

LOCAL FINANCE NOTICE

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GOVERNOR COMMISSIONER DIRECTOR

CY 2001 BUDGET INFORMATION**Introduction**

This Local Finance Notice contains important information concerning the preparation and submission of your CY 2001 Budget, 2000 Annual Financial Statement and subsequent budget amendments. *Please read this carefully and share this Notice with your elected officials, chief administrator, municipal clerk and registered municipal accountant.* State Aid certifications have been mailed separately; 2001 Cap and Cap Banking calculations were mailed late last year (CFO 2000-12). Included with this Notice are the following items:

- CY 2001 Municipal Information Sheet
- Chapter 159 Summary Report
- Emergency Appropriation Summary Report
- Sample Budget Publication Notice
- Local Finance Board meeting dates
- List of Local Finance Board Members

The attached **Calendar Year Municipal Budget Process Instructions** contains information on a wide range of budget policies and practices. **Carefully review this document as it supplements the balance of this Notice.** The remainder of this Notice highlights elements specific to CY 2001 and new laws.

Important CY 2001 Budget Facts

- Annual Financial Statement Due Date for municipalities – February 12 (the 10th is a Saturday)
- Annual Financial Statement Due Date for counties – January 26
- Statutory Municipal Budget Introduction date – February 12
- Statutory County Budget Introduction date – January 26
- Cap Index Rate – 4%
- The Division will examine Group 2 budgets: Groups 1 and 3 may locally examine (*see the attachment for important information on accelerated tax sales and local exams*).
- **Applicants for Extraordinary Aid cannot participate in Local Examination and must file with the Division.**
- PERS contributions continue to be suspended in CY 2001

Local Finance Notice Subscriptions – Free E-mail Notification Now Available!

A subscription form to receive **all** Local Finance Notices issued in 2001 is also included. Use this form if you want to receive a mailing of all Notices, not just those targeted to individual officials. Once notices are issued they are also posted on the Division's web site. They can be found by clicking on the Local Finance Notice link from the Division home page at: <http://www.state.nj.us/dca/lgs>. In addition to the posting of Notices on the web site, the Division will send out a free e-mail alert and web site link each time a new Notice is posted. To sign up for this free service, e-mail us a request at dlgs@dca.state.nj.us.

Division Web Site

The Division's web site is being redesigned to accommodate the regular addition of new information. Most budget related information and spreadsheets will be found under the following links: Financial Regulation and Assistance, Municipal State Aid, Property Taxes, and Local Finance Notice. In addition, to assist in the preparation of the 2000 Annual Debt Statement, Regional School Debt Computation has been added to website. Our address is: <http://www.state.nj.us/dca/lgs>. Take some time to explore our site regularly as we gradually implement the upgrade over the next few months.

Anticipating Sale of Assets and Reserve for Uncollected Tax Calculations

The Mandate Relief Law of 2000 (P.L. 2000, c. 126) included two important revisions to budget laws. The first, changed the procedure for permitting the sale of property to be anticipated in a municipal or county budget (N.J.S.A. 40A:4-27). This change now permits the contract for sale to be executed by the time the budget is adopted. Previously, the contract had to be executed prior to introduction of the budget.

The second item, permits the use of a three-year average to determine the amount of reserve for uncollected taxes (N.J.S.A. 40A:4-41) that must be included as part of a local budget. While rules are authorized under the law, no action is planned and local units may use this average as their collection rate. The Division recommends that public notice of this decision be made through the budget message.

Use of the Flexible Chart of Accounts

As started in CY 2000, all budget line items must display the related account numbers from the Flexible Chart of Accounts. No changes have been made to the chart since Local Finance Notice CFO 2000-5 was issued in March of 2000. The Division is preparing a new edition of the Chart for publication in several months.

New Budget Cap Exceptions

Municipalities making payments to multi-family dwellings for solid waste collection and disposal services pursuant to P.L. 2000, c. 26 may appropriate payments as cap exceptions. Counties should also be aware that P.L. 1997, c.52 provides a cap exception for certain mosquito control activities.

The Mandate Relief Law of 2000 provided a new cap exception for new Interlocal Service Agreements (ILSA). While ILSA's have been treated as exceptions by determination of the Local Finance Board, the law formalizes the exception, and expands the benefit. The law now permits the difference between the cost of the service under the ILSA and the cost to the recipient of providing the service on their own to be added to the cap base. This affects ILSA's entered into after September 21, 2000 (effective date of the law). To use this exception, the Chief Financial Officer must certify the cost savings and effective date of the ILSA.

