

LOCAL FINANCE NOTICE**CY 2002 BUDGET INFORMATION****Introduction**

This Local Finance Notice contains important information concerning the preparation and submission of your CY 2002 Budget, 2001 Annual Financial Statement and subsequent budget amendments. *Please read this carefully and share this Notice with your elected officials, chief administrator, and municipal clerk.* 2002 Cap and Cap Banking calculations were mailed December 5, 2001. Included with this Notice are the following items:

- CY 2002 Municipal Information Sheet
- Chapter 159 Summary Report
- Emergency Appropriation Summary Report
- Sample Budget Publication Notice
- Local Finance Board meeting dates
- List of Local Finance Board Members
- Revised Annual Financial Statement, Sheet 24 (See Process Instructions)

The attached **Calendar Year Municipal Budget Process Instructions** contains information on a wide range of budget policies and practices. **Carefully review this document as it supplements the balance of this Notice.** The remainder of this Notice highlights elements specific to CY 2002 and new laws.

Important CY 2002 Budget Facts

- Annual Financial Statement Due Date for municipalities – February 11 (the 10th is a Sunday)
- Annual Financial Statement Due Date for counties – January 28 (the 26th is a Saturday)
- Statutory Municipal Budget Introduction date – February 11
- Statutory County Budget Introduction date – January 28
- Cap Index Rate –2.5%
- Regular PERS contributions continue to be suspended in CY 2002
- Regular PFRS contributions are suspended in CY 2002
- The Division will examine Group 1 budgets: Groups 2 and 3 may locally examine (*see the attachment for important information on accelerated tax sales and local exams*).
- **Applicants for Extraordinary Aid cannot participate in Local Examination and must file with the Division.**

Division Web Site

The Division's web site has been redesigned to accommodate the regular addition of new information. Most budget related information and spreadsheets will be found under the following links: *Financial Regulation and Assistance, Municipal State Aid, Property Taxes, and Local Finance Notice*. In addition, to assist in the preparation of the 2001 Annual Debt Statement, the Regional School Debt Computation and Equalized Valuation amounts have been added to the website. Our address is: www.state.nj.us/dca/lgs. In addition, information targeted to Chief Financial Officers will appear on GovConnect through the State's *myNewJersey* portal before it appears anywhere else.

New Laws

The Local Finance Board adopted new rules that govern how local government units manage and finance compensation for accumulated absence time for their employees. The rules are codified as N.J.A.C. 5:30-15. The new rules allow municipalities to establish a trust fund via passage of a Dedication by Rider resolution to accumulate a funding source for this liability. The rule also calls for the disclosure of the liability in the local units budget message. All the details are outlined in Local Finance Notice CFO 2002-1. Web versions of documents and spreadsheets are also available in a Document Library on GovConnect (click on "View all Document Libraries").

N.J.S.A. 40A: 4-62.1 was amended by P.L. 2001, Chapter 138 to permit the establishment of a Snow Removal Reserve via passage of a Dedication by Rider resolution, which must be submitted to the Director for approval. The Law provides that unexpended balances budgeted annually for snow removal or other purposes may be lapsed into the reserve. Permitted expenditures from this reserve would include snow removal salaries and wages and salt and sand purchases. It would also include maintenance or purchase of various snow removal equipment.

A resolution authorizing the amount to be transferred to the reserve should be adopted by the governing body in accordance with the provisions of N.J.S.A. 40A:4-58 and 59. The funds may be used for any purpose related to snow or ice removal after the current year budget appropriations for that purpose has been expended.

Use of the Flexible Chart of Accounts

As started in CY 2000, all budget line items must display the related account numbers from the Flexible Chart of Accounts. No changes have been made to the chart since Local Finance Notice CFO 2000-5 was issued in March of 2000. The Division is preparing a new edition of the Chart for publication in several months.

New Budget CAP Exception

At the end of the last legislative session, a new Mandate Relief Bill was enacted (P.L. 2001, Chapter 342). One of its provisions allows municipalities to appropriate salaries of police officers hired under the federal "Community Oriented Policing Services" program (part of the federal "Violent Crime Control and Law Enforcement Act of 1994") to remain a CAP exception once the program is complete. The appropriation should be made on sheet 20 of the budget under "Other Operations Excluded from CAP".

