

# **DOE UPDATE**

## **Division of Finance**

December 2002



# DOE Update

- Hot Topics
- Capital Reserve Refresher
- Capital Projects Management
- Fiscal Policy Updates
- 03-04 Budget Enhancements/Changes

# Hot Topics



- State aid notices will follow the Governor's budget message, currently scheduled for February 4.
  - All aid allocations (incl. DLNA), PERs contribution, & fiscal policies for 03-04 announced at that time.
  - Major changes related to budget development announced during regional sessions Jan. 13, 14 & 15
- Part I of budget software available week of Jan. 15
- New regional office structure and fiscal coordinators

# FYI

- Memo will be issued to all districts regarding state's allocation of tobacco settlement bond proceeds
  - No change to district accounting or reporting
  - No change in allocation of district state aid in 02-03

# Capital Reserve Refresher

Deposits, Withdrawals

“Other Capital Projects” and  
“Excess Costs”

Referendum Projects

Accounting and Transfers



# Capital Reserve – Summary

**To implement capital projects in LRFP; and  
To transfer to debt service for EFCFA bonded projects.**

## Deposits of Surplus

- During the year, by board resolution
- Up to the amount of your beginning (7/1) surplus balance
- By June 30

## Withdrawals

- At budget time for “other capital projects,” “excess costs,” & “old” monies for purposes not in LRFP
- By board resolution for “local share less excess costs” of eligible projects

# Other Capital Projects & Excess Costs - Definitions

- “Other capital projects” are projects not eligible for funding OR projects you elect not to seek funding
  - BUT they still require submission and DOE approval prior to award
- “Excess Costs” are costs for items or spaces that are beyond the *Facilities Efficiency Standards (FES)*
  - Excess Costs  $\leq$  Ineligible Costs

# Capital Reserve

## *“Other Capital Projects” & “Excess Costs”*

- MUST receive voter (or board of school estimate) approval
  - Option to receive voter approval upon deposit OR upon withdrawal
    - If upon deposit – monies are restricted

### When and How?

1. At budget time – detailed on SD12 along with a statement of purpose in the advertised budget
2. At a special election (type II) via ballot question

# Statement of Purpose

- Included in advertised budget (not a separate ballot question) or at a special election (ballot question)
- Required contents (NJAC 6A:26-9.1(e)3ii)
  - Statement of purpose for the capital project that the withdrawal/deposit will fund
  - Amount requested for withdrawal/deposit
  - Total project cost & for excess costs only, the final eligible cost
- Statement is not generated by software

## *Example*

Roof Project for \$100,000

- No Excess Costs – Local Share \$60,000  
To be funded out of Capital Reserve
- Bids come in at \$120,000  
Local Share Increases to \$80,000

Can the \$80,000 be withdrawn from capital reserve by board resolution???

**YES!!!!!!**

Add'l \$20,000 is ineligible for more grant funds but it is not an excess cost

## *Example*

Referendum Project Total Cost \$10 million

- No Excess Costs – Local Share \$6 million  
To be funded by Bonds
- Award Contracts for \$9.5 million (incl total estimated architect cost), which leaves \$500,000 or 5% contingency

Can the board approve more than \$500,000 of change orders if it has capital reserve funds available?

**NO!!!!!!**

# Capital Reserve for Referendum Projects

1. Capital Reserve and amount must be specifically stated in question as a source of funding the local share
2. The capital reserve amount must be itemized in the amount of local share and total cost of the project
3. Without the itemized amount stated and included in the total cost, no transfer authority has been granted to BOE.

# Capital Reserve and EDA Grant Accounting

Guidance Issued 10/31/01

Provides examples of entries for each activity.

<http://www.nj.gov/njded/finance/fp/af>

# Local Share Transfers to Fund 30

- Do not transfer until executed EDA grant agreement
- Transfers - two appropriation lines
  - 12-000-400-931 Capital Reserve Transfer to Capital Projects
  - 12-000-400-932 Current Capital Outlay Transfer to Capital Projects
- Capital Reserve and capital outlay transfers are expended in Fund 12 and transferred to Fund 30

# Recording Transfers

- For budget preparation, transfers to other funds are budgeted as appropriations to ensure each fund is balanced (revenue = appropriations).
  - Similar to transfer to food service
- At year end, the transfer to another fund is reclassified to “Other Sources and Uses” and not reported as an appropriation.

# Capital Projects Management

## Five Key Points

1. DOE Approval
2. Plan Ahead
3. EDA Contract
4. Referendum Question
5. Referendum Voter Approval

## Common Issues & Audit Findings



# Capital Projects Management

## #1 – *DOE Approval*

1. All Capital Projects require DOE project approval, regardless of funding source and previous inclusion in approved LRFP.
  - Includes projects not seeking state funding (“other capital projects”)

In addition, all “Other Capital Projects” & “Excess” Costs for eligible projects require funding approval by local voters or board of school estimate.

