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division of local government services

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Local Finance Notice

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Distribution

Chief Financial Officers
Municipal Clerks
Freeholder Board Clerks
Auditors

CY 2016 Budget Matters (including recently enacted legislation)

This Local Finance Notice provides information with respect to Calendar Year (CY) 2016 budgets, along with recently enacted legislation relevant to the budget process, and is divided into the following sections:

I. Early Budget Planning
II. CY2016 Budget Deadline Extension & Enforcement
III. Recent Budget-Related Legislation
IV. Transitional Aid Application Process
V. Municipal Aid & the FY2017 State Budget to be Proposed
VI. Superstorm Sandy Budget Issues
VII. Local Examination – Municipal Budgets
VIII. Municipal User-Friendly Budget Update
IX. Other Budget Reminders

I. Early Budget Planning

Municipalities that have not yet begun to plan and prepare their 2016 budgets are already behind and should immediately begin the process. Consistent with the practice in prior years, the Division of Local Government Services will allow an extension to the statutory deadline to introduce and adopt 2016 budgets.

Early adoption is an effective management tool in that it provides sufficient time to develop a meaningful plan for financing policy initiatives. Delayed budget adoption limits management flexibility by shortening the time period in which to implement fiscal adjustments. Ratings agencies take some comfort in early and appropriate fiscal planning, and the Division believes in facilitating early planning to help protect New Jersey's strong municipal credit history.

CY municipalities planning a property tax levy cap referendum election must meet notice and publication deadlines tied to the April school board election date. These municipalities should appropriately plan their 2016 budgets to facilitate sound decisionmaking regarding this option. The full calendar for referendums will be released when the Division of Elections sets the timetables. The budget filing dates below are expected to be consistent with election timetable. A separate Local Finance Notice will be issued when the referendum schedule is established.

II. CY 2016 Budget Deadline Extension and Enforcement

As authorized pursuant to N.J.S.A. 40A:4-5.1, the Local Finance Board approved at its December meeting the statutory budget deadline revisions set forth below. These changes modify the statutory dates for introduction, adoption, and Mayor/Council Faulkner Act and related budget transmissions. The revised dates (absent referendum dates) are shown below:

Introduction and Adoption of Budget – Non Referendum	Statutory Date	Revised Date*
Mayor/Council Faulkner Act (Executive) budget transmission to governing body	1/15	2/12
Municipal introduction and approval of budget	2/10	3/18
County introduction and approval of budget	1/26	3/18
Municipal adoption	3/20	4/22
County adoption	2/28	4/22

*or the next regularly scheduled meeting of the governing body.

Notwithstanding the revised dates, a budget may be adopted anytime within 10 days of receiving the Director's certification of approval of the budget.

Governing bodies may, by resolution adopted no later than March 18, 2016, extend the adoption date of the 2016 budget and increase temporary budget appropriations as may be necessary due to the extended period.

Municipalities and counties that fail to timely adopt their budgets risk imposition of penalties by the Director. Pursuant to N.J.S.A. 40A:4-84, the members of governing body who willfully fail or refuse to comply could face $25-per-day fines for failure to comply with a final order of the Director.

A judicial determination of gross failure to comply with provisions of the Local Budget Law is one of the conditions for which the Local Finance Board may determine that a municipality is subject to State Supervision (N.J.S.A. 52:27BB-55 and 56). In lieu of State Supervision, if the Director finds that an eligible municipality possesses conditions that create extreme difficulty in adopting a budget in compliance with the Local Budget Law, N.J.S.A. 52:27D-118.30a authorizes

the Local Finance Board to establish a financial review board for the municipality. The financial review board would be empowered to approve the municipal budget, debt issuance, labor and other contracts, as well as approve, implement and enforce a financial plan for the municipality. Municipalities eligible for financial review boards include those that have issued municipal qualified bonds, are "Urban Aid" eligible pursuant to N.J.S.A. 52:27D-178 et seq., or have been otherwise identified by the Director to be facing serious fiscal distress.

III. Recent Budget-Related Legislation

On August 10, 2015, the Governor signed Senate Bill S2454 into law as P.L. 2015, c. 95. Known as the "Division of Local Government Services Modernization and Local Mandate Relief Act of 2015", the law makes a series of changes that streamline certain Division and Local Finance Board functions, along with relieving local governments of certain mandates and allowing greater flexibility in select areas.

This Notice, part of a series of guidance documents discussing the changes enacted by P.L. 2015, c.95, discusses sections impacting the municipal and/or county budget process.

- Sections 14 and 15 amend N.J.S.A. 40A:4-8 and 40A:4-10, respectively, to eliminate the requirement that a copy of the introduced and adopted budgets be provided to a public library.

- Section 27 amends N.J.S.A. 40A:14-34, increasing the amount that a municipality can annually appropriate for its volunteer fire companies or boards of fire commissioners to $150,000. The Director shall adjust this amount for inflation every two years in accordance with the Cost-of-Living Adjustment promulgated for the municipal and county budget appropriations caps (N.J.S.A. 40A:4-45.1a). This means that the above-referenced $150,000 maximum will be subject to the COLA adjustment next year.

