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Notice Number

New Jersey Department of Community Affairs
Division of Local Government Services

2/2/98

Date

LOCAL FINANCE NOTICE

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GOVERNOR

JANE M. KENNY
COMMISSIONER

BETH GATES
DIRECTOR

CY 1998 BUDGET INFORMATION

This Local Finance Notice contains important information concerning the preparation and submission of your CY 1998 Budget, 1997 Annual Financial Statement and subsequent budget amendments. *Please read this carefully and share this Notice with your elected officials, chief administrator, municipal clerk or clerk of the board, and registered municipal accountant.* Included with this Notice are the following items:

- CY 1998 Municipal Information Sheet;
- CY 1997 Chapter 159 Summary Report;
- Sample Budget Publication Notice;
- The Local Finance Board's 1998 meeting schedule;
- Local Finance Board application mailing information; and,
- A subscription form to receive **all** Local Finance Notices issued in 1998. Use this form if you want to receive all Notices, not just those targeted toward individual officials.

Introduction

Adherence to the statutory deadlines for the introduction and adoption of municipal and county budgets and the filing of annual financial statements and annual audits will be enforced. All calendar year municipalities must introduce a 1998 budget and file a 1997 annual financial statement by February 10. All counties must introduce a 1998 budget and file a 1997 annual financial statement by January 26. Noncompliance may jeopardize a municipality's eligibility for discretionary aid, and may subject municipal and county governing body members to penalties.

State aid information will be forthcoming, once the Governor's budget is announced. **Concerns over State aid should not preclude your municipality from introducing a budget by February 10.** Local governments have statutory authority to anticipate revenues certified by the Director of the Division of Local Government Services and others up to the amount realized in the prior year for introduction purposes. Any final adjustments may be corrected through the budget amendment process. As always, receipt of State aid is subject to final passage of the State budget.

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 for municipalities and counties. This form meets the minimum required by law, though publication of additional detail is encouraged and printing the full document is still permitted. Pursuant to advice from the Attorney General's office, if the summary is utilized, upon request, copies of the complete budget **must** be made available to the public free of charge.

Director's Office
(609) 292-6613

Local Government
Research
(609) 292-6110

Financial Regulation
and Assistance
(609) 292-4806

Local Finance
Board
(609) 292-4537

Local Management
Services
(609) 292-7842

Authority Regulation
(609) 984-0133

Fax
(609) 984-7388

The following relates to the model form:

- The Summary of Appropriations section entitled "Final 1997 Budget" refers to the 1997 budget as modified by all transfers.
- Items No. 2 and No. 4 on the municipal form and Item No. 4 on the county form "Deferred Charges and Other Appropriations" refer to those categories which do not conform to any of the other categories.
- Total Revenues and Total Appropriations must balance.

Budget Review - Local Examination

N.J.S.A. 40A:4-78(b) and rules promulgated by the Local Finance Board permits certain 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.

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 three copies of the introduced and adopted budgets, special item checklists, and any other documentation that is normally part of the budget review process. The Division must have a complete file for every municipality, regardless of who examines the budget.

The Group Number and eligibility status of your municipality is shown on your Municipal Information Sheet, which is included with this Notice. For 1998, Group 2 will be examined by the Division and Groups 1 and 3 are able to participate in the Local Examination Program. The qualification form to be completed by the Chief Financial Officer is now part of the Annual Financial Statement. Please note, if your municipality conducted an accelerated tax sale in 1997 or you are planning to conduct one in 1998, your municipality does not qualify for local examination. Also, if your municipality is planning a Tax Levy Sale, you do not qualify for local examination.

Even though a municipality may successfully pass the eligibility and qualification process, the governing body may choose to have the Director conduct the examination. This option cannot be elected by the Chief Financial Officer. 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 prior to the introduction of the budget.

If the municipality is deemed eligible and qualifies for local examination, the examination must be completed, pursuant to N.J.S.A. 40A:4-45.3, 4-76 and 77 and any other applicable statute. Prior to budget adoption, the Chief Financial Officer and governing body must both agree that these requirements have been met. On the forms distributed with the budget packages, the Chief Financial Officer must certify and the governing body must execute a resolution approved by the majority of its full membership.

The Division will signify acceptance of the adopted budget by certifying the levy to the County Board of Taxation. You will not receive a copy of the budget in the mail.

CY 1998 Budget Cap

Local units have received their 1998 CAP and CAP banking calculations. CAP rates and model documents were included with Local Finance Notice CFO-97-15. Local units will receive a "CAP Bank" for the unused portion of total allowable operating appropriations calculated at a rate of five percent (5%). The CAP bank has a useful life of two (2) years.

For local units planning to utilize a CAP index rate ordinance in CY 1998, the ordinance, in the case of a municipality and resolution or ordinance in the case of a county, must be introduced prior to the introduction of the budget and adopted prior to the adoption of the budget. Copies of the introduced and adopted ordinance or resolution must be submitted to the Division.

Under the provisions of the CAP law, no transfers may be made from or among outside CAP appropriations. To avoid illegal transfers and overexpenditures, the Division suggests grant and library appropriations be budgeted as a single, all-purpose line item, instead of the traditional "salary and wages" and "other expenses" line items.

