(C)

new jersey
department of community affairs
division of local government services
people.places.progress

LFN 2016-18

October 19, 2016

Local Finance Notice

Chris Christie, *Governor* | Kim Guadagno, *Lt. Governor* | Charles A. Richman, *Commissioner* | Timothy J. Cunningham, *Director*

Contact Information

Director's Office
V. 609.292.6613
F. 609.292.9073

Local Government Research
V. 609.292.6110
F. 609.292.9073

Financial Regulation and Assistance
V. 609.292.4806
F. 609.984.7388

Local Finance Board
V. 609.292.0479
F. 609.633.6243

Local Management Services
V. 609.292.7842
F. 609.633.6243

Authority Regulation
V. 609.984.0132
F. 609.984.7388

Mail and Delivery
101 South Broad St.
PO Box 803
Trenton, New Jersey
08625-0803
Web:
www.nj.gov/dca/divisions/dlgs
E-mail: dlgs@dca.nj.gov

Distribution
Municipal Clerk
Chief Financial Officer
Clerk to the Board of Chosen Freeholders

Calendar Year 2017 Municipal and County Budget Cap Information

This Local Finance Notice addresses issues related to CY 2017 Municipal and County Budgets and the 1977 and 2010 cap laws. It includes information on the 1977 cap law Cost of Living Adjustment and the use of the COLA ordinance (resolution) and Group Health Insurance increase thresholds.

Cost of Living Cap Adjustment

An annual Cost-of-Living Adjustment is authorized under the original 1977 budget cap law, currently reflected as N.J.S.A. 40A: 4-45.1a. Current law affecting municipal and county budgets requires compliance with both the "1977" cap law and the 2010 levy cap law.

Under the 1977 law, the Director of the Division of Local Government Services must promulgate the Cost of Living Adjustment (COLA, formerly called Index Rate). The COLA is based on the Implicit Price Deflator for State and Local Governments, calculated by the U.S. Department of Commerce, Bureau of Economic Analysis.

The COLA for CY 2017 budgets is calculated at **one-half percent (.5%).** Pursuant to N.J.S.A. 40A:4-45.2, "municipalities and counties shall be prohibited from increasing their final appropriations by more than 2.5%..." unless action is taken by the governing body to increase their final appropriations subject to the cap to the statutorily permitted three and a half percent (3.5%). In the case of counties, the increase applies to the property tax levy, not final appropriations.

In other words, the automatic increase to the "1977" cap base is .5%, which is less than the statutory maximum of 2.5%. The governing body may pass a COLA ordinance, increasing the cap base to 3.5%.

A model ordinance is included with this Notice and will be available for download as a Word document on the Division's web site.

A municipality may by ordinance, or a county by resolution, increase the COLA percentage up to 3.5% [N.J.S.A. 40A:4-45.14(b)] or bank (for up to two years) the difference between its final appropriation subject to the cap and 3.5%. Cap banking is not automatic. A single ordinance or resolution can be used to accomplish both activities: increasing appropriations and banking any unappropriated balance. Cap bank balances from 2015 and 2016 are available for use in 2017.

Using the Allowable Percentage Increase

If a governing body wants to increase its allowable percentage increase in its budget up to 3.5%, the following steps must be taken:

1. After January 1st, and prior to introduction and approval of the budget, an ordinance (resolution for counties) must be introduced that details the following:
    a. The new rate (increase percent) to be adopted; and,
    b. The additional amount of appropriations to be added by the increase.
2. The ordinance (resolution) must be approved by a majority of the full membership of the governing body, published, and a public hearing held at least 10 days after the publication date. A certified copy of the introduced action must be filed with the Director of the Division of Local Government Services within 5 days of its introduction.
3. The governing body may take a final vote on the action any time after the public hearing and prior to adoption of the budget. Depending on the form of government, the chief executive may veto the action in accordance with local procedures.
4. The ordinance (resolution) takes effect immediately upon passage, and a certified copy of the adopted action must be filed with the Director within 5 days.
5. Cap increase referendums are not permitted if this option is chosen.