# Capital Projects Management

## #2 – *Plan Ahead*

### 2. Begin planning and submission of 03-04 Capital Projects NOW

#### WHY?

- To determine local share amount to be budgeted in 03-04;
- To get requisite voter approval for any excess costs; and
- To have an EDA grant in place (signed) when ready to award bids.

# Capital Projects Management

## #3 – *EDA Grant*

3. Have a signed & executed EDA Grant Agreement in place BEFORE awarding contracts

If NOT,

- Audit Finding
- Forwarded to the Office of Compliance Investigations:
  - Determination if awarded without funds available; or awarded using surplus or other funds without voter approval or not in accordance with regs

# Capital Projects Management

## *#4 – Referendum Question*

4. The total project cost stated and approved in the Referendum Question is your spending limit!
  - Other Sources of Funds (capital reserve, interest, surplus, etc.) can be used ONLY if the amount and source is listed AND included in the Total Cost.
  - But remember, local share can be shifted among projects AS LONG AS all projects can be completed as approved.

# Capital Projects Management

## *#5 – Voter Approval*

5. Use the April election to receive voter approval for use of capital reserve and/or surplus for previously approved referendum project
  - Include in 03-04 budgeted appropriations & detailed on SD12;
  - Discuss in public hearing & document in minutes; and include a
  - Statement in advertised budget (not generated by software)
    - Include referendum project cost, amt to exceed referendum via transfer, reason for need to exceed originally voter approved amt.

# Common Problems & Audit Findings

- Awarding Bids & Completing Projects before LRFP or capital project approved by DOE Facilities
- Recording EDA grant revenue before grant agreement is signed and executed
- Awarding contracts before EDA grant agreement signed/executed
- Awarding contracts with insufficient contingency
  - N.J.A.C. 6A:26-4.8 requires 5% contingency



# Common Problems & Audit Findings

*cont.*

- Transferring local share to Fund 30 before EDA grant agreement is signed and executed or before referendum passed
- Insufficient central office tracking & oversight of project expenses, change orders & fiscal status
  - Too much reliance on construction management firm, architect and other consultants for oversight and management of project costs



# Common Problems & Audit Findings

*cont.*

## ....for Referendum Projects

- Questions not in accordance with law/regulations
- Assuming interest or capital reserve can be used for project without requisite amount in question
- Transferring cost overruns to GF
- Insufficient central office fiscal tracking & oversight



# Fiscal Policy Updates

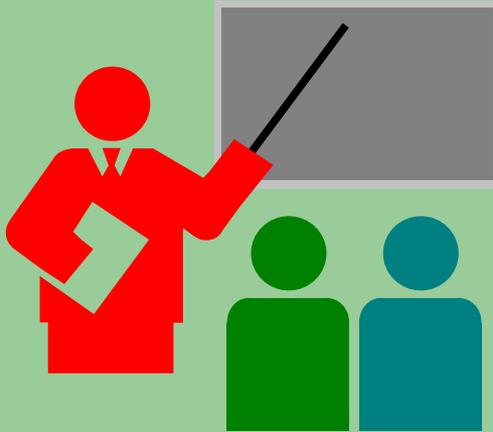
ERIP

Extraordinary Aid

CEIFA Code

COA

Funding Working Group



# 1. ERIP Refinancing

- Q&A <http://www.nj.gov/njded/finance/fp/af>
- No restrictions on use of April budgetary savings
  - Anticipate in recap of balances
  - DOE encourages use for tax relief in 03-04
- Refunding payment in Fund 40 will remain part of Tuition Calculation
  - NO state board action for code change necessary
  - Included in est. tuition rate in 03-04 software

## 2. Extraordinary Aid 02-03

- Web-Based application
  - Application, instructions & FAQs are available
  - Completed applications due 1/31/03
- Notification of reimbursement amounts in Spring 03
  - Record account receivable in 02-03
  - Cash payment in 03-04
- Develop 03-04 Budgets as usual

## 3. CEIFA Code Changes

- Effective August 5, 2002
- Revisions to subchapter 5 & new subchapter 8 in Finance/Business Services (N.J.A.C. 6A:23)
- Key Changes
  - 3% minimum surplus
  - DEPA budgets
  - Capital outlay budgets
  - Transportation SGLA
  - Separate proposals

## 3. CEIFA Code Changes (cont.)

- 3% Minimum Surplus
  - Applies to regular & vocational districts not otherwise restricted to a lower amt by law.
  - At budget time, cannot appropriate FB below 3%.
  - During year, can appropriate below only after written request & approval from county superintendent.
  - January budget rollout will issue written guidelines for such requests.

### 3. CEIFA Code Changes (cont.)

- DEPA Budgets by School
  - No longer required to develop budgets by strategy, only by school.
- Restriction on Capital Outlay Budget
  - Cannot transfer from capital outlay (SD4 projects) to current expense without written request and approval of county superintendent “upon demonstration of hardship.”
  - Withdrawals from capital reserve to capital outlay cannot be used for current expense.