  In any municipality in which there are more than three volunteer fire companies or fire districts, or both, the governing body may now also raise and appropriate an additional $50,000 (an increase from $30,000) annually for each additional fire district or volunteer fire company. Not less than 50% of these additional funds shall be used for the purchase of fire equipment, materials and supplies.

- Section 39 amends N.J.S.A. 40A:4-53 to permit a special emergency appropriation for liabilities incurred to the State Department of Labor and Workforce Development for reimbursement of unemployment benefits paid to former employees. For significant layoffs, this provision (new subsection j) allows the costs of unemployment reimbursement to be spread over five years.

IV. Transitional Aid Application Process

CY municipalities in financial distress will only have one opportunity to apply for Transitional Aid to Localities (Transitional Aid). The due date for applications will be set shortly. Municipalities applying for Transitional Aid must submit an introduced budget with the application. As aid awards come with a significant loss of local control and stringent conditions, municipalities tend to request Transitional Aid only as a last resort. A separate Transitional Aid Local Finance Notice will be released in the coming weeks.

It is expected that funding for the program will continue to decline and all but the most financially stressed municipalities in danger of being unable to meet debt service, basic payroll, and other essential functions will be eligible for aid. Successful applicants must demonstrate they are already taking clear steps toward reducing spending and maximizing their own revenues.

For budget introduction purposes, the seven municipalities that received Transitional Aid in CY 2015 may anticipate Transitional Aid in an amount equal to 85 percent of their CY 2015 aid allocation (or such amounts as the Director may otherwise permit).

V. Municipal Aid and the FY2017 State Budget to be Proposed

The Governor is expected to propose a State 2017 FY budget at the end of February. At the very latest, immediately after the budget is proposed the Division will notify municipalities as to the amount of Consolidated Municipal Property Tax Relief Aid (CMPTRA) and Energy Tax Receipts aid that can be anticipated in their budgets.

VI. Superstorm Sandy Budget Issues

Superstorm Sandy continues to impact municipal and county budgets. FEMA reimbursements received are to be appropriately pledged to the funding mechanism passed by the governing body, i.e. special emergency or capital financing. For the 2013, 2014 and 2015 budget years, the Director allowed the anticipation of FEMA reimbursements as revenue to offset the budgeting of the five year special emergency pay-down. If you did not receive the entire amount of FEMA revenue anticipated, you may establish a receivable for the difference. Since this is funding from a federal source, a corresponding reserve does not have to be established. If you received excess FEMA revenue, then the excess should be used to pay-down additional special emergency notes or the revenue should be used to offset costs of a bond ordinance, depending upon what project the reimbursement represents.

For the 2016 budget, FEMA revenue will be allowed to be anticipated to offset special emergency appropriations only if the corresponding amounts are available per the State OEM website. However, a portion of the 10% municipal share will also have to be funded in 2016. The 10%

share of the portion of the special emergency that is supported by project worksheets will be funded in the 2016 budget. This 10% portion will be split over the remaining 2 years. An analysis should be submitted with the introduced budget.

VII. Local Examination – Municipal Budgets

Group 2 budgets will be examined by the Division for CY 2016. Groups 1 and 3 may be 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 DLGS review. The local examination spreadsheet can be found on the Division's Municipal and County Budgets webpage. Eligibility status is also on the Municipal Information Sheet. **Local examination municipalities must follow all applicable statutory deadlines.**

VIII. Municipal User-Friendly Budget Update

Implementation of Statutorily Required User Friendly Budget: For CY 2016 budgets, the User Friendly Budget shall be submitted for introduced as well as adopted municipal budgets. **Municipalities must use the updated form approved by the Director and available on the Division's website**.

When making the introduced (approved) budget available to the public for the public hearing, the municipality must provide the completed User-Friendly Budget section along with the annual municipal budget. The user-friendly budget section for either the introduced or adopted budgets may be made available as a separate form, or be included with the annual budget but placed on top.

Introduced and adopted municipal budgets posted on a municipality's website must include the user-friendly budget. The user-friendly budget form can either be scanned along with the annual budget in a single pdf, with the user-friendly form pages placed in the beginning, or posted separately as an Excel document in addition to the scanned pdf annual budget.

Key changes to the User-Friendly Budget for CY2016 include:

Cover Page – The municipality's auditor and their business email address

UFB-5 (Property Tax Assessments; Exempt Properties & Property Tax Appeal Data) – In Cell S16, the calculation on the percentage of tax-exempt property is now calculated based on the assessed value rather than the number of parcels.

UFB-8 (Health Benefits) – Information for the prior budget year must now be included; specifically, the number of covered members, the prior year average cost per employee, and the total prior year cost.

UFB-10 (Debt) – Projected amounts in future year budgets for "Bond Anticipation Notes-Principal" and "Bond Anticipation Notes-Interest" no longer need to be entered. These amounts still must be entered under "current year budget"

The introduced and adopted User-Friendly Budget section must be submitted to the Division of Local Government Services. For the introduced budget, the User-Friendly Budget section need only be submitted to the Division electronically. The User-Friendly Budget section of the adopted budget must be submitted both in hard copy and electronic formats. Send one (1) hard copy of the form concurrently with the adopted annual municipal budget submitted to the Division. Electronic copies of the introduced and adopted user-friendly budgets shall be e-mailed to ufb.lgs@dca.nj.gov; the introduced User-Friendly Budget file must be named ***municode_fbi_2016.xlsm***; the adopted User-Friendly Budget file must be named ***municode_fba_2016.xlsm***.

