

Michael S. Garcia, CPA, RMA
Ford, Scott and Associates, L.L.C.
Certified Public Accountants
1535 Haven Avenue
Ocean City, NJ 08226
(609) 399-6333

AUDIT OBJECTIVES

□ The Annual Municipal Audit has multiple objectives:

- 1 Determine Compliance with Applicable Rules, Regulations and Laws
- 2 Review and Testing of Internal Controls
- 3 Determine if the Financial Statement Amounts and Disclosures are Fairly Stated
- 4 Report Findings

HOW ARE AUDIT OBJECTIVES MET?

- Financial Statement Audits use Sample Testing to achieve “Reasonable Assurance” that the Objectives are met.
- “Reasonable Assurance” is not “Absolute Assurance”

WHAT TYPES OF THINGS ARE SAMPLED & TESTED?

The following list illustrates some but not necessarily all the areas that are tested in the Annual Municipal Audit:

- Cash
- Tax Billings & Collections
- Water & Sewer Billings & Collections
- Other Revenues (Beach Tags, Court, Construction Code etc.)
- Fixed Assets
- Paid Bills & Expenditures
- Payroll
- Debt Payments
- Budget Appropriations

HOW FINDINGS ARE REPORTED

Generally, the Audit can produce two types of Findings:

- 1 Findings included in the Annual Audit Report that Require Formal Corrective Action by the Governing Body
- 2 Items included in the Annual “Management Letter” that don’t require Formal Corrective Action because they are Isolated Cases, Insignificant or Immaterial

2023 FINDINGS

- The 2023 Audit contained 1 Finding that requires Formal Corrective Action:



- **Finding 2023 – 1**

- The Chief Financial Officer did not maintain a complete analysis of Beach Tag Sales that reconciled the number of Beach Tags sold to the dollar amount of revenue collected.



2023 MANAGEMENT LETTER ITEMS

- The 2023 Management Letter includes comments that we have made to the Borough concerning the following areas:
 - Cash
 - Beach Tags
 - Paid Bills & Expenditures
 - Water & Sewer Billings

FINANCIAL RESULTS

CURRENT FUND SURPLUS

WATER & SEWER UTILITY SURPLUS

	2021	2022	2023
Excess Revenues	446,841.89	151,692.69	278,561.25
Excess Delinquent Tax Revenue	56,698.91	14,701.06	29,490.22
Excess Current Tax Revenue	619,595.38	567,384.72	513,273.10
Non Budget Revenue	289,012.54	1,095,345.51	1,429,900.63
Prior Year Reserves Lapsed	1,004,634.51	835,216.77	959,601.34
Cancelled Appropriations	7,314.75	5,056.95	15,889.87
Interfund Charges & Refunds	(0.62)	(175.72)	(2.36)
Total Surplus Rebuilt	2,424,097.36	2,669,221.98	3,226,714.05
Surplus Anticipated as Revenue	(1,833,936.05)	(1,598,379.48)	(2,709,462.62)
Net Increase (Decrease)	590,161.31	1,070,842.50	517,251.43
Beginning Fund Balance	2,500,787.34	3,090,948.65	4,161,791.15
Ending Fund Balance	3,090,948.65	4,161,791.15	4,679,042.58

	2021	2022	2023
Excess Water & Sewer Revenues	126,151.73	(92,674.41)	458,024.51
Excess Miscellaneous Revenue	220,464.78	(81,192.20)	53,626.96
Prior Year Reserves Lapsed	256,470.69	64,735.60	208,815.12
Cancelled Appropriations	18,921.26	10,036.82	6,742.40
Total Surplus Rebuilt	622,008.46	(99,094.19)	727,208.99
Surplus Anticipated as Revenue	(428,531.32)	(328,683.63)	(1,123,668.19)
Net Increase (Decrease)	193,477.14	(427,777.82)	(396,459.20)
Beginning Fund Balance	1,388,742.91	1,582,220.05	1,154,442.23
Ending Fund Balance	1,582,220.05	1,154,442.23	757,983.03

USE OF SURPLUS – CURRENT FUND

- Best Practice - Municipalities should not use more than 50% of the Available Surplus OR No More than they can reasonably expect to regenerate, when funding a subsequent year’s Budget. Additionally, it should be noted that the Rating Agencies consider a Ratio of Fund Balance to Budgetary Expenditures in excess of 15% to be “Very Strong”.
- The following illustrates the amount of Surplus used to fund the Budgets of Subsequent Year’s over the last 7 years:

	CURRENT FUND						
	2017 (1)	2018	2019	2020 (2)(3)	2021	2022 (4)	2023 (4)
Surplus Available	\$ 2,756,069	\$ 2,893,624	\$ 3,116,169	\$ 2,500,787	\$ 3,090,948	\$ 4,161,791	\$ 4,679,042
Amount Used	(1,560,843)	(1,653,999)	(1,832,167)	(1,833,936)	(1,598,379)	(2,709,463)	(2,486,508)
Amount Remaining	\$ 1,195,226	\$ 1,239,625	\$ 1,284,002	\$ 666,851	\$ 1,492,569	\$ 1,452,328	\$ 2,192,534
% Used	56.63%	57.16%	58.80%	73.33%	51.71%	65.10%	53.14%
Budget Appropriations	\$ 18,337,078	\$ 16,359,847	\$ 16,860,604	\$ 18,388,020	\$ 19,346,373	\$ 19,778,576	\$ 21,493,459
Available Surplus as							
a % of Budget Expenditures	15.03%	17.69%	18.48%	13.60%	15.98%	21.04%	21.77%

(1) 2017 had \$2.7M Flood Mitigation Grant which increased Budget Appropriations.

(2) Surplus decreased due to the fact that Miscellaneous Revenues were down due to COVID.

(3) 2020 had an increase in Capital and Debt Service Spending in the amount of \$1.1M which increased Budget Appropriations.

(4) Both of these years contained 1-Time Miscellaneous Revenues of more than \$1,000,000.

USE OF SURPLUS – WATER & SEWER FUND

- Best Practice - Municipalities should not use more than 50% of the Available Surplus OR No More than they can reasonably expect to regenerate, when funding a subsequent year’s Budget. Additionally, it she be noted that the Rating Agencies consider a Ratio of Fund Balance to Budgetary Expenditures in excess of 15% to be “Very Strong”.
- The following illustrates the amount of Surplus used to fund the Budgets of Subsequent Year’s over the last 7 years:

WATER & SEWER FUND							
	2017	2018	2019	2020	2021	2022 (1)	2023 (2)
Surplus Available	\$ 942,281	\$ 1,172,512	\$ 1,199,758	\$ 1,388,743	\$ 1,582,220	\$ 1,253,536	\$ 757,983
Amount Used	(419,779)	(413,198)	(412,940)	(428,531)	(328,684)	(1,123,668)	(606,705)
Amount Remaining	\$ 522,502	\$ 759,314	\$ 786,818	\$ 960,212	\$ 1,253,536	\$ 129,868	\$ 151,278
% Used	44.55%	35.24%	34.42%	30.86%	20.77%	89.64%	80.04%
Budget Appropriations	\$ 3,926,363	\$ 4,192,629	\$ 4,401,048	\$ 4,480,790	\$ 4,991,534	\$ 5,604,518	\$ 5,694,555
Available Surplus as							
a % of Budget Expenditures	24.00%	27.97%	27.26%	30.99%	31.70%	22.37%	13.31%
(1) Bond Anticipation Note Payments increased by \$500k in 2022.							
(2) There is a \$325k Rate Increase that went into effect for 2024.							

2024 BUDGET

- The Borough Adopted its 2024 Budget in May of 2024
- The 2024 Budget contained an increase of 1 Cent per \$100 of Assessed Value
- Total Spending Net of Grants increased by \$456,000
- Operating Costs increased by \$803,000
 - (Salaries +\$432k, Insurance, Pension & Taxes +\$252k, Other +\$119k)
- Capital & Debt Service decreased by **\$347,000**
- Tax Levy CAP BANK \$1,487,287
- Spending CAP BANK \$83,431

HOW THE 2% TAX LEVY CAP WORKS IN GENERAL

- The NJ Municipal Tax Levy CAP limits increases to the Tax Levy by 2% +/- Certain Exclusions
- Amounts below the CAP can be Banked for up to 3 Years
- Most Common Exclusions:
 - +/- Deferred Charges for Unfunded Bond Ordinances
 - Increases in Ratables
 - Increases in Capital
 - Increases in Debt Service
 - Increases in Health Insurance (In excess of 2% but not greater than State Health Benefits Average Increase)
 - Increase in Pension
 - Increases in Shared Services

