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division of local government services

LFN 2013-04

January 4, 2013

Local Finance Notice

Chris Christie, Governor
Kim Guadagno, Lt. Governor
Richard E. Constable, III, Commissioner
Thomas H. Neff, Director

Contact Information

Director's Office
V. 609.292.6613
F. 609.292.9073

Local Government Research
V. 609.292.6110
F. 609.292.9073

Financial Regulation and Assistance
V. 609.292.4806
F. 609.984.7388

Local Finance Board
V. 609.292.0479
F. 609.633.6243

Local Management Services
V. 609.292.7842
F. 609.633.6243

Authority Regulation
V. 609.984.0132
F. 609.984.7388

Mail and Delivery
101 South Broad St.
PO Box 803
Trenton, New Jersey
08625-0803
Web: www.nj.gov/divisions/dca/lgs
E-mail: dlgs@dca.state.nj.us

Distribution
Municipal Clerks
County Freeholder Clerks
Municipal & County Chief Financial Officers
Auditors

CY 2013 Budget Matters

This Local Finance Notice provides critical information with respect to CY 2013 budgets, including information for municipalities experiencing significant revenue losses attributable to Superstorm Sandy.

I. Early Budget Planning and CY 2013 Budget Deadline Extension and Enforcement

Municipalities that have not yet begun to plan and prepare their 2013 budgets are behind and should immediately begin the process. Consistent with 2012, extensions are being provided for the introduction and adoption of 2013 budgets. However, the Division will be taking a harder line with municipalities that adopt their budget extraordinarily late.

Early adoption is an effective management tool in that it provides a meaningful plan to finance policy initiatives. Delayed budget adoption limits management flexibility resulting in a shorter time period to implement fiscal adjustments. In addition, ratings agencies take comfort in early and appropriate fiscal planning and the Division believes in facilitating early planning to protect credit ratings.

CY municipalities planning a property tax levy cap referendum election must meet notice and publication deadlines tied to the April school board election date. These municipalities should appropriately plan their 2013 budgets to facilitate a sound decision regarding this option. The full calendar for referendums will be released when the Division of Elections sets the timetables. The budget filing dates below are expected to be consistent with election timetable. A separate Local Finance Notice will be issued when the referendum schedule is established.

The Local Finance Board approved the following statutory budget deadline revisions. As in the past, the changes modify the statutory dates for introduction, adoption, and Mayor/Council Faulkner Act and related budget transmissions. The proposed changes (absent referendum dates) are shown below:

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

Notwithstanding the revised dates, a budget may be adopted anytime within 10 days of receiving the Director's certification of approval of the budget.

Governing bodies may, by resolution adopted by March 15, 2013, extend the adoption date of the 2013 budget and increase temporary budget appropriations as may be necessary due to the extended period.

II. Transitional Aid Application Process

CY municipalities in financial distress will only have one opportunity to apply for Transitional Aid to Localities (Transition Aid). The due date for application will be **March 15**. Municipalities applying for Transition Aid must submit an introduced budget with the application. 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 prior to Wednesday, January 9, 2013.

Municipalities intending to apply for Transitional Aid due to the impact of Super Storm Sandy must immediately call and schedule a meeting with DLGS to discuss their budget situation, which meeting must be scheduled prior to January 31, 2013. These municipalities must first show that they have applied for available forms of federal assistance prior to applying for Transitional Aid.

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.

The six municipalities that received Transitional Aid in CY 2012 must receive approval of the Director to anticipate (for planning purposes only and with no guarantee of award) an amount Transitional Aid as part of their 2013 introduced budgets.

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 include general economic difficulties, a depressed housing market, a high number of tax appeals, and other challenges. State reform measures in the areas of binding arbitration, pensions, and health care have already helped to control or reduce costs and additional 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.

The Division is concerned that some municipalities have for too long relied heavily on short term solutions. Short term solutions can, when applied in moderation, be appropriate while more permanent structural reforms are 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 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. Budget Sheet #3(b)(2) requires their disclosure in list form as follows:

1. **2013 Revenues at Risk:** these are anticipated revenues that will not recur in 2014, 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. **2013 Non-Recurring Cost Reductions:** These are proposed reductions in line items that will not recur in 2014, 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 2014.