If the municipality plans to use cash surplus as a CAP waiver, approval from the Local Finance Board is required. An application can be obtained by calling (609) 292-4537. It must be completed timely and scheduled for Board approval prior to final adoption of your budget. Please note that the Local Finance Board will not entertain any applications unless the annual financial statement, budget and CY 1996 audit have been filed with the Division.

If your municipality had an appropriation for Municipal Services Act outside the CAP in 1997, this appropriation was added to the CAP base for 1998. This appropriation should now be included inside the CAP.

Counties should also be aware that P.L. 1997, c.52 provides a CAP exception for certain mosquito control activities.

Energy Receipts Tax - 1997 Revenue

Local Finance Notice CFO-97-11 (July 11, 1997) noted that at the end of June 1997 the Legislature passed measures to reform the Gross Receipts and Franchise Tax (GR&FT) program. The reform bills replace the GR&FT with a new Energy Receipts Tax (ERT). The state aid you received in CY 1997 was based on the new distribution, while the revenue anticipated in CY 1997 budgets reflected a lower amount. Notice CFO-97-11 required that the difference between what was budgeted (the lower amount) and what was received was to be reserved for anticipation in CY 1998's budget. Thus, CY 1998 budgets must show this amount anticipated as "1997 Energy Receipts Tax Reserved." The State Aid Certification will include this amount.

Special Items of Revenue

As implemented several years ago, special items of revenue resolutions are no longer required by the Division. Regardless of the municipality's Local Examination status, 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.

New Laws

P.L. 1997, c.256 provides requirements for local governments to administer funding and public defender services, beyond what may have been provided in the past. A separate Local Finance Notice has been prepared and will reach you shortly. It has an impact on many municipalities and should be carefully reviewed in context of the budget.

P.L. 1997, c. 24, consolidated and established procedures for open space, recreation, farmland, and historic preservation dedicated trust funds. While this only affects a few counties and municipalities in 1998, a separate Notice is being issued and will reach you shortly as well.

Accelerated Tax Sale/Levy Sale

A municipality that conducted an accelerated tax sale in 1997 or is planning on conducting an accelerated tax sale or levy sale in 1998 is ineligible for local examination. Proceeds realized from an accelerated tax sale or a levy sale should not be included as part of the tax collection rate per the legislation. Two new Annual Financial Statement sheets were added to aid 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. On Sheet 25, the Reserve for Uncollected Taxes Calculation is calculated using the percentage of collection from Sheet 22a. 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 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.

Pension Appropriations

As a result of the Pension Security law adopted on June 5, 1997, local units have reduced pension obligations in their CY 1998 budgets. Calendar year municipalities are not required to include an appropriation for Public Employees Retirement System, and Police and Firemen's Retirement System employers have received credit reducing their normal billing. 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. Questions regarding pension billing should be directed to the Division of Pensions and Benefits at 609-984-4517.

Alternate Calculation of Reserve for Uncollected Taxes

N.J.S.A. 40A:4-41(c), enacted into law in 1997 (P.L. 1997, c.28), provides 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. Both provisions require a governing body resolution **adopted prior** to introduction of the budget to utilize them. Recent 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

Amending resolutions must be certified for mathematical accuracy by the registered municipal accountant. Regardless of the municipality's local examination status, 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. For municipalities whose budget is examined by the Division, if the amendment does not require advertisement, the municipality may amend and adopt at the same meeting, provided a copy of the amendment is approved by the Division prior to the meeting.

Municipalities conducting a local examination are subject to publication requirements and must file the amendment with the Division, though Division approval is not required.

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. Special attention by the Chief Financial Officer should be paid to amendment reviews where Local Examination is in effect.

Upon receipt of the adopted budget and verification of the levy, the Division will certify the CY 1998 municipal or county purpose tax levy to the County Board of Taxation. A municipality with a Type I school should submit the Board of School Estimate resolution setting the school levy, the concurring resolution of the municipal governing body, if applicable, and a copy of the A4F form to the Division.

Amendments After Budget Adoption

For budget year 1998, the Division will institute a deadline for receipt and approval of Chapter 159 resolutions. The absolute deadline for receipt of CY 1998 Chapter 159 resolutions is December 18, 1998. Any resolutions received after this date will be denied. Also, emergency resolutions passed toward the end of December will be strictly monitored. If expenditures or commitments have been made prior to the passage of the emergency then this must be treated as an overexpenditure or an overcommitment.

Other Information — Length of Service Awards Programs

A recently enacted law (P.L. 1997, c.388) allows creation of "Length of Service Awards Programs " (LOSAP). The law **annuity or insurance program based on their length of service to the volunteer organizations.** Excluded from this program are the traditional fixed value life insurance programs many municipalities provide to their emergency service volunteers. The new law creates a formal system of how these programs must operate. One of the requirements is that any program currently in operation must be reported to the Director of the Division of Local Government Services within 60 days of the law's enactment, otherwise it cannot operate in the future. While its primary impact is on fire districts, there may be some municipalities that offer this type of program. If your municipal government operates a LOSAP, please contact the Division at 609-292-2524 immediately for information on the required filing.

The new law provides municipalities and fire districts a statutory and regulatory basis to provide these types of programs to their emergency service volunteers. Additional information on how to create a LOSAP will be detailed in a forthcoming Local Finance Notice.

If you have any questions on information in this Notice, contact the Bureau of Financial Regulation and Assistance at (609) 292-4806.

Beth Gates

Beth Gates, Director
Division of Local Government Services

Enclosures

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