

To the Mayor, City Council Members, the Business Administrator and the Chief Financial Officer of the City of Sea Isle City (the Current Administration)-

Ladies and Gentlemen:

On behalf of the members of the Sea Isle City Taxpayers Association's 2009 Budget Committee, please be advised that we have reviewed the allocations of certain costs from the City's Current Fund to its Water & Sewer Utility Operating Fund. Unfortunately, we have found that the allocations are arbitrary, illogical and without reason, resulting in an estimated overstatement of 2007 Water and Sewer Rents of approximately \$887,000, 14.7% of such rents. The Tax Levy was understated by the same amount, 8.1% of the levy. The over allocation of costs to the Water & Sewer Fund and the understatement of the tax levy constitute a material misstatement in the City's Comprehensive Annual Financial Report for the year ended December 31, 2007.

The over allocations continued into 2008 when Water & Sewer rents were overcharged by an estimated \$946,000, 16.2% of rents collected, while local taxes were undercharged by the same amount, 7.8% of the tax levy.

The City's Proposed 2009 Budget calls for the Water & Sewer Rents to be overcharged by an estimated, \$936,000, 14.9% of rents to be collected, while local taxes would be undercharged by the same amount, 7.1% of the tax levy.

Our computations are in the attached Excel workbook.

You might argue that the overstatement and overstatement offset each other, but please keep in mind that somewhere in Sea Isle City there is an elderly couple on a fixed income with diminishing purchasing power that is subsidizing the real estate taxes on a \$5 million beach front property. There are probably tens of such situations.

We completely understand that the Current Administration inherited this poor policy of over allocation to the Water & Sewer Fund and it probably goes back years to a prior administration. Nevertheless, if this improper policy is allowed to continue, it will also be the legacy of the Current Administration. In this regard, we refer you to the President's Office on Management and Budget Circular 87, Revised 5/10/04, which can be found at:

http://www.whitehouse.gov/omb/circulars_a087_a87_2004/.

This circular requires that the City, a recipient of Federal grants, develop a Cost Allocation Plan in accordance with the requirements described in the Circular and maintain the plan and related supporting documentation for audit. The Plan must also be certified by a City Official.

Some areas of particular interest to the City are:

- ✎• Cover page, Item 7, Required Action
- ✎• Attachment A, Section A, Purpose and Scope
- Attachment A, Section F. Indirect Costs

1. General
 2. Cost allocation plans and indirect cost proposals
 3. Limitation on indirect or administrative costs
- ☒• Attachment A, Section C. Basic Guidelines
1. Factors affecting allowability of costs
 2. Reasonable costs
 3. Allocable costs
 4. Applicable credits

Attachment B, Item 8, Compensation for Personal Services

- ☒• Attachment C, State/Local Wide Central Service Cost Allocation Plans

D. Submission Requirements

E. Documentation Requirements for Submitted Plans

- ☒• General

- ☒• Allocated central services

- ☒• Billed services

- a. General
- b. Internal service funds
- c. Self insurance funds
- d. Fringe benefits

- ☒• Required Certification

Respectfully submitted,

Joe McDevitt, Chair

SICTA 2009 Budget Committee