3. **Anticipated 2014 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 2013).

4. **Structural Imbalance Offsets:** These are budget changes that are expected to occur in 2014 that offset the impact of the three items above. These offsets may include new or one-time 2013 appropriations or non-recurring increases in 2013 appropriations that will not appear in 2014 and out-year budgets. Examples of these include: 2013 funding of deferred charges from a prior year; 2013 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 2013, or contractually required increases in payments under supply contracts or service agreements.

This sheet is part of the Division's CY 2013 budget form. The previous 3(b)(2), "Analysis of Compensated Absence Liability" is now Sheet 3(b)(3).

IV. Governor's Budget and Municipal Aid

The Governor is expected to propose a State 2014 FY budget on or about February 26, 2013. 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 2013 Local Examination and Information Sheet Issues

Local Examination: Group 2 budgets will be examined by the Division for CY 2013. Groups 1 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 for local examination status is on our website. **Local examination municipalities must follow all applicable statutory deadlines. Please note that any municipality estimated by the Division to have lost 5% or more of the value of its taxable properties as a result of Superstorm Sandy will not be eligible for local examination.**

Municipal Information Sheets: Once all Abstract of Ratables have been received, the Municipal Information sheets will be made available.

VI. 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 9.2 percent. The levy cap workbook will calculate the exclusion, which will be the increase over 2 percent up to the 9.2 percent maximum. The appropriation cap exception will be the increase over 4 percent up to the 9.2 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 did not result in any increased taxes, but changed the way the minimum library appropriation is displayed to the public. Chief Financial Officers in municipalities with a municipal library should carefully review Local Finance Notice 2011-14 to properly reflect the minimum library tax levy in their budget.

Library Surplus Transfers: In 2010, N.JS.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.

The laws concerning the requirement (Word document) and an information packet (zip file) on the conditions, calculation of the transfer amount and other details can be downloaded from the preceding links. Alternatively, information on "identification of excess funds" can be obtained from the State Library website at www.njstatelib.org/LDB/Library_Law/#part8 under the heading "Part 8: New Statutes and Regulations Since 2007." Questions on this process can be directed to Michelle Stricker at the State Library at mstricker@njstatelib.org.

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 2009, 2010, 2011 and 2012 budgets posted (PDF format recommended). Once the 2013 budget is adopted it should be posted (and 2009 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.

VII. 2010 Levy Cap Exclusions

The 2010 Levy Cap law significantly changed the levy cap exclusion calculation. The following provides necessary direction and guidance in applying the 2010 Levy Cap exclusions.

General Exclusions: There are several general exclusions: increases in debt service and capital expenditures; weather and other "declared" emergencies; pension contributions in excess of two percent, and health benefit cost increases in excess of 2 percent and limited by the increase in State Health Benefit rate increases (9.2% for CY 2013).

While some levy cap exclusions are treated as permanent add-ons, others will only be exclusions for the life of the specific appropriation. Table 1 following this Notice lists each exclusion, its explanation, and treatment.

General Exclusions and Shared Services: The Division has determined that recipients of shared services may exclude from their levy cap calculation increases passed on by the provider for the general exclusions described above. In these cases, the provider must certify to their recipients the specific increases in service charges in their budget, the amount passed along to their recipients, who must budget the increases. Certifications of shared service exclusions will be part of the recipient's budget submission and reflected in the levy cap calculation workbook. The Division will issue forms for this purpose. The use of this exception is optional; providers and recipients are not obligated to account for the exceptions if they choose not to do so.

Local Authority Service Agreements: A local unit (municipality, county, or fire district) can exclude from the annual levy cap calculation certain expenses billed to such local unit by a municipal, county or regional authority (an "authority"). Local Finance Notice 2011-36 reviews the circumstances under which authority debt service costs can be excluded from a local unit levy cap calculation.

Other Cap Issues

Service Transfers: A service transfer occurs when one local unit transfers the responsibility and the cost of funding a service to another local unit or to a subordinate agency of the local unit, such as a utility or authority. In these cases, the transferring local unit no longer has the responsibility of funding the cost of the service.

