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Local Finance Notice

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CY 2014 Budget Matters

This Local Finance Notice provides information with respect to CY 2014 budgets.

Early Budget Planning and CY 2014 Budget Deadline

Extension and Enforcement

Municipalities that have not yet begun to plan and prepare their 2014 budgets are already behind and should immediately begin the process. Consistent with extensions provided in 2013, the Division of Local Government Services will be recommending that the Local Finance Board allow moderate extensions for the introduction and adoption of 2014 budgets, but it is important that these deadlines be achieved.

Timely introduction and adoption of budgets is more than simply a requirement of the Local Budget Law. Timely introduction and adoption:

- Facilitates timely implementation of actions to address structural budget challenges.
- Preserves the option of pursuing a levy election in April or May, which requires compliance with deadlines for actions related to election law.
- Allows the public to have an opportunity to participate in the process.
- Provides financial markets with confidence in our system, resulting in New Jersey municipalities receiving favorable interest rates.

The budget filing deadlines below modify the statutory dates for introduction, adoption, and Mayor/Council Faulkner Act and related budget transmissions. They are expected to be approved by the Local Finance Board at its January meeting.

Introduction and Adoption of Budget – Non Referendum	Statutory Date	Revised Date
Mayor/Council Faulkner Act (Executive) budget transmission to governing body	1/15	2/7
Municipal introduction and approval of budget	2/10	3/14
County introduction and approval of budget	1/26	3/14
Municipal adoption	3/20	4/25
County adoption	2/28	4/25

The Division receives significant budgets for review around the introduction deadline. While the Division will work expeditiously on examining introduced budgets as required, there will inevitably be some moderate delays in the Division providing examinations during this period of time. Budgets may be adopted anytime within 10 days of receiving the Director’s certification of approval of the budget.

A separate Local Finance Notice will be issued in the near future to clarify deadlines related to establishing levy elections.

Governing bodies may by resolution, adopted by March 14, 2014, extend the adoption date of the 2014 budget and increase temporary budget appropriations as may be necessary due to the extended period.

II. Transition Aid Application Process

CY municipalities in financial distress may apply for Transitional Aid to Localities (Transition Aid). The due date for application will be the same date as the budget introduction deadline (March 14). Requesting such aid is generally not desired by municipalities as aid awards come with a significant loss of local control and stringent conditions. A separate Transition Aid Local Finance Notice will be released soon.

It is expected that funding for the program will continue to decline and all but the most financially stressed municipalities in danger of being unable to meet debt service, basic payroll, and other essential functions will be eligible for aid. Successful applicants must demonstrate that they are already taking clear steps toward reducing local spending and maximizing their own revenues.

For budget introduction purposes, the municipalities that received Transitional Aid in CY 2013 may anticipate Transition Aid in an amount equal to 75 percent of their CY 2013 aid allocation (or such amounts as the Director may otherwise permit).

III. Disclosure of Structural Budget Imbalances: Greater Division Attention to Municipalities with Structural Imbalances

The Division fully appreciates that many municipalities are facing budgetary challenges that may include local economic conditions, changes in the ratable base, and other challenges. State reform measures in the areas of binding arbitration, pensions, and health benefits have already helped to control or reduce costs. Additional State reforms are being debated in the Legislature. Many municipalities have increasingly sought to control costs through personnel actions, smarter procurement, shared services, and even consolidation.

However, The Division is concerned that some municipalities have, for too long, relied heavily on short term solutions. Such solutions can, when applied in moderation, be appropriate solutions while structural reforms are being implemented.

In addition to it being extremely important that local officials understand the structural imbalances their communities may face, it is extremely important for these imbalances to be communicated to the public, financial markets and the State. While budget messages often contain the “good news” of cost reductions from new initiatives (i.e., shared services), the challenge of one-time solutions to structural imbalances are not often clearly disclosed.

For these reasons, the Budget Message section of the annual budget was revised in 2012 to include a good faith explanation of budget issues related to structural imbalance. There are four areas: Revenues at Risk, Non-Recurring Cost Reductions, Anticipated Future Appropriation Increases, and Counterbalancing Structural Improvements.

The Local Finance Board and Division will be reviewing these disclosures more carefully in 2014. Where disclosures are inadequate, the Board and Division may deny certain applications and approvals and Mayors will be asked in public settings and/or documents to explain why the disclosures are incomplete.