HOW THE 2% TAX LEVY CAP IMPACTS STONE HARBOR

2023 Municipal Purpose Tax Levy	\$ 15,090,000
2023 Unfunded Bond Ordinances	(298,032)
Base for 2% Calculation	14,791,968
2%	295,839
Base Prior to Exclusions	15,087,807
New Ratables	173,343
Health Insurance Increase	62,000
Pension Increase	35,152
Capital Improvements Increase	291,564
Unexpended Prior Year Exclusions	(15,889)
Prior Year LEVY CAP Bank Utilized	172,023
Maximum Allowable Tax Levy	15,806,000
Actual Tax Levy	15,806,000
2024 BANK	\$ 0

LEVY CAP BANKS			
Year	Available	Used	Remaining
2022	\$ 634,540	(172,023)	\$ 462,517
2023	1,021,770	-	1,021,770
2024	-	-	-
Total	\$ 1,656,310	\$ (172,023)	\$ 1,484,287

THE BOROUGH COULD HAVE RAISED 2024 TAXES BY AN ADDITIONAL \$1,487,287 AND BEEN WITHIN THE ALLOWABLE 2% TAX LEVY CAP

HOW THE 3.5% SPENDING CAP WORKS IN GENERAL

- The NJ Municipal Appropriation CAP limits increases to the Spending by 3.5% (By Ordinance) with Certain Exclusions
- Amounts below the CAP can be Banked for up to 2 Years
- Most Common Exclusions:
 - Deferred Charges for Unfunded Bond Ordinances
 - Increases in Ratables
 - Capital
 - Debt Service
 - Federal & State Grants
 - Increases Funded by Fee Increases
 - Increase in Health Insurance (In excess of 4% but not greater than State Health Benefits Average Increase)
 - Increase in Trash, Recycling, Liability Insurance and Workers Compensation Insurance (In excess of 3.5% for 2023 and 2024 ONLY)
 - Shared Services
 - Reserve for Uncollected Taxes

HOW WILL THIS IMPACT 2025

The previous 5 slides indicate that Stone Harbor's Budget Problem is not related to the ability to Raise Revenue it is due to the limits imposed by the Spending CAP. The following example illustrates what that impact could be if the 2025 Budget increased only at the dollar amount that the 2024 increased.

2024 SPENDING CAP BASE	\$ 13,884,167	2024 Actual IN CAP Appropriations	\$ 13,884,167
+3.5%	485,946	IF INCREASES ARE ONLY AT 2024 LEVELS	
New Ratable (3 Year Average)	130,000	Salaries	432,000
Prior CAP BANK	83,431	Pension & Taxes	252,000
Total Allowable Increase	699,377	Other	119,000
Maximum IN CAP Appropriations	<u>\$ 14,583,544</u>	Total increases	803,000
		Total Required	14,687,167
		Maximum Allowable	14,583,544
		Budget Cuts Required	\$ 103,623

DEBT SERVICE & CAPITAL

The Borough currently has the following outstanding debt. The Borough Administration is currently in the process of reviewing authorizations for cancellation due to certain projects being curtailed or possibly even abandoned, but it should be assumed that those cancellations will be immaterial and future projects will also be added.

CURRENT FUND			WATER & SEWER		
Description	Details	12/31/2023 Amount	Description	Details	12/31/2023 Amount
Serial Bonds	3.25% - 5% through 2032	\$ 20,845,000	Serial Bonds		\$ -
NJ IBANK	Various through 2034 Avg 2.25%	2,073,378	NJ IBANK	Various through 2034 Avg 2.00%	3,821,447
Bond Anticipation Note	Due 10/11, 4.75% \$1M Paydown	10,000,000	Bond Anticipation Note	Due 10/11, 4.75% \$1.1M Paydown	20,568,000
Authorized But Not Issued		16,919,706	Authorized But Not Issued		13,254,375
Total		<u>\$ 49,838,084</u>	Total		<u>\$ 37,643,822</u>

DEBT SERVICE & CAPITAL

NJ Statutes set the Maximum Allowable Current Fund Debt to be No Greater Than 3.5% of the 3 Year Average Equalized Values of the Municipality.

