

CFO-97-6

Notice Number

New Jersey Department of Community Affairs
Division of Local Government Services

3/27/97

Date

LOCAL FINANCE NOTICE

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**Statutory Changes in the Calculation of the Tax Collection Rate
and Installment Payments for Municipal Improvement Assessments**

Recent legislation enacted by Governor Whitman has an impact on municipal budgets and financial practices. This Local Finance Notice reviews two laws, P.L. 1997, Chapters 5 and 28. Municipal clerks are asked to provide this information to their elected officials, chief financial officer, and tax collector.

P.L. 1997, c. 28 was enacted on March 7. This law creates two alternate methods of calculating the tax collection rate used for computing the reserve for uncollected taxes in the municipal budget. The methods are intended to provide municipalities options when their collection rate has been affected by tax refunds or adjustments from successful property tax appeals. The law amends N.J.S.A. 40A:4-41, a copy of which is included with this Notice.

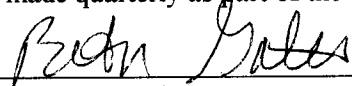
N.J.S.A. 40A:4-41(c)(1), permits the tax collection rate used to compute the reserve for uncollected taxes to be based on the average of the collection rate for the previous three years. This allows a municipality that experienced one or more years of extraordinary refunds to balance its rate by using the average. Use of this option requires a majority vote of the governing body prior to introduction of the annual budget.

The second alternative, N.J.S.A. 40A:4-41(c)(2), may only be utilized if the amount of tax reductions resulting from tax appeal judgments for the previous fiscal year exceed one percent of the tax levy for that year. In this case, the governing body may choose to calculate the tax collection rate used to compute the reserve by deducting the amount of the tax levy judgments from the original certified tax levy used in the calculation (certified tax levy minus tax levy adjustments from judgments). Here too, the decision must be by resolution of a majority of the governing body prior to introduction of the budget. In both cases, a copy of the resolution must be filed with the copy of the budget sent to the Division.

Governing bodies and chief financial officers should carefully consider the impact these action will have on surplus. The normal formula (N.J.S.A. 40A:4-41(a) and (b)) ensures replenishment of surplus used to make tax appeal refunds. While lowering the amount of the reserve to be raised in property taxes, averaging, or in the extreme, ignoring the effect of refunds on the collection rate, prevents replenishment of surplus during the budget year. This has the potential to leave the municipality with a lower surplus balance going into the next budget year.

Sound fiscal planning is called for when exercising one of these options. If you have any questions on these matters, please contact the Bureau of Financial Regulation and Assistance at (609) 292-4806, or the Division's Tax Collection Unit at (609) 292-6858.

Finally, Chapter 5, signed on January 24, made a small change in the practice of charging taxpayers the costs of municipal improvement assessments. Prior to the change of N.J.S.A. 40:56-35, improvement assessments had to be paid on an annual basis. With this change, payments may now be made quarterly as part of the regular tax billing.


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