

MEMORANDUM OF UNDERSTANDING

By and Between:

The Director of the Division of Local Government Services
and the City of Paterson

2011

WHEREAS, the Director of the Division of Local Government Services (the "Director") has determined that the City of Paterson (the "Municipality") is in serious fiscal distress and the Director has determined that an award of \$22,325,000 of Transitional Aid to Localities ("Transition Aid") is appropriate, all in accordance with the criteria set forth in P.L. 2010, c.35 (the "State Budget") and after reviewing an application submitted by the Municipality on or about September 30, 2010; and

WHEREAS, the State Budget directs that Transition Aid shall be provided subject to such conditions, requirements, orders, and oversight as the Director deems necessary including the implementation of government, administrative, and operational efficiency and oversight measures necessary for the fiscal recovery of the Municipality; and

WHEREAS, this Memorandum of Understanding By and Between the Director of the Division of Local Government Services and the City of Paterson (the "Memorandum") sets forth the minimum conditions, requirements, orders, and oversight in consideration for Transition Aid;

THEREFOR, the Municipality shall, in addition to complying with all applicable laws, regulations, and Local Finance Notices, observe and comply with the requirements set forth below and shall implement any and all government, administrative and operational efficiency, and oversight measures necessary for the fiscal recovery of the Municipality as the Director may order from time to time.

Submission of a Transition Plan

There is no guaranty of Transition Aid being available in the future and the Municipality shall not anticipate or rely on the existence of continued funding. The Municipality shall submit a plan on or before June 30, 2011 detailing how it intends to eliminate its reliance on Transition Aid as soon as possible (the "Transition Plan"). In no case shall the Transition Plan provide for a phase out of the aid over a period of more than four years. The Transition Plan must set forth a reasonable reduction in reliance on such funding in the Fiscal Year 2012 Budget. The Transition Plan shall discuss initiatives to bring structural balance to the Municipality's finances and shall include, but not be limited to, all of the following:

- An acknowledgement that the Municipality needs to reduce its reliance on Transition Aid; and
- A plan to reduce staffing costs for Fiscal Year 2012 from Fiscal Year 2011 levels through layoffs, attrition, restructuring, or other personnel actions; and
- A plan to eliminate or reduce the costs of services or activities not deemed essential or that are of low priority; and
- A plan to maximize recurring revenues, including but not limited to, updating fees, fines and penalties, maximizing enforcement of revenue delinquencies, selling surplus land and property, and encouraging sustainable and taxable development; and
- A plan to address findings resulting from in various audits, investigations, and reports with respect to the Municipality, including municipal audits, applicable State Comptroller reports and audits, federal program audits, and other audits as identified by the Director.

Restrictions on Personnel Matters

1. **Hiring Personnel:** A "Request for Employment Approval" (Attachment A) shall be submitted to the Director for consideration prior to the Municipality hiring any person to fill any positions. No advertising or posting for new employees or hiring of such employees shall occur without the Municipality first receiving a Request for Employment Waiver approved and signed by the Director.
2. **Salary Restraints for Elected Officials and Noncontractual Employees:** The Municipality shall not increase salaries or compensation for elected officials and employees not otherwise entitled to increases pursuant to the terms of a contract in effect as of the date of this Memorandum.
3. **Promotions and Transfers:** The Municipality shall freeze promotions and transfers involving salary increases unless required by contractual obligations.
4. **Public Safety Organization Charts and Cost reductions:** The Municipality's Police and Fire Departments shall, at the direction of the Mayor's Office, work with Division staff to develop staffing charts and organizational structures consistent with anticipated budgets and that eliminate all unwarranted overtime as well as all non-essential services, programs, and personnel.

Restrictions on Certain Contracts

1. The hiring of consultants and professionals, either directly or through a sub-contract, regardless of cost, shall be subject to the prior written approval of the Director of a "Contract Request Form" (Attachment C). This restriction shall include, but not be limited to, legal counsel, risk management advisors or services, public relations, government affairs, engineering and public works, accounting and financial services and advice, public safety and health, management services; and without exception, all professional services and extraordinary services contracts as defined in the Local Public Contracts Law without regard to value.

2. Unless otherwise approved in advance by the Director, all contracts that are exempt from public bidding shall be procured subject to a "fair and open process" pursuant to N.J.S.A. 19:44A-20.4 et seq. unless otherwise procured pursuant to a process that provides greater transparency and competition than the minimum requirements under the "fair and open process."
3. Nothing herein shall require approval of the hiring of consultants and professionals whose services are needed to address an emergency, provided however, that such hiring to address an emergency shall be reported to the Director as soon as practicable.