The Division may also use the disclosures to more closely examine local budget situations that appear to have difficult challenges, and to offer assistance when possible to address them.

Budget Sheet #3(b)(2) requires their disclosure in list form as follows:

1. **2014 Revenues at Risk:** these are anticipated revenues that will not recur in 2015, or that are known to be declining over time. “Revenues at Risk” should include, but are not limited to: revenues from one time land sales; concession fees or deposits associated with agreements, including redevelopment agreements or utility agreements; short term or expiring grants that support

operating costs; transfers of funds from authorities that are not expected to continue; awards of Transition Aid; and other revenues that are known to be temporary in nature or not reasonably expected to continue.

Alternatively, expiring grants that support operating costs may also be classified as Non-Recurring Cost Reductions, if they have ongoing local costs that must be budgeted, as with COPS grants.

2. **2014 Non-Recurring Cost Reductions:** These are proposed reductions in line items that will not recur in 2015, or that are known to be declining over time. Non-recurring Cost Reductions should include, but are not limited to: short term savings in debt service payments attributable to refunding issues that allow for a skipped debt service payment or reductions in short term maturities; savings in expenses made possible through contractual short term concessions that result in later increased payments (i.e. elimination of immediate overtime expenses in return for the creation of bankable compensatory time), and other one-time short term savings that will not be available in 2015.
3. **Anticipated 2015 Appropriation Increases:** These are reasonable projections of appropriation increases. These can include, but not be limited to: increases in debt service payments due to new or restructured debt; increases in lease payments due to new or restructured leases; increased salary or compensation payments attributable to contractual obligations; and other increases in items of expenditure for which policy changes or decisions will necessitate increased appropriations (for example, full year's cost of a program partially implemented in 2014).
4. **Structural Imbalance Offsets:** These are budget changes that are expected to occur in 2015 that offset the impact of the three items above. These offsets may include new or one-time 2014 appropriations or non-recurring increases in 2014 appropriations that will not appear in 2015 and out-year budgets. Examples of these include: 2014 funding of deferred charges from a prior year; 2014 appropriation of funds for retroactive salary increases; payments from litigation settlements; increased capital appropriations, or increases in employee premium sharing for health care costs; etc.

These items may also include increased revenues such as the full year value of fee increases only partially implemented in 2014, or contractually required increases in payments under supply contracts or service agreements.

This sheet is part of the Division's CY 2014 budget form and is part of the budget message section of the budget.

IV. Governor's Budget and Municipal Aid

The Governor is expected to propose a State 2015 FY budget on or about February 25, 2014. Immediately after the budget is proposed, the Division will notify municipalities as to Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Energy Tax Receipts aid that can be anticipated in the budget.

V. CY 2014 Local Exam Issues

Local Examination: Group 1 budgets will be examined by the Division for CY 2014. Groups 2 and 3 may be eligible for local examination. If the governing body that is eligible for local examination wants the Division to examine the budget, they must pass a resolution prior to the introduction of the budget requesting our review. The spreadsheet on local examination is on our website. Eligibility status is also on the Municipal Information Sheet. **Local examination municipalities must follow all applicable statutory deadlines.**

VI. Hurricane Sandy Budget Issues

We are in year two of budget issues regarding Hurricane Sandy. FEMA reimbursements received are to be appropriately pledged to the funding mechanism passed by the governing body, i.e. special emergency or capital financing. For the 2013 budget, the Director allowed the anticipation of FEMA reimbursements as revenue to offset the budgeting on the first year of the five year special emergency pay-down. If you did not receive the entire amount of FEMA revenue anticipated, you may establish a receivable for the difference. Since this is funding from a federal source, a corresponding reserve does not have to be established. If you received excess FEMA revenue, then the excess should be used to pay-down additional special emergency notes or the revenue should be used to offset costs of a bond ordinance, depending upon what project the reimbursement represents.

For the 2014 budget, FEMA revenue receivable will also be allowed to be anticipated to offset the second year of funding of the special emergencies. However, the 10% municipal share will also have to begin to be funded in 2014. The 10% share of the portion of the special emergency that is supported by project worksheets will begin to be funded in the 2014 budget. This 10% portion will be split over the remaining 4 years. An analysis should be submitted with the introduced budget.