### 3. CEIFA Code Changes (cont.)

- Changes in Transportation SGLA for Courtesy Busing
  - Revised calculation to reflect more detailed DRTRS data for courtesy miles.
  - No longer have district choice option to allocate total costs to courtesy busing; must use calculation.
  - Reflecting impact on some districts expect delay in the elimination of the “allocation option” to 04-05.

## 3. CEIFA Code Changes (cont.)

- Separate Proposals (N.J.A.C. 6A:23-8.5)
  - If multiple purposes are approved, BOE may transfer among purposes, AS LONG AS, all purposes can be completed.
  - If rejected, the governing body may restore some or all of the project(s) proposed. No amts can be appealed to the Commissioner.
  - If amt(s) restored are not sufficient to complete project(s), BOE must reserve & designate monies in subsequent year.

## 3. CEIFA Code Changes (cont.)

- Separate Proposals (cont.)
  - Purposes for amts not restored may be implemented in budget year through donation or contribution from external source AS LONG AS, receipt/implementation does not commit the BOE to future funding.
  - Revenue from such donation or contribution for a defeated purpose will NOT become part of the subsequent year's base budget.

## 4. January Announcements

- Delay in June 03 State Aid Payment
  - Still under consideration; announcement no later than Governor's budget address.
  - If implemented, will pursue ability for districts to borrow after January 1.
- PERS Contribution for 03-04
  - Determined no later than Governor's budget address.
  - Budget amt to be conservative
- Maximum Surplus Amount

## 5. COA Revisions

- NCES issued draft (11/20/02) of revised accounting handbook (chart of accounts)
  - [http://nces.ed.gov/forum/draft\\_reviews.asp](http://nces.ed.gov/forum/draft_reviews.asp)
  - Comments requested by 12/16
- NCES indicates implementation upon issuance of final revised handbook
  - Estimate handbook published by the end of February.
  - Everyone needs to comment implementation must begin at start of FY - Impact on 03-04

## 5. COA Revisions (cont.)

- NJDOE Proposed Schedule for 04-05 COA Revision
  - Internal committee established
  - Proposed draft of revisions – spring/early summer 2003
  - External committee review – summer 2003
  - Final issuance – fall 2003

## 6. Funding Working Group

- Revamping Funding System for 04-05.
  - Several meetings over the past year
  - Purpose to alleviate concerns about the formula
  - Two committees currently operating to examine issues of:
    - Adequacy (T&E model & categorical allocations)
    - Ability to Pay (determination of wealth & use of income)
  - Process to be used will involve as many as 50 practitioners from districts and professional groups in February and March of 2003.

## 6. Funding Working Group (cont.)

---

Questions, comments, suggestions...

[survey@doe.nj.state.us](mailto:survey@doe.nj.state.us)

# 2003-04 Budget

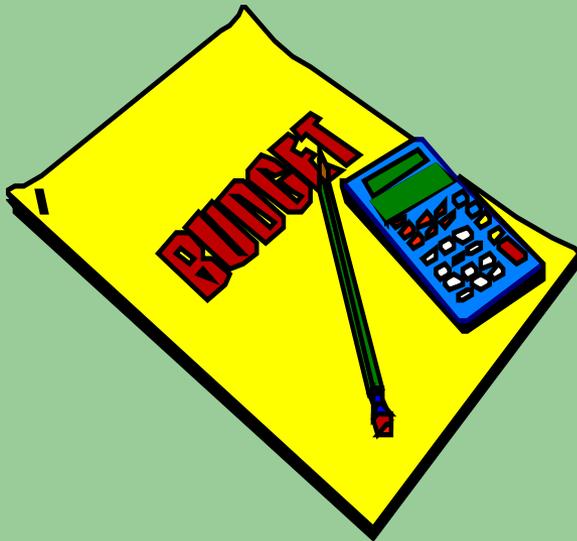
2<sup>nd</sup> Year Cap Banking

3% Min Surplus

DEPA Budgets

Tuition Reserve

Recap of Balances



# Budget Software Changes

- Second year of cap banking
  - Not the last year
  - Revised report
- 3% minimum surplus
  - New report and fatal edit
- New column in recap of balances for tuition reserve
  - Preloaded audsum amt; no 03-04 entry or appropriation
- DEPA budgets by school only

# Budget Software Changes (cont.)

- Estimate Tuition Rate
  - Includes two new ERI lines in Fund 40
- SD6 and Special Ed SGLA
  - Expanded to enter tuition amount for \$100,000 or more
  - Added new column in SD6 for extended school year in 02-03 budget
- Advertised report subtracts GF transfer to special revenue from total

# Budget Process

- Additional support of surplus balances in Recap of Balances
  - Support to “Additional Balances to be Appropriated” (line 1630); and
  - Support to “Additional Balances Anticipated” (line 1640)
  - Latest board secretary report
- Greater review by county offices of surplus balances and opportunities for budgetary savings

# Schedule

- Guidelines and election calendar distributed January 9 to county offices
  - Regional budget sessions January 14-16 on specifics of software and process changes
- Software
  - All on **NEW DOENET**
  - Part I available week the January 15
  - Part II available after Governor's Budget Address scheduled for February 4

**??? Questions ???**