Restrictions on the Award of Long Term Tax Exemptions

1. The Municipality shall receive prior written approval of the Director for any Redevelopment Plan or Redeveloper Agreement executed after the date of this Memorandum unless any Payment in Lieu of Taxes awarded under the agreement are allocated to county, school district, and other local government jurisdictions in the same proportion as ordinary taxes are allocated to such jurisdictions.

Restrictions of Miscellaneous Nature

1. The Municipality shall neither create new services nor expand existing services without the Municipality first submitting a "Creation/Extension of Services Form" (Attachment D) to the Director and receiving written approval therefore from the Director.
2. The Municipality shall not expend funds on out-of-State travel or overnight stays within New Jersey, without first submitting a "Travel Approval Form" (Attachment E) to the Director and receiving written approval therefore from the Director. The Municipality shall explain good cause for the expenditure, which may include, but is not limited to, a need to ensure licensure or certification of statutory employees or essential training for public safety employees.
3. The Municipality shall not expend funds for educational expenses other than expenses related to certification or licensing requirements, continuing education requirements, or required education expenses pursuant to contracts executed prior to the date of the Memorandum. The Director shall be notified of all educational expenditures provided pursuant to contractual requirements.
4. Reimbursement for employee meals (other than as required pursuant to contractual provisions as of the date of this Memorandum) or entertainment is prohibited and Municipal funds cannot be used for receptions for Municipal employees.
5. Any application for a grant that requires current or long term matching funds or a commitment of any resources or staffing levels of the Municipality as a condition of award or to ensure sustainability shall be approved by the Director prior to submission to the reviewing/awarding agency. The Municipality shall submit a "Grants Approval Form" (Attachment F) prior to entering into any grant agreement.
6. No funds shall be expended for non-statutory charitable contributions, bereavement, or celebratory purposes, for individuals or organizations.

Requirement to Adopt Pay to Play Ordinance

Within three months of signing this memorandum, the Municipality shall adopt a pay to play ordinance pursuant to P.L. 2005, c.271 limiting the awarding of public contracts by the Municipality or its agencies to business entities that have made a contribution pursuant to C19:44A-1 *et seq* and limiting the contributions that the holders of a contract can make during the term of a contract. The ordinance shall not be repealed or amended for so long as this Memorandum is in effect. The ordinance shall be substantively identical to the provisions of Jersey City's ordinance concerning pay to play (Ordinance 08-128), which can be found at

<http://www.state.nj.us/state/secretary/ordinances/Jersey-City-Ordinance-No.-08-128.pdf>.

Reporting Requirements – Labor Contracts

90 days prior to the start of collective negotiation agreement renewal negotiations between the Municipality and labor union representatives, it shall be the responsibility of the participating Municipality to provide the Director with a written notification of intent to begin negotiations with the subject collective bargaining unit(s). In addition, the Municipality shall provide the Director with the following:

- Documentation as to whether current collective bargaining agreements were reached by mutual agreement or arbitrator's award, and if decided by arbitration, a copy of the Interest Arbitration Decision and Award document.
- Salary guide showing pay increases over the last 3 contract years.
- A description and status report of any matters with the bargaining unit currently in grievance arbitration or otherwise being handled as an unfair labor practice charge.

In the event collective negotiation agreement discussions are already in progress or are about to begin as of the date of this Memorandum, the Municipality shall submit the requested documentation within 14 days of date of this Memorandum and representatives of the Municipality shall brief the Director on the status of the negotiation and issues under discussion.

The Director will review all materials submitted and make recommendations to the Municipality with regard to the language and disposition of subsequent collective bargaining agreements, as well as, any related policies, programs or procedures.

Upon settlement of any collective negotiation agreement, the Municipality shall submit a copy to the Director.

The Municipality acknowledges that agreeing to any contract (other than contracts subject to binding arbitration) that would increase total annual expenditures for salary and compensation in excess of 2% in any year will be viewed negatively in the context of future applications, including, but not limited to, applications for Transition Aid, approval of nonconforming maturity schedules and approval of down payment waivers for capital projects.