Pension Appropriations

For Calendar Year 2001, municipalities are not required to include an appropriation for Public Employees Retirement System obligations. Municipalities participating in the Early Retirement Incentive Program (ERI) must, however, provide appropriations in the amount specified on the billing from the Division of Pensions.

Police and Firemen's Retirement System bills have already been mailed by the State. Local officials should be aware that legislation is pending in the Legislature that would reduce normal (non-early retirement costs) PFRS payments by two-thirds. S-1961 has been voted out of the Senate and will reduce PFRS payments by revaluing assets and capping the amount annual increase. It awaits action in the Assembly.

Questions regarding pension billing should be directed to the Division of Pensions and Benefits at (609) 984-4517. Municipalities are cautioned that while there is no cap base adjustment offsetting the pension reductions, these reductions are not permanent and full pensions costs may have to be budgeted in the future.

If you have any questions on information in this Notice, contact the Bureau of Financial Regulation and Assistance at (609) 292-4806. Please carefully review the attached *Calendar Year Municipal Budget Process Instructions*.

Ulrich H. Steinberg, Jr.

Ulrich H. Steinberg, Jr., Director
Division of Local Government Services

Enclosures

Distribution: Municipal and County Chief Financial Officers: CFO and CCFO to distribute copies to elected officials, chief administrator, municipal clerk, and registered municipal accountant

New Jersey Division of Local Government Services Calendar Year Municipal Budget Process Instructions

Budget Calendar and State Aid

Adherence to the statutory deadlines for the introduction and adoption of municipal and county budgets and the filing of annual financial statements and annual audits will be enforced. All calendar year municipalities must introduce a 2001 budget and file a 2000 annual financial statement by February 12 (the 10th is a Saturday). All counties must introduce a 2001 budget and file a 2000 annual financial statement by January 26.

Noncompliance may jeopardize a municipality's eligibility for Extraordinary Aid and may subject municipal and county governing body members to penalties.

State Aid information is now available and is part of Local Finance Notice CFO 2001-2. Concerns over State aid should not preclude a municipality from introducing a budget by February 12. Local governments have statutory authority to anticipate revenues certified by the Director of the Division of Local Government Services, and other revenues up to the amount realized in the prior year for introduction purposes. Any final adjustments may be corrected through the budget amendment process. As always, final receipt of State Aid is subject to passage of the State budget.

Sample Budget Publication Form

N.J.S.A. 40A:4-61 contains the advertisement requirements of the budget document by permitting a summary that meets the minimum requirements set forth in the law. Included with this Local Finance Notice is a sample publication form for municipalities and counties. This form meets the minimum required by law, though publication of additional detail is encouraged and printing the full document is permitted. **Pursuant to advice from the Attorney General's office, if the summary is used, upon request, copies of the complete budget must be made available to the public free of charge.**

With regard to the model form:

- The Summary of Appropriations section entitled "Final 2000 Budget" refers to the 2000 budget as modified by all transfers.
- Items No. 2 and No. 4 on the municipal form and item No. 4 on the county form "Deferred Charges and Other Appropriations" refer to those categories that do not conform to any of the other categories.
- Total Revenues and Total Appropriations must balance.

Budget Review - Local Examination

N.J.S.A. 40A:4-78(b) and rules promulgated by the Local Finance Board permit certain municipalities in sound fiscal condition to assume the responsibility, normally granted to the Director of the Division, of conducting the annual budget examination required by the Local Budget Law.

The rules required that all documents associated with the budget process be filed with the Division, regardless of local examination status. It is critical for local officials to understand that participation in the program does not relieve them from filing with the Division all budget documents that are normally filed. This includes three copies of the introduced and adopted budgets, special item checklists, and any other documentation that is normally part of the budget review process. The Division must have a complete file for every municipality, regardless of who examines the budget.

The group number and eligibility status of your municipality is on your Municipal Information Sheet, which is included with this Notice. The Budget Local Finance Notice includes information on eligibility for this year's program. The qualification form completed by the Chief Financial Officer is now part of the Annual Financial Statement.

Starting with CY 2001, if your municipality has conducted an accelerated tax lien or tax levy sale for fewer than three consecutive years, or if a sale is planned for the first time in 2001, the municipality does **not qualify** for local examination the budget. If accelerated sales have been conducted for more than three years, the requirement for Division review has been eliminated.