In these cases, there will be a levy cap base adjustment for both government entities, pro-rated as necessary for the period of time the transfer is in effect. For the transferring local unit, the adjustment will be based on the prior year's expenditure less offsetting revenues. For the providing local unit, the adjustment will be the current year appropriation, less offsetting revenues the provider will receive. Shared services are not considered transferred services and will not result in levy cap base adjustments.

Service transfers and the impact on the levy cap must also be described in the local unit's budget message.

Levy Cap Banking Established: The 2010 Levy Cap law also created provisions for levy cap banking (N.J.S.A. 40A:4-45.45). This will permit a local unit to reserve or "bank" any unused levy cap balance for up to three years, and use it as a permanent exclusion in any of those subsequent years. The levy cap worksheet has been amended to calculate the levy cap bank.

Recycling Tax: An amendment to the 2007 Cap created an exception for amounts raised to pay the recycling tax of $3.00 per ton assessed pursuant to NJSA 13:1E-96.5. The levy cap workbook provides an add-on for the amount budgeted each year for this purpose.

1977 Cap Matters: The 1977 Cap Cost of Living Adjustment (COLA) rate for FY 2013 is two percent (2%), subject to the adoption of an ordinance (municipalities) or resolution (counties) for increase to 3.5% and banking. See Local Finance Notice 2012-23 for specific details.

Approved: Thomas H. Neff, Director, Division of Local Government Services

TABLE 1 – 2010 LEVY CAP EXCLUSIONS

<table>
<tr><th>Statutory Exclusion</th><th>Application and Interpretation Notes</th></tr>
<tr><td>Capital expenditure increases</td><td>Improvements financed under Local Bond Law provisions meeting the definition in the law – non-operating expenses with useful life of more than 5 years
All appropriations in the capital improvement section of the budget, including, but not limited to:
Capital leases, regardless of when entered into.
Capital cash appropriation in budget but excluding any appropriations that are offset with grant revenues
Deferred charges to future taxation unfunded (where an improvement is authorized and funding is provided from a budget appropriation in lieu of issuing debt service)
Increases in capital expenditure costs that are part of a shared service agreement; pursuant to certifications by service provider.
Capital expenditure exclusions will be treated as permanent exclusions</td></tr>
<tr><td>Debt service increases</td><td>All appropriations in the debt service section of the budget, including, but not limited to:
General Obligation, full faith and credit debt
Refunding bonds, regardless of purpose
Bond Anticipation Notes
Interest on Tax Anticipation Notes
Local Budget Law protected notes (N.J.S.A. 40A:4-75)
Emergency Notes as authorized under the Local Budget Law
Special Emergency Notes
Debt service emergencies and down-payment emergencies
Increases in debt service that is part of a shared service agreement or a service agreement with a municipal, county or regional authority; pursuant to certifications by service provider.
Increases in debt service are treated as permanent exclusions (no reduction of base when debt is reduced, i.e., claw-back).
Local Budget Law protected notes will only be excluded for the time the emergency is funded.</td></tr>
</table>

Statutory Exclusion	Application and Interpretation Notes

Emergencies – weather and “declared” emergencies	• Regulations were adopted to define emergencies eligible for cap relief and provide for the following:
	    o Extraordinary costs related to an emergency formally declared by the Governor of New Jersey.
	        ▪ Examples are weather related (i.e., hurricanes, snow storms) and civil disturbances pursuant to N.J.S.A. 40A:4-46, 40A:4-53, 54, 55, et seq.
	    o Costs of emergencies that are funded through shared service agreements.
	    o An emergency will only be excluded for the time the emergency is funded.

Pensions and Health Benefits	• All increases in PERS, PFRS, local system pension contributions, accrued liability, early retirement, prepayment of deferred pension obligations, and LOSAP appropriations over 2% are treated as permanent exclusions. Payments of deferred pension obligations are exclusions only for the life of the repayment; all other increases are permanent exclusions. • All increases in health insurance coverage over 2% and below the SHB average increase (9.2% for CY 2013) are exclusions. • Increases in costs of health insurance **waivers** are not treated as exclusions. Costs related to health insurance waivers must be reflected as a separate line item in the budget. • Optionally, increases in pension and health benefits that are part of increased costs to a shared service agreement; pursuant to certifications by service provider.