



LFN 2011-4R

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Local Finance Notice

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Distribution

Municipal and Freeholder
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 Municipal and County Chief
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CY 2011 and SFY 2012 Budget Development Matters

This Local Finance Notice reviews matters related to CY 2011 budgets and also applies to SFY 2012 budgets. It requires the attention of officials under both fiscal years (the SFY 2012 material will be repeated and modified as necessary when specific SFY 2012 budget guidance is issued).

This Notice should be read in concert with Notices [2011-2](#) and [2011-3R](#). Those notices provide guidance and direction, respectively, regarding changes to the budget calendar and the impact of the 2010 Levy Cap Law. Additional guidance is forthcoming soon on the detailed procedures of conducting a levy cap referendum.

Transitional Aid Applications

It is presently anticipated that the Governor's FY 2012 proposed State budget will include an appropriation for Transitional Aid (TA). In anticipation of the budget announcement, the Division will make applications available by early February and they will be due, along with the Annual Financial Statement, Annual Debt Statement, and the introduced budget that includes an anticipated levy cap referendum, by March 11th.

TA applicants are required to anticipate a possible budget referendum in the event their application is denied or, in the determination of local officials, that the aid allocation is insufficient and a referendum is warranted.

In considering applying for Transitional Aid, potential applicants should carefully review the [model Memorandum of Understanding \(MOU\)](#) that will be required of all recipients. The MOU, subjects the municipality to Division of Local Government Services oversight for a wide range of government actions, such as approval of professional service contracts and key personnel appointments. It also requires the governing body to adopt a pay-to-play ordinance that meets or exceeds the [model ordinance](#) provided by the Division. The model ordinance is subject to modification up until the time the program requirements are finalized.

Aid will be awarded prior to the April 7th deadline for setting a referendum amount. A separate Local Finance Notice on the Transitional Aid Program and application forms will be issued in several weeks.

This Notice was revised on March 1, 2011 as 2011-3R to reflect changes made in Notice 2011-10.

Other Budget Matters

Local Examination: Group 1 budgets will be examined by the Division for CY 2011. Groups 2 and 3 are 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](#) is on the Division website. Local examination municipalities must follow all applicable statutory deadlines.

Levy Cap Workbook: The municipal CY 2011 Levy Cap Workbook (Excel file) has been completed. Both the [municipal](#) and [county](#) levy cap workbooks can be downloaded Division website. Customized County cap workbooks, have been emailed to each County Chief Financial Officer. These versions have the 1977 cap and cap bank calculations completed.

The workbook has been updated to reflect the new law; the main data entry page has been modified to accept new information as required under the law. New pages have been added to show calculations for capital spending and LOSAP exclusions.

A new tab has been created for local units that receive shared services and are taking advantage of the exclusions for increases in pension, health benefits, or capital/debt service increases related to shared service agreements. The new worksheet follows the Instruction tab and requires itemization of current and prior year eligible exclusion costs for each shared service agreement. When this exception is used, the CFO must retain on file (but not send to the Division) the certification from the shared service provider that provided the calculations.

The workbook automatically calculates the levy cap exclusion for group insurance costs for both caps. There is now a separate calculation for the amount that is excluded from the 1977 Cap and budgeted on Sheet 20 (Section C on the Instruction tab of the workbook). The amounts for group insurance must include the total of all inside and outside cap group health insurance appropriations.

The Division will be participating in a series of long-planned seminars during the first two weeks of March to review budget and other local government policy issues. Details on these seminars will be forthcoming through a GovConnect notice and program sponsors.

Municipal Information Sheets: Due to delays in finalizing county Abstracts of Ratables, Municipal Information Sheets are not yet available, but are expected to be issued by February 1.

Posting Budgets on Website: Many local officials may not be aware of a 2007 requirement that each municipality and county post their adopted budgets on their web site (N.J.S.A. 40A:4-10). Legislation currently awaiting the Governor's approval will amend that requirement to provide that only three years of budgets be posted, and that the Division of Local Government Services will post budgets for municipalities without their own website (all counties have a website).

