

LOCAL FINANCE NOTICECHRISTINE TODD WHITMAN
GOVERNORJANE M. KENNY
COMMISSIONERBETH GATES
DIRECTOR**State Fiscal Year Municipal Budget Local Examination and Approval**

In early 1997, the Local Finance Board adopted rules that permit 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. These rules enacted provisions of N.J.S.A. 40A:4-78(b). They were utilized for the 1997 Calendar Year budget cycle and are now extended to State Fiscal year municipalities. This Notice is to provide information on the program to CFOs and other officials in State Fiscal Year municipalities.

Chief Financial Officers are asked to provide a copy of this Notice to the Municipal Clerk. The balance of this Notice reviews the program and should be retained for future reference.

Local Examination - General Information

The Local Examination process grants the Chief Financial Officer and the governing body the responsibility and authority, traditionally held by the Director, to review and approve a municipal budget. Qualifying municipalities are permitted to locally examine their budget every two of three years. The term "qualifying" has special meaning and will be explained below. To start the program, the Division randomly divided all municipalities into three groups, 1, 2, or 3. Each year, two of the three groups will be allowed to participate in the program. The group assigned to each SFY municipality can be found at the bottom of the Certification of State Aid form that was included with Local Finance Notice CFO 97-12. Given this system, and subject to the rules and changes in the program, each group will be able to participate in the following years:

Group 1: 1998, 2000, 2001
Group 2: 1999, 2000, 2002
Group 3: 1998, 1999, 2001

This means that for State Fiscal Year 1998, Groups 1 and 3 are able to participate in the program, while Group 2 will have their budgets reviewed by the Division as they have traditionally done.

Filing of Documents

All documents associated with the budget process must be filed with the Division, regardless of local examination status. **It is absolutely 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 the usual copies of introduced and adopted budgets, special item checksheets, Uniform Construction Code calculations, and any other form that is normally part of budget review. The Division must have a complete file for every municipality, regardless of who examines the budget.

Program Eligibility

Though able to participate in the program, municipalities in Groups 1 and 3 must pass two hurdles in order to conduct the local examination. The first hurdle is called **eligibility**. Eligibility is determined by the Division and is an exclusion based on fiscal soundness. A municipality is ineligible to participate and will have their budget reviewed through the normal process if they meet any of the following characteristics:

- a. Have outstanding fiscal year adjustment bonds.
- b. Qualify for municipal (urban) aid, pursuant to N.J.S.A. 52:27D-178 et seq.
- c. Received Supplemental Municipal Property Tax Relief Discretionary (N.J.S.A. 52:27D-118.35) funds in the previous fiscal year.
- d. Were subject to a Division field audit that produced negative findings in the previous fiscal year.
- e. Are currently or during the previous year were under any form of Local Finance Board supervision, pursuant to N.J.S.A. 52:27BB-1 et seq.
- f. Plans to, or sold in the previous fiscal year, its tax levy, pursuant P.L. 1997, c. 99.
- g. The Director's subsequent review of the previous year's locally examined adopted budget shows that the budget failed to meet the requirements of local examination. Such a finding shall disqualify a municipality from local examination for the following three years.
- h. If in the opinion of the Director, the fiscal integrity or solvency of the municipality will be jeopardized by local examination.

Notwithstanding these exceptions, the Director has sole discretion to waive any of these criteria and permit participation if it is felt that fiscal integrity will not be jeopardized.

Program Qualification

Once **eligible** to participate, the municipality must then **qualify** for the program. Qualification is a determination by the Chief Financial Officer that the municipality meets all of the following six conditions:

- a. The outstanding indebtedness of the previous fiscal year is not in excess of 3.5 percent.
- b. All emergencies approved for the previous fiscal year did not exceed 3 percent of total appropriations.
- c. The tax collection rate exceeded 90 percent.
- d. Total deferred charges did not equal or exceed 4 percent of the total tax levy.
- e. There were no "agreed upon procedural deficiencies" not performed by the registered municipal accountant on Sheet 1a of the Annual Financial Statement.
- f. There was no operating deficit for the previous fiscal year.

Having completed this analysis, the Chief Financial Officer must submit the results to the Division on Sheet 1c of the Annual Financial Statement. Please disregard the form if you are ineligible for local examination. Once submitted to the Division, the eligible municipality may conduct its own examination. If not eligible, the Director will conduct the examination. For SFY 1998, the Qualification Certification must be filed with the Division by August 10, 1997, which is the deadline for submission of the AFS.

"Opting Out"

Even though a municipality may go through the eligibility and qualification process, the governing body may choose to have the Director conduct the examination. This option cannot be elected by the CFO. The governing body must pass a resolution waiving its rights to locally examine, and request the Director to conduct the examination. This choice must be made any time prior to introduction of the budget.

Budget Examination

The rule reflects the statutory responsibility granted to the Director for what must be examined and certified in the budget. The rule contains five distinct categories that the CFO and governing body must review and approve:

1. That, with reference to the following items, the amounts have been calculated, pursuant to law, and appropriated as such in the budget:
 - a. Payment of interest and debt redemption charges
 - b. Deferred charges and statutory expenditures
 - c. Cash deficit of preceding year
 - d. Reserve for uncollected taxes
 - e. Other reserves and non-disbursement items
 - f. Any inclusions of amounts required for school purposes
2. That the provisions relating to limitation on increases of appropriations, pursuant to N.J.S.A. 40A:4-45.2, and appropriations for exceptions to limits on appropriations found at N.J.S.A. 40A:4-45.3 et seq. are fully met. (Complies with the "CAP" law.)
3. That the budget is in such form, arrangement, and content as required by the Local Budget Law and N.J.A.C. 5:30-4 and 5:30-5.
4. That pursuant to the Local Budget Law:
 - a. All estimates of revenue are reasonable, accurate, and correctly stated;
 - b. Items of appropriation are properly set forth
 - c. In itemization, form, arrangement, and content the budget will permit the exercise of the comptroller function within the municipality
5. The budget and associated amendments have been introduced, publicly advertised, and adopted in accordance with the relevant provisions of the Local Budget Law, except that failure to meet the deadlines of N.J.S.A. 40A:4-5 shall not prevent such certification.
6. That all other applicable statutory requirements have been fulfilled.