In addition, applicants for Extraordinary Aid cannot participate in Local Examination and must file with the Division. This new procedure is necessary to ensure that municipalities follow the requirements of the Extraordinary Aid Program (see Local Finance Notice MC 2001-1).

Even though a municipality may successfully pass the eligibility and qualification process for local examination, the governing body may choose to have the Director conduct the examination. The Chief Financial Officer cannot elect this option. The governing body must pass a resolution waiving its rights to locally examine the budget, and request the Director to conduct the examination. This choice must be made before the introduction of the budget.

If the municipality is deemed eligible and qualifies for local examination, the examination must be completed, pursuant to N.J.S.A. 40A:4-45.3, 4-76 and 77 and any other applicable statute. Before the budget adoption, the Chief Financial Officer and governing body must both agree that these requirements have been met. To complete the process, the Chief Financial Officer must certify on the forms distributed with the budget packages and the governing body must execute a resolution approved by the majority of its full membership.

The Division will signify acceptance of the adopted budget by certifying the levy to the County Board of Taxation. You will not receive a copy of the budget in the mail.

Special Items of Revenue

As implemented several years ago, the Division no longer requires special items of revenue resolutions. All special item documentation must be filed with the Division. Use the special item checklist to determine the documentation required by the Division and send one copy with your approved budget.

Accelerated Tax Sale/Levy Sale

Proceeds realized from an accelerated tax sale or a levy sale should not be included as part of the tax collection rate per the enabling legislation. Two Annual Financial Statement sheets are used in these calculations. On Sheet 22 of the Annual Financial Statement, the proceeds from these two sales should be included in the calculation. On Sheet 22a, the percentage of collection is calculated minus these proceeds. The first year you conduct an accelerated tax sale, sheet 25, the Reserve for Uncollected Taxes Calculation, is calculated using the percentage of collection from sheet 22. Sheet 25a provides the calculation reducing the reserve for uncollected taxes by the proceeds of the accelerated tax sale. (Also, see information under Budget Review - Local Examination for important information.)

The first year the reserve for uncollected taxes is reduced as the result of an accelerated tax sale, prior to the adoption of the budget, the Chief Financial Officer must provide the governing body with a fiscal analysis of the impact of the action. The governing body must also pass a resolution authorizing the accelerated tax sale each year prior to the adoption of the budget. A fiscal impact analysis is also required for a tax levy sale. The

governing body must also pass a resolution prior to the adoption of the budget and the contract must be in place and approved by the Division prior to the adoption of the budget. Detailed information about accelerated tax sales and tax levy sales are found in Local Finance Notices MC-97-5, CTC-97-4 and CTC-97-5.

Alternate Calculation of Reserve for Uncollected Taxes

N.J.S.A. 40A:4-41(c), enacted into law in 1997 (P.L. 1997, c.28), provides alternate methods of calculating the reserve for uncollected taxes. One method permits the use of a three-year average, instead of using the prior year collection rate, and can be used by any municipality. The other method can only be used if the amount of tax refunds paid in the prior year exceeded one percent of the total tax levy and permits a calculation of the reserve, using a collection rate that eliminates the impact of the refunds from the calculation. To utilize either provision, requires a governing body resolution **adopted prior** to the introduction of the budget. Recent advice from the Attorney General's office requires that this timing requirement cannot be waived to allow passage after introduction; **it must be adopted prior to introduction.**

Amendments and Budget Adoption

The Registered Municipal Accountant must certify amending resolutions for mathematical accuracy. Regardless of the municipality's local examination status, amending resolutions must be submitted to the Division promptly upon introduction. N.J.S.A. 40A:4-9 contains the requirements for publication of amendments. If the amendment does not require advertisement, the municipality may amend and adopt at the same meeting, provided the Division, prior to the meeting, approves a copy of the amendment.

Municipalities conducting a local examination are subject to publication requirements and must file the amendment with the Division, though Division approval is not required.

The Chief Financial Officer must ensure that amendments and other changes required by the Division are applied to the adopted budget. Additionally, Section Two of the adopted budget must be verified for accuracy. Special attention by the Chief Finance Officer should be paid to amendment reviews where Local Examination is in effect.

Upon receipt of the adopted budget and verification of the levy, the Division will certify the municipal or county purpose tax levy to the County Board of Taxation. A municipality with a Type I school should submit the Board of School Estimate resolution setting the school levy, the concurring resolution of the municipal governing body, if applicable, and a copy of the A4F form to the Division.