Local officials should immediately post their 2008, 2009 and 2010 budgets (PDF format recommended) and post their 2011 budgets upon adoption. The Division will provide additional guidance for those municipalities without their own website on sending copies of their budgets to the Division for posting. Please note that the provision of N.J.S.A. 40A:4-10 relating to a “user-friendly” budget has not yet been implemented.

Health Insurance Contributions and Waivers: The adoption of Chapter 2 of P.L. 2010 implemented requirements for all local units to begin collecting 1.5 percent of employee salaries to offset employer health care costs. After due consideration and the expression of concern from some local finance officials, the following determinations have been made:

- employee health care contributions shall be treated as a payroll agency transaction;
- employee contributions shall not be credited as a reimbursement to the health insurance appropriation, nor shall contributions be treated as Miscellaneous Revenue Not Anticipated;
- no employee contributions shall be treated as anticipated revenue in a local unit’s budget; and,
- budgeted appropriations for health insurance shall be net of revenue.

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 the value of estimates of future appropriation reductions as those employees currently under contracts begin making contributions when those contracts expire.

Further, effective with CY 2011 budgets, amounts appropriated for employees who receive payments in lieu of accepting health benefits (“waivers”) must be appropriated as a separate line item. The new line item must immediately follow the Health Insurance line item, named as “Health Benefit Waiver” with FCOA Code #23-221.

Notwithstanding the budgeting requirements, for accounting purposes, reimbursements to the health insurance line item appropriation may be made to facilitate the payment of health insurance bills only if the local unit can pay the bill from a single account.

Filing of Shared Service Agreements: As part of the 2007 reforms to shared services law, 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. Local units that provide shared services are directed to file any new, continued, or amended shared service agreements entered into after April 3, 2007, with the Division. It is preferred that these agreements be sent electronically (as Word or PDF) to egg@dca.state.nj.us, or mailed to the Division’s Shared Services Unit, Division of Local Government Services, PO Box 803, Trenton, NJ 08625-0803.

Copies of these agreements may be added to an existing online resource of shared service agreements on the [New Jersey State League of Municipalities website](#).

Library Surplus Transfers: Chapter 83 of P.L. 2010 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 a revenue without an offsetting appropriation and no levy cap adjustment. The previous law required that transfers were voluntary. Approval of the calculation and conditions concerning transfer of funds is subject to the approval of the State Library. State library staff are aware of the requirements and time frames and are prepared to work with local library and fiscal officials to meet budget deadlines.

Once transferred to the municipality, the fund do not have to be used all at once or in the year they are transferred and the anticipation may be spread over several years at the discretion of the governing body. Once transferred, funds not anticipated in the current year budget are to held as a non-spending reserve in the Trust Fund until anticipated in the budget for property tax relief.

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, the same information, known as “identification of excess funds” is also on the [State Library website](#) 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.

Reserve for Uncollected Taxes Calculation Adjustments: Chapter 56 of P.L. 2010 made a modification to the calculation of the tax collection rate (and therefore affecting the reserve amount) by allowing full deduction of the impact of tax appeal judgments on the levy. The law added a new sub-paragraph to part (c) of N.J.S.A. 40A:4-41 and reads as follows:

(c)...(2) If tax appeal judgments of the county tax board pursuant to R.S.54:3-21 et seq., or the State tax court pursuant to R.S.54:48-1 et seq., result in tax reductions for the previous fiscal year, the governing body of the municipality may elect to calculate the current year reserve for uncollected taxes by reducing the certified tax levy of the prior year by the amount of the tax levy adjustments resulting from those judgments. Election of this choice shall be made by resolution, approved by a majority vote of the full membership of the governing body prior to the introduction of the annual budget pursuant to N.J.S.40A:4-5.

The law also eliminated previous requirement that appeals exceed 0.75 percent of the tax levy in order to make an adjustment. The law requires that an authorizing resolution of governing body be passed prior to the introduction of the budget. The resolution must state the specific circumstances and amounts and determination to use the revised formula.