Prior to budget adoption, the CFO and governing body must **both** agree that these requirements have been met. The CFO must certify that the criteria have been met, and the governing body must execute a resolution approved by a majority of its full membership. Samples of both documents are enclosed with this Notice.

The Division appreciates that there may be individual items of disagreements between the CFO and governing body or between governing body members themselves. To that end and to avoid delays in budget adoption, the system provides for anyone who must sign-off or vote on the budget examination to take an "exception" to any elements they believe do not meet the criteria and submit the matter to the Director for review. Thus, by taking a specific exception to a particular matter, the CFO or governing body member can ask the Director to review just that matter. The Director will then review the issue and provide a binding determination.

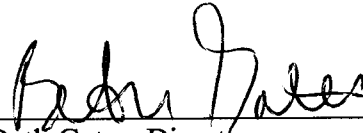
Failure of the CFO or governing body to execute the Certification (with or without exceptions) will result in the Director examining the budget in full.

Post-Adoption — Certification of Tax Levy

Once any exceptions are resolved by the Director, and the certification has been executed, the governing body may adopt the budget. The municipal clerk must file the certification and two copies of the adopted budget with the Division. Upon receipt and verification that the budget was adopted, the Division will accept the budget, and signify acceptance by certifying the tax levy to the County Board of Taxation.

Role of the Registered Municipal Accountant

While the RMA is not required to approve local examination certifications, local governments should involve their RMA in reviewing their budget as they have done in the past. RMA certification of local examination is not required because of the added expense that may be incurred and that the role of the RMA, in conducting the audit, may conflict with a formal approval of the budget.



Beth Gates, Director
Division of Local Government Services

Enclosure

Distribution: State Fiscal Year Municipal Chief Financial Officers

Governing Body Approval of Local Budget Examination

(insert name of municipality, fiscal year, and name of governing body as appropriate)

WHEREAS, pursuant to N.J.S.A. 40A:4-78b, the Local Finance Board, has adopted rules that permit municipalities in sound fiscal condition to assume the responsibility, normally granted to the Director of the Division of Local Government Services, of conducting the annual budget examination; and

WHEREAS, pursuant to N.J.A.C. 5:30-7.2 through 5:30-7.5, the _____ of _____ has been declared eligible to participate in the program by the Division of Local Government Services, and the Chief Financial Officer has determined that the _____ of _____ meets the necessary conditions to participate in the program for the _____ fiscal year, so now therefore:

BE IT RESOLVED, by the _____ of the _____ of _____ that, in accordance with N.J.A.C. 5:30-7.6a & b, and based upon the Chief Financial Officer's certification, the _____ has found the budget has met the following requirements:

1. That with reference to the following items, the amounts have been calculated, pursuant to law, and appropriated as such in the budget:
 - a. Payment of interest and debt redemption charges;
 - b. Deferred charges and statutory expenditures;
 - c. Cash deficit of preceding year;
 - d. Reserve for uncollected taxes;
 - e. Other reserves and non-disbursement items; and
 - f. Any inclusions of amounts required for school purposes.
2. That the provisions relating to limitation on increases of appropriations, pursuant to N.J.S.A. 40A:4-45.2, and appropriations for exceptions to limits on appropriations found at N.J.S.A. 40A:4-45.3 et seq. (complies with the "cap" law) are fully met.
3. That the budget is in such form, arrangement, and content as required by the Local Budget Law and N.J.A.C. 5:30-4 and 5:30-5.
4. That pursuant to the Local Budget Law:
 - a. All estimates of revenue are reasonable, accurate, and correctly stated;
 - b. Items of appropriation are properly set forth; and
 - c. In itemization, form, arrangement, and content the budget will permit the exercise of the comptroller function within the municipality.
5. The budget and associated amendments have been introduced and publicly advertised, in accordance with the relevant provisions of the Local Budget Law, except that failure to meet the deadlines of N.J.S.A. 40A:4-5 shall not prevent such certification.
6. That all other applicable statutory requirements have been fulfilled.

BE IT FURTHER RESOLVED, that a copy of this resolution be forwarded to the Director of the Division of Local Government Services.

Chief Financial Officer's Certification of Approved Budget
(insert fiscal year, and name of municipality as appropriate)

It is hereby certified that the ____ Approved Budget of the _____ of _____
complies with the requirements of law; and approval is given, pursuant to N.J.S.A. 40A:4-78(b) and N.J.A.C. 5:30-7.

It is further certified that the municipality has met the eligibility requirements of N.J.A.C. 5:30-7.4 and 5:30-7.5, and that I, as Chief Financial Officer, have completed the local examination in compliance with N.J.A.C. 5:30-7.6.

Date: _____

By: _____
Chief Financial Officer

Name: _____

Certification #: _____

This certification form and resolution of the governing body certifying approval should be annexed to the adopted budget. N.J.A.C. 5:30-7.6(e)