Pension Appropriations

For Calendar Year 2002, municipalities and counties are not required to include an appropriation for Public Employees Retirement System obligations. Local units with remaining obligations under the old Early Retirement Incentive Program (ERI) must, however, provide appropriations in the amount specified on the billing from the Division of Pensions.

By this time, all local units should have received their Calendar Year 2002 bill for the Police and Firemen's Retirement System. The obligation for 2002 is zero unless there is an early retirement incentive program payment, which must be budgeted. Each local unit must budget the stated amount of the bill. If your adopted budget was adjusted last year for the Police and Firemen's Retirement System reduction on the municipal levy certification to the County Board of Taxation, be sure to adjust the 2001 budget history in the 2002 budget accordingly. Those municipalities that were adjusted should have received a copy of their municipal certification last year showing the adjusted amount.

Questions regarding pension billing should be directed to the Division of Pensions and Benefits at (609) 984-4517. Municipalities are cautioned that while there is no cap base adjustment offsetting the pension reductions, these reductions are not permanent and full pension costs may have to be budgeted in the future.

Local Finance Notice Subscriptions – Free E-mail Notification Now Available!

A subscription form to receive **all** Local Finance Notices issued in 2002 is also included. Use this form if you want to receive a mailing of all Notices, not just those targeted to individual officials. Once notices are issued they are also posted on the Division's web site. They can be found by clicking on the Local Finance Notice link from the Division home page at: www.state.nj.us/dca/lgs. In addition to the posting of Notices on the web site, the Division will send out a free e-mail alert and web site link each time a new Notice is posted. To sign up for this free service, e-mail us a request at dlgs@dca.state.nj.us.

If you have any questions on information in this Notice, contact the Bureau of Financial Regulation and Assistance at (609) 292-4806. Please carefully review the attached *Calendar Year Municipal Budget Process Instructions*. CFO's receiving this Notice are asked to circulate it to their elected officials, chief administrative officer, clerk to the governing body, and registered municipal accountant.

Enclosures

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

New Jersey Division of Local Government Services Calendar Year Municipal Budget Process Instructions

Budget Calendar and State Aid

The statutory dates for calendar year municipalities for introduction of the 2002 budget and filing of the 2001 Annual Financial Statement is February 11 (the 10th is a Sunday). The statutory date for counties for the 2002 budget and 2001 Annual Financial Statement is January 28 (The 26th is a Saturday).

When a new Governor takes office, the State Legislature acts to permit the new Governor to delay submission of the State's budget from its usual January presentation. The Legislature is expected to act to delay the budget submission until March 26. The Division, however, encourages municipalities to adhere to the statutory deadlines by anticipating the formula aid amounts at the CY 2001 level. Extraordinary Aid anticipation may be legally anticipated at the CY 2001 level, however, due to the condition of the State budget and uncertainty of State Aid appropriations for FY 2003, the Division recommends that no revenue be anticipated. Extraordinary Aid applications should be distributed shortly. Any final adjustments may be corrected through the budget amendment process.

New Annual Financial Statement Sheets

New Annual Financial Statement sheets are included for presenting the schedule for various types of loans issued and outstanding. The new sheets are 31a, 49a and 63a. Please add additional sheets, if necessary, for each type of loan. Also, a revised sheet 24 of the Annual Financial Statement, the Schedule of Reserve for Tax Appeals Pending – N.J. Division of Tax Appeals (N.J.S.A. 54: 3-27), is attached changing the certifying signature from the Tax Assessor to the Tax Collector as it existed previously.

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 permitted. **Pursuant to advice from the Attorney General's office, if the summary is used, upon request, copies of the complete budget must be made available to the public free of charge during the public hearing process.**

With regard to the model form:

- The Summary of Appropriations section entitled "Final 2001 Budget" refers to the 2001 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 that 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 permit 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.

The rules required that all documents associated with the budget process be filed with the Division, regardless of local examination status. It is 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 on your Municipal Information Sheet, which is included with this Notice. The Budget Local Finance Notice includes information on eligibility for this year's program. The qualification form completed by the Chief Financial Officer is part of the Annual Financial Statement.

