**LFN 2020-11**

**May 4, 2020**

# Local Finance Notice

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## COVID-19: Overview of Financial Controls and Strategic Budgeting for Fiscal Recovery

New Jersey remains under a COVID-19 related State of Emergency declaration, and local units continue to confront the fiscal and operational demands imposed upon them by the COVID-19 pandemic. As a result of these extraordinary conditions, local units are facing many and unprecedented challenges during this fiscal year.

The Division issues this Local Finance Notice to guide local units in positioning themselves to adapt to the present circumstances and achieve long-term recovery. Items addressed in this notice include fundamentals of revenue management, appropriations, fund balance, liquidity, capital planning, and related operations.  As you review this Notice, bear in mind that not every local government unit may be in a position to or be best served by implementing each of the items set forth herein. Please consult with the relevant local officers and professionals to optimize your municipality's fiscal and operational plan.

### Maximizing Budget Flexibility by Accessing Available Revenues and Streamlining Budgeted Appropriations

Many local units anticipate revenue shortfalls as a result of the COVID-19 pandemic. To maximize available revenues in the current and subsequent budgets, and streamline appropriations to maximize flexibility, municipalities should consider the following:

1. Review year-to-date revenues in comparison to anticipated revenues and prior year realized revenues for the same time period to develop an accurate understanding of revenue conditions, including projecting any current year shortfalls. This will empower the mayor and governing body to track key benchmarks and make the necessary budgetary and operational adjustments to close out this year and plan for a potentially distressed subsequent fiscal year budget.

2. Evaluate existing banking relationships and services to determine whether they are providing reasonable rates of return through interest and other services to offset direct costs. This is a particularly significant concern if the banks are charging per-transaction or other categories of fees on large municipal accounts. Online banking services and merchant and payroll services may be valuable additions available within existing banking relationships that can reduce municipal costs in other areas. Account consolidation that is not statutorily restricted may also provide benefits. If existing banking relationships are not providing interest income or other benefits that reduce local unit expenses, municipalities are encouraged to prepare a request for qualifications or proposal and present the results and recommendations to the governing body to achieve a more favorable outcome.

3. Assess the activity and balances of all trust fund accounts not created through public referendum to determine the need for and adequacy of each account. The assessment should compare use of trust funds over time versus account funds available to determine whether revenues may be better allocated to other uses. Excess funds can be cancelled by governing body resolution. Cancelled funds can be used as a Special Item of Revenue in the subsequent budget. Additionally, if any non-statutory trust fund has been dormant or the purpose for which it was created no longer requires dedicated funding, the trust fund itself may be terminated by governing body resolution, then submitted to DLGS for Director approval. Terminated trust fund dollars may also be anticipated in the subsequent budget.

4. Local units may establish a donations trust account for COVID-19 related donations to the municipality. The account must be established by dedication by rider authorized under N.J.S.A. 40A:5-29, in accordance with the provisions of N.J.S.A. 40A:4-39. Donations may then offset qualifying COVID-19 related expenditures in the current budget.

5. Where appropriate, existing trust fund expenditures may be adjusted to support any current budgeted appropriation for authorized purposes. For example, Forfeiture Trust funds may be used, with prosecutor approval. Making these kinds of appropriations adjustments using dedicated funds eases budget pressure in other areas.

6. Review all fully funded, unspent bond ordinance line items and identify any remaining balances that are not committed or under contract. Remaining balances may be canceled by governing body resolution or ordinance and used to fund a debt service reserve fund pursuant to N.J.S.A. 40A:2-62. This reserve will then relieve budget pressure by directly funding debt service payments in future budget years.

7. Ensure that reimbursements received from insurance companies are credited back to the budget appropriation line item in the budget in accordance with N.J.S.A. 40A:5-32, not applied as miscellaneous revenue not anticipated. This is a frequently overlooked statutory requirement. Compliance with this obligation relieves pressure on current year appropriations.

8. Review prior year and current year purchase orders with department heads to determine whether any stale or non-essential purchase orders can be cancelled. Cancellation makes the budgeted funds immediately available to support other budgeted appropriations, such as those for essential services, or can be used to bolster cash and fund balance.

### Alternative Methodologies for Calculation of the Reserve for Uncollected Taxes

Because many local units anticipate revenue collections will decline in the current fiscal year as a result of the short-term effects of COVID-19, local units should evaluate which methodology for calculation of the municipal Reserve for Uncollected Taxes (RUT) will provide the most accurate revenue picture for the next fiscal year.

The traditional method of calculation uses the prior year's tax collection percentage to determine the amount to be raised by taxation. Pursuant to N.J.S.A. 40A:4-41(d), under certain conditions, a municipality may instead use the average of the prior three year 3-years' tax collection rate to mitigate a significant short-term decrease in the tax collection rate. To use this alternative RUT calculation, a municipality must submit a governing body resolution to DLGS and receive approval from the DLGS Director.