The State is considering the establishment of a program that would assist the most dramatically impacted communities to help pay a portion of their 10% local match towards

categories A and B FEMA Projects. A future Local Finance Notice will explain such a program, should it become available.

VII. Other Budget Reminders

Amendment Procedures: The procedures for the flow of the budget cycle are specified in N.J.S.A. 40A:4-4. The amendment process cannot begin until after the public hearing has been held on the introduced budget. Once the public hearing is held, the budget can be amended on the same night, as long as it is after the public hearing portion of the meeting.

Health Insurance Contributions and Waivers: Accounting for employee contributions for health insurance has been determined to be as follows:

- employee health care contributions shall be treated as a payroll agency transaction and no employee contributions shall be treated as anticipated revenue in a local unit's budget
- amounts appropriated for employees who receive payments in lieu of accepting health benefits ("waivers") must be appropriated as a separate line item ("Health Benefit Waiver" with FCOA Code #23-221).

To disclose the value of employee contributions and reduced employer costs for health care coverage to the public, each formal Budget Message shall contain information or a schedule showing the amounts contributed from employees, the employer share, and total costs. The disclosure may be broken down by employee group. As an option, the local unit may include a breakdown of future revenue from those employees currently under contracts that will begin contributions when those contracts expire.

The health insurance 2010 levy cap exclusion will be based upon an average State Health Benefit increase of 6.6 percent. The levy cap workbook will calculate the exclusion, which will be the increase over 2 percent up to the 6.6 percent maximum. The appropriation cap exception will be the increase over 4 percent up to the 6.6 percent maximum. The amount is calculated in the levy cap workbook under 1977 cap.

Municipal Library Tax Levy: P.L. 2011, c.38 provides a dedicated line item on property tax bill to fund municipal free and joint free public libraries. It does not result in any increased taxes, but changes the way the minimum library appropriation is displayed to the public.

Library Surplus Transfers: In 2010, N.J.S.A. 40:54-15 established conditions **requiring** transfer of certain public library fund balance amounts to a municipality and that the transferred funds be used exclusively as property tax relief. This means the funds transferred must be anticipated as revenue without an offsetting appropriation and no levy

cap adjustment. The transferred surplus does not have to be anticipated in the budget all in one year. Approval of the calculation and conditions concerning transfer of funds is subject to the approval of the State Library. State Library staff is aware of the requirements and time frames and is prepared to work with local library and fiscal officials to meet budget deadlines. Please contact the State Library for more information.

Posting Budgets on Website: N.J.S.A. 40A:4-10 requires that each municipality and county post their current year adopted budgets and three prior years on their web site (N.J.S.A. 40A:4-10). For those municipalities without their own website, the Division of Local Government Services will post their budgets.

Local officials now have their 2010, 2011, 2012 and 2013 budgets posted (PDF format recommended). Once the 2014 budget is adopted it should be posted (and 2010 may be dropped). Municipalities without their own website should contact the Division (egg@dca.state.nj.us) on the procedure for sending copies of their budgets to the Division for posting.

Filing of Shared Service Agreements: N.J.S.A. 40A:65-4(b) requires that local units file a copy of new or renewed shared service agreements with the Division of Local Government Services. These agreements should be sent electronically (preferred as Word or PDF) to egg@dca.state.nj.us, or mailed to the Division's Shared Services Unit, Division of Local Government Services, P.O. Box 803, Trenton, NJ 08625-0803.

VIII. Upcoming Budget Related Matters

Implementation of Statutorily Required User Friendly Budget: As part of the CY 2014 adoption cycle, the Division will implement the new "User Friendly Budget" summary as a PILOT program. This summary will provide citizens with budget data in a form that they can understand and in a format that is consistent across all municipalities. This is intended to give municipal officials and citizens a clear understanding of the cost and staffing involved in providing various services. By requiring submission of this data electronically, comprehensive municipal budget summaries can be quickly posted on the Internet in an easy-to-understand format that can be downloaded for comparative purposes.

This new process must be adopted by the Local Finance Board pursuant to N.J.S.A. 40A:5-48, the state law that required the creation of "user friendly" plain language budget summary. The law specifically requires not only all line items of budget data aggregated by service type, but also detailed information on shared services, property tax rates and collection rates, long-term tax exemptions and abatements, and debt.