

## Montclair owes CFO a debt of thanks

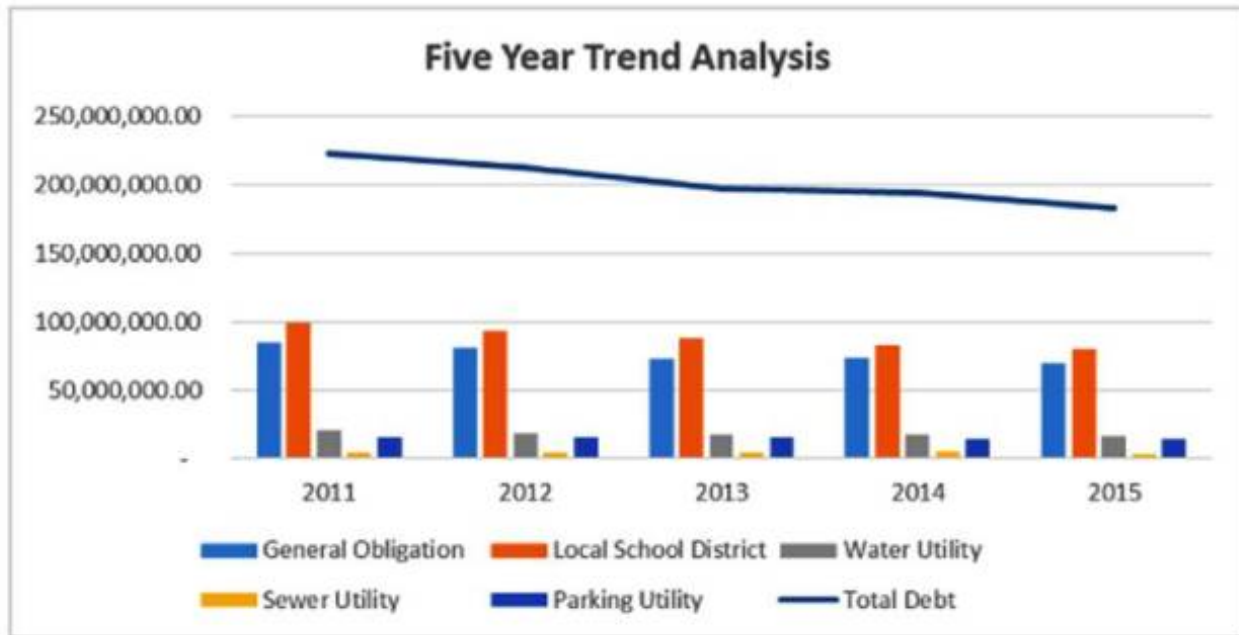


Image courtesy of Katya Wowk

This graph shows changes to the municipal debt over the past five years.

If money talks, then Montclair's financial liabilities have quieted down a bit. Two weeks ago, new municipal Chief Financial Officer Padmaja Rao presented the Township Council with a four-page analysis, which outlines a drastic decrease in the township's outstanding liabilities since 2011.

In 2011, Montclair was staring down \$223 million in total debt. Today that number sits just below \$183 million. This year alone accounted for \$11 million of that reduction.

Much of this decrease has been achieved through the cancellation of unissued bonds, or the ordinances that created those bonds. So far this year, the township has created nearly \$6 million in new bonds, accounting for both general obligation and Montclair School District bonds. However, at the same time, the council canceled \$5.5 million worth of bonds that had gone unissued.

While unissued bonds do not represent any physical monies owed to an investor, they do count towards a municipality's debt.

For example, perhaps Montclair needs to buy new police vehicles. The council believes this will cost \$3 million, so it votes to create \$3 million worth of bonds to purchase the new cars. Yet, in the end, the town only needs to sell \$2 million worth of the bonds created to purchase the vehicles. The other \$1 million worth of unsold or "unissued" bonds still exists, and is counted as a liability toward the total debt and affects the township's credit, even though that money is not technically owed to anyone.

The council can vote to cancel the ordinance that ordered the leftover \$1 million of bonds, thus eliminating that amount from the total debt.

Speaking to The Montclair Times, Mayor Robert Jackson said, "In our community, about \$20 million floats around, at any given time, in debt that has been authorized but hasn't been issued."

While the cancellations have played their part in keeping debt manageable, that's not to say the township is not putting down hard money. Looking back at the numbers for this year, the \$5 million of cancellations nearly equaled the amount of new bonds. Hence, this year's \$11 million reduction was achieved solely through budgetary pay-downs, with cancellations merely keeping from adding to the debt.

As Jackson said during Roa's presentation to the council, "We're actually dedicating less dollars to debt, while at the same time paying it down substantially, so that it begins to operate on its own momentum."

In her analysis, Roa noted the township's debt service is "a little bit high," but maintained it is well below a percentage of the municipal operating appropriations that would affect its other priorities. She said debt service is currently 13 percent of the operating budget.

Deputy Mayor Bob Russo applauded his colleagues and said, "In 20 years I never saw such an achievement, financially. We need to try to be as fiscally responsible as we can, but still get things done without it burdening the taxpayers."

Despite Russo's laudations, the issue of taxes still sparked a major question from resident Sandy Sorkin, who asked the council, "If we had only reduced the debt, say by \$35 million, would we have needed a property tax increase this year?"

Jackson insisted the council did not increase property taxes, but Sorkin said his were raised by 3.5 percent due to increases from entities other than the municipal government. Sorkin cited sewer utility and Montclair School District charges, and reiterated his question that if debt was not slowed, then would the town, as a whole, not have raised property taxes?

The mayor explained that, compared to the increases in Essex County and Montclair School District taxes, a 0.8 percent increase in the municipal government tax only accounted for 0.2 percent of the total increase, and thus made a negligible difference. "If you reduce our tax increase by that 0.8 percent, the needle is not going to move," said Jackson.

Roa's report dealt with the interrelation of debt and taxes only so much as stating that, of all funds used to service debt, 15 percent is derived from municipal levy, which includes the property tax.

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