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Local Finance Notice

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CY 2015 Budget Matters

This Local Finance Notice provides information with respect to CY 2015 budgets.

Early Budget Planning and CY 2015 Budget Deadline Extension and Enforcement

Municipalities that have not yet begun to plan and prepare their 2015 budgets are already behind and should immediately begin the process. Consistent with 2014, the Division of Local Government Services will allow an extension to introduce and adopt 2015 budgets.

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 some comfort in early and appropriate fiscal planning and the Division believes in facilitating early planning to protect New Jersey's strong credit history.

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 2015 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 at the December meeting the statutory budget deadline revisions set forth in the table on page 2. As in the past, the changes modify the statutory dates for introduction, adoption, and Mayor/Council Faulkner Act and related budget transmissions.

These 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	2/12
Municipal introduction and approval of budget	2/10	3/13
County introduction and approval of budget	1/26	3/13
Municipal adoption	3/20	4/24
County adoption	2/28	4/24

*or the next regularly scheduled meeting of the governing body.

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 13, 2015, extend the adoption date of the 2015 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 will only have one opportunity to apply for Transitional Aid to Localities (Transition Aid). The due date for application is March 13, 2015 or the next regularly scheduled meeting of the governing body. 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 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 2014 may anticipate Transition Aid in an amount equal to **85 percent** of their CY 2014 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 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, with additional reforms 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. Such solutions can, when applied in moderation be appropriate solutions while structural reforms are implemented. Local officials should understand the structural imbalances their communities may face. Further, 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. If the Local Finance Board adopts the municipal User-Friendly Budget rule proposed at its September meeting, this sheet will be moved to the user-friendly budget form.

1. **2015 Revenues at Risk:** these are anticipated revenues that will not recur in 2016, 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. **2015 Non-Recurring Cost Reductions:** These are proposed reductions in line items that will not recur in 2016, 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 2016.
3. **Anticipated 2016 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 2015).
4. **Structural Imbalance Offsets:** These are budget changes that are expected to occur in 2016 that offset the impact of the three items above. These offsets may include new or one-time 2015 appropriations or non-recurring increases in 2015 appropriations that will not appear in 2016 and out-year budgets. Examples of these include: 2015 funding of deferred charges from a prior year; 2015 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 2015, or contractually required increases in payments under supply contracts or service agreements.

IV. Governor's Budget and Municipal Aid

The Governor is expected to propose a State 2016 FY budget at the end of February. At the very latest, 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 2015 Budget and Levy Cap Issues

Local Examination: Group 3 budgets will be examined by the Division for CY 2015. Groups 1 and 2 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 three 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 and 2014 budget, the Director allowed the anticipation of FEMA reimbursements as revenue to offset the budgeting on the first and second 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 2015 budget, FEMA revenue will be allowed to be anticipated to offset special emergency appropriations only if the corresponding amounts are available per the State OEM website. However, a portion of the 10% municipal share will also have be funded in 2015. The 10% share of the portion of the special emergency that is supported by project worksheets will be funded in the 2015 budget. This 10% portion will be split over the remaining 3 years. An analysis should be submitted with the introduced budget.

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 7.4 percent. The levy cap workbook will calculate the exclusion, which will be the increase over 2 percent up to the 7.4 percent maximum. The appropriation cap exception will be the increase over 4 percent up to the 7.4 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.

Information on "identification of excess funds" can be obtained from the State Library [website](#). 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 2011, 2012, 2013 and 2014 budgets posted (PDF format recommended). Once the 2015 budget is adopted it should be posted (and 2011 may be dropped). Municipalities without their own website should contact the Division (dlgs@dca.nj.gov) to send copies of their adopted 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 dlgs@dca.nj.gov, 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: The Division plans to implement the new "User Friendly Budget" summary as part of the CY 2015 adoption cycle if the rule is adopted at the January 2015 Local Finance Board meeting. 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. The User-Friendly Budget would be a required part of both the introduced and adopted municipal budget.

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 a 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 in areas such as shared services, property tax rates and collection rates, long-term tax exemptions and abatements, and debt. See [Local Finance Notice 2014-19](#) for further information concerning the User-Friendly Budget.

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

Table of Web Links

Document	Internet Address
Information on Library Surplus Transfers	http://lss.njstatelib.org/lss_files/ReturnOfFundsPacket040814.zip
Local Finance Notice 2014-19 (Municipal User-Friendly Budget Form)	http://www.nj.gov/dca/divisions/dlgs/lfns/14/2014-19.pdf