Reporting Requirements - Miscellaneous

1. The municipality shall create an advisory, consultative, and deliberative Budget Recovery Document that sets forth the projected deficit for Fiscal Year 2011 and itemizes the individual actions being explored or pursued to eliminate that deficit. The Budget Recovery Document shall indicate a specific dollar value by which each itemized action being explored or pursued will reduce the structural deficit together with the approvals necessary for execution of the action. The Budget Recovery Document shall be in substantially the form set forth in Attachment G and shall be updated and submitted to the Division no later than the second to last business day of every week (furlough days not being considered a business day) until such time as the FY 2011 Budget has been adopted.
2. The Municipality shall file a layoff and personnel action plan with the Civil Service Commission no later than Thursday, January 13, 2011 and immediately file a copy thereof with the Director.
3. The Municipality shall file with the Director a review of the City's outstanding debt and debt service obligations, together with a plan for maximizing debt service savings during Fiscal Year 2011.
4. The Municipality shall submit to the Director detailed quarterly revenue and expenditure budget reports.
5. The Municipality shall, prior to the tenth business day of every month, submit to the Director a list of all employees on the Municipality's payroll as of the last pay period of the prior month with their name, salary, title, Department or organizational unit, and date of employment with the Municipality.
6. The Municipality shall submit to the Director all findings, decisions, penalties, orders and requirements resulting from complaints, investigations, and reports issued by State regulatory agencies, including but not limited to, the Department of Labor and the Public Employee Relations Commission.
7. The Municipality shall file a copy of its Offering Statement prepared in relation to its most recent short or long term financing.
8. The Municipality shall adopt ordinances implementing the recommendations pertaining to sewer fees as set forth in the "State of New Jersey, Department of Community Affairs, City of Paterson, Internal Control and Statutory/Regulatory Compliance Review" dated April 1, 2009. Ordinances shall be filed with the Director upon introduction and changes in fees shall be effective for a period beginning no later than July 1, 2011.

Meeting Requirements

Municipality representatives shall meet by phone with the Director and his staff on the last business day of each week (furlough days not being considered business days) to review the Budget Recovery Document submitted the previous day until such time as the FY 2011 Budget has been adopted. Thereafter, the Municipality representatives shall meet with the Director and his staff quarterly, in person as requested by the Director, to discuss budget and fiscal progress, or more often as requested by the Division.

Budget Adoption

The Municipality shall adopt its budget no later than Monday, February 28, 2011 unless otherwise permitted by the Director.

Implementing Provisions and Flexibility

The Director may be represented by designees who shall be authorized to act on his behalf.

The Municipality may apply in writing to the Director for an exception for good cause to any prohibition or requirement contained in this Memorandum.

Duration

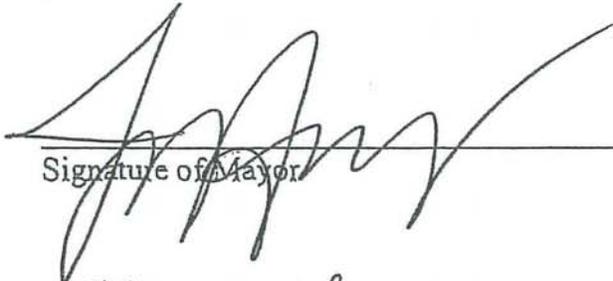
The provisions of the Memorandum shall remain in force and effect until June 30, 2012.

Governing Body Acknowledgment

The Municipality Governing Body shall review this Memorandum of Understanding and pass a resolution indicating awareness of its contents.

Failure to Abide by Certain Terms

If the Municipality fails to substantially comply with the provisions of this Memorandum, or fails to submit Budget Recovery Documents as herein required, or fails to adopt its budget as set forth in this Memorandum, the State will pursue supervisory powers pursuant to N.J.S.A. 52:27-BB 54 et seq.



Signature of Mayor

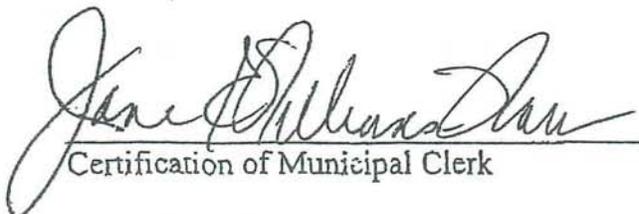
Date 1/12/11

Charles Thomas
Signature of Chief Administrative Officer as Applicable

Date 1/12/11

Signature of Director

Date _____



Certification of Municipal Clerk

Date 1/12/11