

LOCAL FINANCE NOTICEDONALD T. DIFRANCESCO
ACTING GOVERNORJANE M. KENNY
COMMISSIONERULRICH H. STEINBERG, JR.
DIRECTOR**PFRS Pension Cost Stabilization Act**

On March 8, 2001, Senate Bill No. 1961, which revises Police Fire Retirement System (PFRS) funding to reduce employers' contributions by \$150 million for FY 2001, received final passage by the Legislature; approval by Acting Governor DiFrancesco is expected within several days. In anticipation of the enactment, this Local Finance Notice addresses the impact of the legislation on the current budgets of local government units. Reference to this bill was noted in Local Finance Notice CFO 2001-1.

The bill provides municipalities and counties with a reduction in the 2001 PFRS obligation equal to approximately 2/3 of the original regular PFRS billing. By this time, local units should have received revised bills from the Division of Pensions and Benefits. S-1961 (in pertinent part) requires the Director to certify that:

“The savings realized as a result of this amendment... shall be used solely and exclusively by a county or municipality for the purpose of reducing the amount that is required to be raised by the local property tax levy by the county for county purposes or by the municipality for municipal purposes... If the Director of Local Government Services... finds that a county or municipality has not used the savings solely and exclusively for the purpose of reducing the amount that is required to be raised by the local property tax levy,... the Director shall direct the county or municipal governing body, as appropriate, to make corrections to its budget.”

The bill expresses clearly that local officials are to use the savings the law provides to reduce the municipal or county tax levy, and not use it for other purposes, such as an offset to increased spending or reducing other revenues. It is expected that local officials will abide by this policy during their budget process to assure property tax relief. For those municipalities that do not have a municipal tax levy **the savings will be used to reduce the county tax levy. The municipality must insert the savings amount as an appropriation on sheet 20, Due to County, FCOA code 30-427-2.**

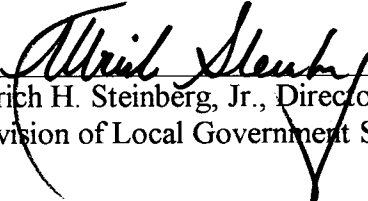
For the Division's part, we will implement the law as follows:

1. For those calendar year local units that have already adopted their CY 2001 budget, the Director shall certify the savings by reducing the local unit's local property tax levy in the certification to the County Board of Taxation. The Division will send each CFO a copy of the levy certification that the Division files with the County Board of Taxation. The CFO should act accordingly to correct the office copy of the budget and internal accounting records.

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2. Calendar year local units that have introduced, but not adopted their CY 2001 budget, are required to amend the budget to reduce the PFRS appropriation and the local tax levy accordingly. Advertisement of this amendment will not be required as is otherwise required by the Local Budget Law, unless it is incorporated with other amendments that require publication. The Division understands that other budget amendments are inevitable, however, they will be carefully reviewed. The Division reserves the right to act accordingly if we find that the intent and purpose of the law is being violated. This may involve requiring the filing of certifications as to the need for the changes. Before the Division certifies the tax levy of municipalities that are conducting local examinations, the Division will review all amendments, and, if problems are found, will reduce the tax levy accordingly.
3. For those municipalities that have introduced and filed for Extraordinary Aid, the Division will take into account the revised pension billings as part of our review of applications.
4. For those calendar year local units who have not introduced a CY 2001 budget, the appropriation for PFRS must reflect the reduced amount.
5. Those municipalities operating on a State fiscal year who have adopted their SFY 2001 budgets with the original (higher) bill, *shall*, at year-end, reserve the unspent portion in an account entitled "Reserve for PFRS Savings." To meet the requirement of using the savings expressly for property tax relief, this reserve must be anticipated as revenue under the heading "Reserve for PFRS Savings" on sheet 5 of the SFY 2002 budget (FCOA Code 09-211).
6. Those municipalities operating on a State fiscal year who have not adopted, shall be required to amend the budget prior to adoption to reduce the PFRS appropriation and the local tax levy accordingly.

Please make your auditor, administrative and elected officials aware of this process and the intent of the Legislation. If you have any questions, please call the Bureau of Financial Regulation at (609) 292-4806, or e-mail us at dlgs@dca.state.nj.us.



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

Distribution: Municipal and County Chief Financial Officers