Special Emergencies for Uncompensated Absences: P.L. 2010, c. 46 amended N.J.S.A. 40A:4-53, Special Emergencies by adding a new provision for the use of Special Emergencies, as follows:

h. Contractually required severance liabilities resulting from the layoff or retirement of employees. Such liabilities shall be paid without interest and, at the sole discretion of the local unit, may be paid in equal annual installments over a period not to exceed five years.

From the Division’s perspective, this provision permits “severance liabilities” (a.k.a., uncompensated absences), for retiring employees to be treated as a special emergency and be funded for up to five years. If special emergency notes are issued to fund the payment, the funding of notes are exclusions to the levy cap (see [Local Finance Notice 2011-3](#)). Provisions of the law relating to interest and installments would also be subject to any local ordinances or contractual provisions that authorize the local benefit.

Snow Emergency – Blizzard of December 26 and 27, 2010: Municipalities, counties, and fire districts are eligible to have December blizzard emergency expenses treated as levy cap exclusions upon review of certifications to the Division. Only the portion of costs that exceed the cost of removing snow under non-emergency conditions will be granted for CY 2011 levy cap exclusions.

Emergency expenses are those related to the response, recovery, and restoration of services due to the blizzard that were not anticipated in the CY 2010 budget. Such expenses must be represented by either emergency resolutions or deferred charges that must be raised in the CY 2011 budget. Additionally, any residual recovery costs expended at the beginning of 2011 must be budgeted on a separate line item in the CY 2011 budget designated as “December 2010 Blizzard” on budget Sheet 20.

Finally, to be a CY 2011 budget exclusion for 2010 and 1977 Cap calculations, emergency expenses must be summarized and certified by the Chief Financial Officer as being a result of the declared emergency and included with the introduced budget documentation sent to the Division.

The State has requested the Federal Emergency Management Administration to declare 13 counties as disaster areas because of the blizzard. If granted, those counties will be eligible for FEMA reimbursement of emergency expenses due to the event.

Federal Grants with Future Year Obligations: Local units receiving federal COPS SAFER or others that require future year obligations grants should carefully consider those conditions prior to accepting a grant. There is no levy cap exception for additional local costs if federal grant requirements include out-year local funding as a condition of receiving local match-free current year grants. Local officials should carefully review their individual circumstances to anticipate compliance with future year grant conditions when accepting current grants.

Thomas H. Neff, Director

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1	LFN 2011-2	http://www.nj.gov/dca/lgs/lfns/11lfns/2011-2.doc
1	LFN 2011-3	http://www.nj.gov/dca/lgs/lfns/11lfns/2011-3.doc
1	MOU Model	http://www.nj.gov/dca/lgs/lfns/11lfns/2011-3%20ta%20mou%20form.pdf
1	Model Ordinance	http://nj.gov/dca/lgs/muniaid/pay_to_play_ordinance-contractor.doc
2	spreadsheet for local examination	http://www.nj.gov/dca/lgs/fiscal/bud_info/localexamination2011.xls
2	municipal	http://www.state.nj.us/dca/lgs/fiscal/bud_forms/levycapcalcwrkbbk-muni.xls
2	county	http://www.state.nj.us/dca/lgs/fiscal/bud_forms/levycapcalcwrkbbk-county.xls
3	NJ League of Municipalities	http://www.njslom.org/interlocal_sharedagreements.html
4	Laws concerning the requirement	http://www.njstatelib.org/LDB/Library_Law/NJSA 40 54-15 Annual report, identification of excess funds to municipality, transfer procedure110910.doc
4	information packet	http://www.njstatelib.org/LDB/Library_Law/ReturnOfFundsPacket.zip
4	State Library	http://www.njstatelib.org/LDB/Library_Law/#part8
4	LFN 2011-3	http://www.nj.gov/dca/lgs/lfns/11lfns/2011-3.doc