If your municipality has conducted an accelerated tax lien sale for fewer than three consecutive years, the municipality does **not qualify** for local examination of the budget. If accelerated sales have been conducted for more than three years, the requirement for Division review has been eliminated.

In addition, applicants for Extraordinary Aid cannot participate in Local Examination and must file with the Division. This new procedure is necessary to ensure that municipalities follow the requirements of the Extraordinary Aid Program (Local Finance Notice to be issued shortly).

Even though a municipality may successfully pass the eligibility and qualification process for local examination, the governing body may choose to have the Director conduct the examination. The Chief Financial Officer cannot elect this option. The governing body must pass a resolution waiving its rights to locally examine the budget, and request the Director to conduct the examination. This choice must be made before 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. Before the budget adoption, the Chief Financial Officer and governing body must both agree that these requirements have been met. To complete the process, the Chief Financial Officer must certify on the forms distributed with the budget packages and the governing body must execute a resolution approved by the majority of its full membership. A sample resolution and CFO certification are also available on our website.

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.

Special Items of Revenue

As implemented several years ago, the Division no longer requires special items of revenue resolutions. Use the special item checklist to determine the documentation required by the Division, send one copy with your approved budget and be sure all special item documentation is filed with the Division.

According to information received from the Department of Environmental Protection, the CY 2002 funding of the Clean Communities Program has not been finalized at this time. For budget introduction purposes, do not anticipate any grant funds. If and when funding becomes available, a Chapter 159 resolution may be adopted by the governing body to insert the grant.

Accelerated Tax Sale/Levy Sale

Proceeds realized from an accelerated tax sale or a levy sale should not be included as part of the tax collection rate per the enabling legislation. Two Annual Financial Statement sheets are used 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. The first year you conduct an accelerated tax sale, sheet 25, the Reserve for Uncollected Taxes Calculation, is calculated using the percentage of collection from sheet 22. Sheet 25a provides the calculation reducing the reserve for uncollected taxes by the proceeds of the accelerated tax sale. (Also, see information under Budget Review - Local Examination for important information.)

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 the 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.

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. To utilize either provision, requires a governing body resolution **adopted prior** to the introduction of the budget. 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

The Registered Municipal Accountant must certify amending resolutions for mathematical accuracy. 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. If the amendment does not require advertisement, the municipality may amend and adopt at the same meeting, provided the Division, prior to the meeting, approves a copy of the amendment.

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 Finance 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 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.

SAMPLE DEDICATION BY RIDER RESOLUTION

RESOLUTION requesting approval of the Director of the Division of Local Government Services to Establish a Dedicated Trust by Rider for Snow Removal, pursuant to P.L. 2001, c.138

WHEREAS, permission is required of the Director of the Division of Local Government Services for approval as a dedication by rider of revenues received by a municipality when the revenue is not subject to reasonable accurate estimates in advance; and

WHEREAS, P.L. 2001, c.138 permits municipalities to lapse unexpended balances budgeted annually for snow removal; and

WHEREAS, N.J.S.A. 40A: 4-39 provides that the Director of the Division of Local Government Services may approve expenditures of monies by dedication by rider;

NOW, THEREFORE, BE IT RESOLVED, by the governing body of the *insert the name of local unit*, County of *insert name of county*, State of New Jersey as follows:

1. The governing body hereby requests permission of the Director of the Division of Local Government Services to pay expenditures for Snow Removal created in accordance with the provisions of P.L. 2001, c.138 as per N.J.S.A. 40A:4-39; and
2. The municipal clerk of the *insert the name of local unit* is hereby directed to forward two certified copies of this resolution to the Director of the Division of Local Government Services.

I, *insert name of municipal clerk*, Municipal Clerk of *insert name of local unit*, in the County of *insert name of county* and State of New Jersey do hereby certify that the foregoing is a true and correct copy of a Resolution adopted by the governing body of the *insert the name of the local unit*, County of *insert name of county*, State of New Jersey at a regular meeting of said governing body held on *insert date of meeting*.

Clerk's Name, Title