

LOCAL FINANCE NOTICEDONALD T. DiFRANCESCO
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ACTING DIRECTOR**SFY 2002 BUDGET INFORMATION****Introduction**

This Local Finance Notice contains important information concerning the preparation and submission of your SFY 2002 Budget, 2001 Annual Financial Statement and SFY 2002 budget amendments. *Please read this carefully and share this Notice with your elected officials, chief administrator, municipal clerk and registered municipal accountant.* SFY 2002 Cap and Cap Banking calculations were mailed with your budget forms in May. Included with this Notice are the following items:

- SFY 2002 State Aid Certification
- 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 **State Fiscal Year Municipal Budget Process Instructions** contains information on a wide range of budget policies and practices. The remainder of this Notice highlights elements specific to SFY 2002 and new laws. Also review Local Finance Notice CFO 2001-5, which covers State aid formulas and payment matters.

Important SFY 2002 Budget Facts

- Annual Financial Statement Due Date for municipalities – August 10
- Statutory Municipal Budget Introduction date – August 10
- Cap Index Rate – 4%
- The Division will examine all fiscal year municipalities. No budgets are eligible for self examination.
- PERS contributions continue to be suspended in SFY 2002

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A subscription form to receive **all** Local Finance Notices issued is also included in this package. 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: 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 regularly updated with 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. Our address is: www.state.nj.us/dca/lgs. Take some time to regularly explore our site.

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 SFY 2001, 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. Budget on sheet 20. The Chief Financial Officer must certify the amount to the Division.

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 SFY 2002, 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.

Chapter 44 of the Laws of 2001, which revised the Police and Fire Retirement System (PFRS) funding formula, was enacted earlier this year. The law reduced PFRS obligations for SFY 2001 by approximately two-thirds of the regular PFRS billing. This savings continues into SFY 2002. As discussed in Local Finance Notice CFO 2001-4, municipalities operating on a State Fiscal Year who adopted their SFY 2001 budgets with the original (higher) bill, should have reserved the unspent portion in an account entitled "Reserve for PFRS Savings". The

reserve must be anticipated as revenue under the same heading on sheet 5 of the SFY 2002 budget (FCOA Code 09-211). The SFY 2002 appropriation for PFRS will remain approximately the same amount.

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 State Fiscal Year Municipal Budget Process Instructions and Notice CFO 2001-5 received in mid June.

Anthony Cancro, Acting Director
Division of Local Government Services

Enclosures

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

New Jersey Division of Local Government Services
**State Fiscal Year Municipal Budget Process Instructions
and State Aid Information**

Budget Calendar

Adherence to the statutory deadlines for the introduction and adoption of state fiscal year budgets and the filing of annual financial statements and annual audits will be enforced. All state fiscal year municipalities must introduce a 2002 budget and file a 2001 annual financial statement by August 10. Noncompliance may jeopardize a municipality's eligibility for Extraordinary Aid and may subject governing body members to penalties.

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. This form meets the minimum required by law, though publication of additional detail is encouraged and printing the full document is permitted. The **Attorney General's office has advised the Division that if the summary is used, upon request by a member of the public, copies of the complete budget must be made available, free of charge.**

With regard to the model form:

- The Summary of Appropriations section entitled "Final 2001 Budget" refers to the 2001 budget as modified by all transfers.
- Items No. 2 and No. 4 on the municipal 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.

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 an accelerated tax sale is conducted, 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.

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) allows 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. A governing body resolution **adopted prior** to the introduction of the budget is required to utilize either provision. 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. 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 that prior to the meeting the Division approves a copy of the amendment.

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.

State Aid

Local officials should review Local Finance Notice CFO 2001-5 (Aid Payment Certification) for details about SFY 2002 state aid payments and related issues. The balance of this Notice reviews several specific State aid issues.

Extraordinary Aid

The Extraordinary Aid program is again budgeted at \$25 million. Applications and instructions have been recently sent to Municipal Clerks. To be considered for funding, applications are due by **September 7, 2001**. The budget must be introduced, the Annual Financial Statement filed, and, if not already submitted, the 2000 audit must be submitted to the Division at the time application is made. As always, receipt of this aid last year is not an assurance of receiving it again this year.

Business Personal Property Tax Depreciation Adjustment (Bell Atlantic/Verizon)

Last year's appropriation for Business Personal Property Tax Depreciation Adjustment was provided as a one-time tax levy adjustment. While legislative attempts were made to provide a permanent solution, a permanent solution was not reached as of the end of June and the adoption of the State's budget. As a result, the State budget included assistance to those municipalities most affected by the changes, eliminated administrative problems in last year's process, and took into account other changes in State aid.

The budget affects those municipalities whose loss of BPP revenues between 1998 and 2000, attributable to the change in Verizon depreciation schedules, exceeded one percent (1%) of their total tax levy in 2000. In these cases, the municipality will receive State aid offsetting approximately 75% of the loss. However, in order to provide equity to boards of education, that portion of the replacement revenue that represents a proportionate share of school taxes must be appropriated and paid to the constituent board(s) of education. The Division will certify the reduction to the school tax levy as part of the tax levy certification to the county tax boards.

Further, the additional aid is made permanent by adding it in to CMPTRA, where it will be subject to inflation increases over time. The CMPTRA allocation has been calculated to include the amount of Adjustment Aid. For reference purposes, the total Adjustment Aid and portion to be appropriated to the board(s) of education are shown only on the Certification for the affected municipalities. If your municipality does not benefit, there is no reference on the Certification.

BPP revenue received in SFY 2001 should be realized thru the Amount to be Raised by Taxation. It is **not** recorded as a budget revenue.

Garden State Preservation Trust Fund

P.L. 1999, c.152 established the Garden State Preservation Trust Fund to implement the recent public referendum to preserve one million acres of open space and farmland over the next ten years. The law provides a sliding scale of payments in lieu of taxation for property purchased by the State to replace the ratable loss absorbed by the local taxing districts. **Notwithstanding other provisions of law to the contrary, the State budget authorizes municipalities to anticipate all funds as property tax relief in their budgets.**

For revenues received under this program during SFY 2001, the receipts should have been reserved and are now anticipated in full in the SFY 2002 budget. The amount received in the fall of 2000 is shown on the certification as the amount to be anticipated in SFY 2002. Please remember that based on the law, portions of this State aid will decline over time.

REAP Revenue

The SFY 2001 Annual Financial Statement, sheet 22, was revised to include, under Item 10 Cash Collected, an amount for REAP Revenue Realized. REAP revenue should be recorded the same as Senior Citizens and Veterans Deductions, which are due from the State of New Jersey. Any excess REAP revenue realized because of rounding by the county Board of Taxation should be recorded as Miscellaneous Revenue Not Anticipated.