Stone Harbor's Maximum Allowable Current Fund Debt is \$257,468,261 and the Actual Debt is \$49,838,084 leaving remaining Borrowing Capacity of \$207,630,177.

Due to Favorable Interest Rates the Borough is planning on permanently funding the outstanding Bond Anticipation Notes "BANS" that come due on October 11, 2024. The Borough's Financial Advisor is estimating that these BANS can be permanently bonded for less than the Borough Budgeted for BAN Principal & Interest in 2024 as follows:

Current Fund \$9,000,000 at no more than 3.5% over 10 Years. Average Debt Service would be \$1,085,000 per year – 2024 Budget for BAN Principal & Interest is \$1,475,000. The Annual Savings of \$390,000 will be used to pay down a portion of the \$16,919,706 remaining authorizations.

Water & Sewer Fund \$19,464,000 at no more than 3.5% over 20 Years. Average Debt Service would be \$1,379,000 per year – 2024 Budget for BAN Principal & Interest is \$2,095,000. The Annual Savings of \$716,000 will be used to pay Principal and Interest on the New IBANK Project as well as to pay down a portion of the \$13,254,375 remaining authorizations.

DEBT SERVICE RATIOS

	CURRENT FUND							
	2017 (1)	2018	2019	2020 (2)	2021	2022	2023	2024
Expenditures in CAPS	\$ 10,397,862	\$ 10,584,483	\$ 10,812,131	\$ 11,160,691	\$ 11,916,289	\$ 12,454,879	\$ 13,070,086	\$ 13,884,167
Operations Outside CAPS	3,380,716	453,205	515,027	585,179	1,142,250	682,392	921,003	1,376,206
Capital Improvements	409,950	760,600	914,168	2,045,500	1,410,355	1,602,050	1,710,650	2,002,214
Debt Service	3,688,550	4,096,559	4,154,278	4,116,650	4,367,479	4,524,255	5,266,720	4,627,820
Reserve for Uncollected Taxes	460,000	465,000	465,000	480,000	510,000	515,000	525,000	535,000
Total Appropriations	\$ 18,337,078	\$ 16,359,847	\$ 16,860,604	\$ 18,388,020	\$ 19,346,373	\$ 19,778,576	\$ 21,493,459	\$ 22,425,407
Debt Service as a % of Total Appropriations	20.12%	25.04%	24.64%	22.39%	22.58%	22.87%	24.50%	20.64%
<p>(1) 2017 had \$2.7M Flood Mitigation Grant which increased Budget Appropriations. (2) 2020 had an increase in Capital and Debt Service Spending in the amount of \$1.1M which increased Budget Appropriations.</p>								

COMPARISONS BASED ON 2023 RESULTS FOR SIMILAR MUNICIPALITIES

Metric	STONE HARBOR	Municipality #1	Municipality #2	Municipality #3
Fund Balance	\$ 4,679,042	\$ 8,010,603	\$ 8,983,892	\$ 11,427,943
% of Fund Balance Utilized	53.14%	61.51%	41.18%	52.50%
Budget Appropriations	\$ 21,493,459	\$ 36,106,937	\$ 29,178,631	\$ 100,744,701
Fund Balance as a % of Budget Appropriations	21.77%	22.19%	30.79%	11.34%
Debt Service Expenditures	\$ 5,266,720	\$ 5,347,835	\$ 4,096,000	\$ 19,084,627
Debt Service Expenditures as a Percentage of Budget Appropriations	24.50%	14.81%	14.04%	18.94%
Total General Debt	\$ 49,838,084	\$ 26,116,267	\$ 44,769,710	\$ 210,614,822
Equalized Values	\$ 7,356,236,033	\$ 13,719,478,785	\$ 3,081,329,121	\$ 18,229,087,796
Debt as a % of Equalized Values	0.677%	0.190%	1.453%	1.155%
Bond Rating	AA	AAA	Aa2 (AA)	AA



WRAP UP

In the upcoming months as part of the 2025 and Future Year Budget Planning Process, I will be assisting the CFO with planning related to future Capital Projects and the payment of the Existing Debt. The intension is to determine a Long-Range Plan to Service the Debt as well as determining the impact on Future Tax and Water-Sewer Rates.