Please reference Local Finance Notice 2015-9 and the updated User-Friendly Budget Instructions for further information on completing and submitting the User-Friendly Budget.

The User-Friendly Budget gives municipal officials a powerful tool with which to assess their municipality's fiscal health, identify potential savings and inform constituents about measures being taken to control costs. In turn, the public will have access to a clearer picture of how tax dollars are being spent. This form only applies to municipalities and is not required to be used for county budgets; a User-Friendly Budget section for county budgets will be developed in the near future.

IX. Other Budget Reminders

Amendment Procedures: The procedures for the flow of the budget cycle are specified in N.J.S.A. 40A:4-4. The amendment process cannot begin until after the public hearing has been held on the introduced budget. Once the public hearing is held, the budget can be amended on the same night, so long as it is after the public hearing portion of the meeting.

Health Insurance Contributions and Waivers: Accounting for employee contributions for health insurance has been determined as follows:

- employee health care contributions shall be treated as a payroll agency transaction and no employee contributions shall be treated as anticipated revenue in a local unit's budget
- amounts appropriated for employees who receive payments in lieu of accepting health benefits ("waivers") must be appropriated as a separate line item ("Health Benefit Waiver" with FCOA Code #23-221).

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 a breakdown of future revenue from those employees currently under contracts that will begin contributions when those contracts expire.

The health insurance 2010 levy cap exclusion will be based upon an average State Health Benefit increase of **5.8 percent**. The levy cap workbook will calculate the exclusion, which will be the increase over 2 percent up to the 5.8 percent maximum. The appropriation cap exception will be the increase over 4 percent up to the 5.8 percent maximum. The amount is calculated in the levy cap workbook under 1977 cap.

Municipal Library Tax Levy: P.L. 2011, c.38 requires a dedicated line item on property tax bills for municipal free and joint free public libraries. This does not result in a tax increase, but rather changes the way the minimum library appropriation is displayed to the public.

Library Surplus Transfers: N.J.S.A. 40:54-15 establishes conditions requiring transfer of certain public library fund balance amounts to a municipality. The transferred funds be used exclusively as property tax relief. This means the funds transferred must be anticipated as revenue without an offsetting appropriation and no levy cap adjustment. The transferred surplus does not have to be anticipated in the budget all in one year. Any devise, bequest, or donation made pursuant to N.J.S.A. 40:54-19 shall not be deemed surplus or transferred by the board of trustees to the municipality. The calculation and conditions concerning transfer of funds is subject to approval by the Office of the State Librarian. State Library staff are aware of the requirements and time frames, and is prepared to work with local library and fiscal officials to meet budget deadlines.

Information on "identification of excess funds" can be obtained from the State Library website. Questions on this process can be directed to Deputy State Librarian Michelle Stricker at mstricker@njstatelib.org.

Posting Budgets on Website: N.J.S.A. 40A:4-10 requires each municipality and county to post their current year adopted budget, as well as their adopted budgets for the three prior years, on their web site. The 2012, 2013, 2014 and 2015 budgets should now be posted. Once the 2016 budget is adopted it should be posted (and 2012 may be dropped). Municipalities without their own websites must have their adopted budgets for the current year and three prior years posted on the Division's website.

If your municipality does not have a website, please scan the user-friendly budget section (adopted budget) together with your adopted annual municipal budget as a single pdf and email it to dlgs@dca.nj.gov with the subject heading "Adopted Budget DLGS Website Posting". The adopted budget will be displayed on the Adopted Budgets – Municipalities without Websites webpage.

Approved: Timothy J. Cunningham, Director

Table of Web Links

Document	Internet Address
P.L. 2015 c.95 (DLGS Omnibus Bill)	http://www.njleg.state.nj.us/2014/Bills/PL15/95_.PDF
Municipal & County Budgets webpage	http://www.nj.gov/dca/divisions/dlgs/programs/mc_budgets.html
Local Finance Notice 2015-9	http://www.nj.gov/dca/divisions/dlgs/lfns/15/2015-09.pdf
Updated User-Friendly Budget Form	http://www.nj.gov/dca/divisions/dlgs/resources/fiscal_docs/bud_forms/ufb_2016.xlsm
Municipal User-Friendly Budget Instructions	http://www.state.nj.us/dca/divisions/dlgs/programs/mc_bud_docs/Municipal User-Friendly Budget Instructions.pdf
P.L. 2011 c.38 (library prop. tax line item)	http://www.njleg.state.nj.us/2010/Bills/PL11/38_.PDF
N.J.S.A. 40A:54-15 and 40A:54-19	http://www.njleg.state.nj.us/2010/Bills/PL11/224_.PDF
Information on Library Surplus Transfers	http://lss.njstatelib.org/lss_files/ReturnOfFundsPacket040814.zip