Municipalities should also consider whether to employ the methodology contained at N.J.S.A. 40A:4-41(c), which allows a municipality to reduce the prior year's certified tax levy by the amount of any tax levy adjustment resulting from a tax appeal judgement. To use this alternative RUT calculation, a municipality must submit a governing body resolution to DLGS and receive approval from the DLGS Director.

### Enhancing Capital Fund Capacity

1. Review all completed capital projects' bond ordinances. Remaining balances can be cancelled by resolution, allowing the funds to lapse back to their respective balance sheet accounts. Cancelled funds become available for down payments on capital projects, pay-as-you-go improvements, or debt service payments.

2. As part of a need assessment, municipalities should review all outstanding bond ordinances. Cancellation of non-essential projects that are not funded through bond issuances may be appropriate to support cash flow needs and expand bonding capacity for essential projects during the fiscal emergency. Cancellation may be accomplished by governing body resolution.

3. Local units that have existing capital ordinances for essential projects should evaluate whether they can put mission critical projects out for bid quickly to obtain price advantages in a largely stagnant market. To identifying projects to expedite, municipal officials should review the municipality's approved capital plan. It may be advantageous to accelerate pre-construction processes related to identified projects to improve the likelihood of achieving a beneficial outcome. Refer to Local Finance Notices 2020-06 and 2020-10 for more information on current bidding procedures.

## Maximizing Liquidity and Maintain Fund Balance

In addition to budget constraints, some municipalities are experiencing reductions in liquidity due to the COVID-19 crisis. Some strategies to help maintain an adequate cash position include:

1. Prepare monthly cash flow statements to assist in identifying and managing liquidity risk. These statements allow local units to monitor available beginning cash balance, the inflow of revenues, the outflow of expenditures, and the ending balance of cash during any given period. Monthly monitoring is optimal during an ongoing period of liquidity risk.

2. Once cash flow statements are being generated, the CFO can use them to conduct regularly scheduled stress tests. Stress tests should use forecasted payments based on known due dates and anticipated revenues received during the same period. This is an excellent tool to assess potential cashflow inadequacies and develop strategies to bridge any gaps identified through testing. Apprising municipal officials of the outcome of these tests is beneficial for planning purposes.

3. Assess interfund receivables throughout the year and liquidate, when possible, prior to year-end. This will generate additional surplus in operations at the end of the fiscal year.

4. Review individual grants receivable and appropriated to ensure all grants are appropriately charged and receivables are timely collected. This minimizes or avoids fund balance depletion due to use of current fund cash to cover grant expenses. The municipality should also review and consider cancelling any expired or stale grants. This can be accomplished by governing body resolution.

5. Review purchase obligations charged to Accounts Payable to ensure the obligation remains open. Identify any payables that may be cancelled, then cancel them by governing body resolution.

## Improving Liquidity When Accessing the Municipal Debt Market

Market conditions remain volatile. Despite recent indications of progress toward market stability, municipalities should be mindful of present conditions and aware of the options available to help them navigate and improve market access, if necessary. To this end, municipalities that anticipate selling Bond Anticipation Notes or other critical debt issuances in the near-term are advised of the following:

1. It may be beneficial to work with your bond counsel and financial advisor to generate and test the level of market interest in the issuance well in advance of the intended sale date. Advertisement of the upcoming note sale at least two weeks prior to the intended sale date and communication with local banks is suggested as part of these efforts.

2. Consider credit supplementation. Issuance through a county improvement authority may provide greater market access, particularly if a county guarantee from a highly rated county is available and authorized. To this end, municipalities in need of

immediate market access may participate in county improvement authorities' pooled note programs.

3. In some instances, counties may also be willing and able to negotiate to purchase notes directly from a municipality, if the market proves inaccessible. Early conversations with all potential parties are critical to determining whether this option is available, particularly given the cash and budgetary constraints now facing all New Jersey local units.

4. Local units should also be aware of The New Jersey Infrastructure Bank's Bond Anticipation Note program. This program provides short term financing for municipalities meeting certain criteria that have experienced a failed short term note sale. Additional information on the program is available at: https://www.njib.gov/nj/BAN+Purchase+Program.53.

**Improving Revenues by Organizing an Electronic Lien Sale**

Municipalities are encouraged to organize an Electronic Tax Lien Sale in accordance with N.J.A.C. 5:33-1.1. By contracting with an electronic tax lien service, the bidding pool for tax delinquencies is often increased, often increasing revenues. It also reduces the risk of retaining an excessive number of municipal-owned liens. This is particularly relevant at this juncture due to the lack of capacity for in-person sales while social distancing persists. To investigate and implement this option, a municipality must approve a tax lien notice pursuant to N.J.A.C. 54:5-25, issue a request for proposal, and award a contract.

If you have any questions concerning these practices, contact the Bureau of Financial Regulation and Assistance at 609-292-4806 or by e-mail at dlgs@dca.nj.gov.

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Approved: Melanie R. Walter, Director