Group Health Insurance and Pension Cap Exclusions: The 1977 cap law includes a cap exception for Group Health Insurance (N.J.S.A. 40A:4-45.3e). This exception is limited to the amount appropriated that is over 4% of the previous year's expenditures, but not exceeding the State Health Benefits percentage increase. The State Health Benefits percentage increase for CY 2017 calculations is **2.4%**, so there is no 1977 cap exception for Group Health Insurance for CY 2017.

The Group Health Insurance exclusion in the 2010 levy cap is for increases over 2%. Thus, for the 2010 levy cap calculation, the Group Health Insurance exclusion is based on the same 2.4% increase, allowing increases over 2%, up to the maximum of 2.4% as the cap exclusion. The levy cap workbook calculates the exclusion.

As was the case starting in 2012, pension appropriation increases are no longer a 1977 cap law exception. Therefore, the entire pension obligation will be appropriated on sheet 19 under Statutory Expenditures. The 2017 pension obligation amounts have been posted on the Division of Pensions and Benefits website.

If you have any questions regarding this information, please e-mail or call the Bureau of Financial Regulation and Assistance at (609) 292-4806.

Approved: Timothy J. Cunningham

Table of Web Links

Document	Internet Address
Municipal Budget COLA Increase Ordinance	http://www.nj.gov/dca/divisions/dlgs/programs/mc_budgets.html

CALENDAR YEAR 2017
MODEL ORDINANCE TO EXCEED THE MUNICIPAL BUDGET APPROPRIATION LIMITS
AND TO ESTABLISH A CAP BANK
(N.J.S.A. 40A: 4-45.14)

WHEREAS, the Local Government Cap Law, N.J.S. 40A: 4-45.1 et seq., provides that in the preparation of its annual budget, a municipality shall limit any increase in said budget up to .5% unless authorized by ordinance to increase it to 3.5% over the previous year's final appropriations, subject to certain exceptions; and,

WHEREAS, N.J.S.A. 40A: 4-45.15a provides that a municipality may, when authorized by ordinance, appropriate the difference between the amount of its actual final appropriation and the 3.5% percentage rate as an exception to its final appropriations in either of the next two succeeding years; and,

WHEREAS, the (*insert the name of the governing body*) of the (*insert the name of the municipality*) in the County of (*insert the name of the county*) finds it advisable and necessary to increase its CY 2017 budget by up to 3.5% over the previous year's final appropriations, in the interest of promoting the health, safety and welfare of the citizens; and,

WHEREAS, the (*insert the name of the governing body*) hereby determines that a (*insert the rate of increase*) % increase in the budget for said year, amounting to $ (*insert the dollar amount increase*) in excess of the increase in final appropriations otherwise permitted by the Local Government Cap Law, is advisable and necessary; and,

WHEREAS the (*insert the name of the governing body*) hereby determines that any amount authorized hereinabove that is not appropriated as part of the final budget shall be retained as an exception to final appropriation in either of the next two succeeding years.

NOW THEREFORE BE IT ORDAINED, by the (*insert the name of the governing body*) of the (*insert the name of the municipality*), in the County of (*insert the name of the County*), a majority of the full authorized membership of this governing body affirmatively concurring, that, in the CY 2017 budget year, the final appropriations of the (*insert the name of the municipality*) shall, in accordance with this ordinance and N.J.S.A. 40A: 4-45.14, be increased by (*insert the rate increase*) %, amounting to $ (*insert the dollar amount increase*), and that the CY 2017 municipal budget for the (*insert the name of the municipality*) be approved and adopted in accordance with this ordinance; and,

BE IT FURTHER ORDAINED, that any that any amount authorized hereinabove that is not appropriated as part of the final budget shall be retained as an exception to final appropriation in either of the next two succeeding years; and,

BE IT FURTHER ORDAINED, that a certified copy of this ordinance as introduced be filed with the Director of the Division of Local Government Services within 5 days of introduction; and,

BE IT FURTHER ORDAINED, that a certified copy of this ordinance upon adoption, with the recorded vote included thereon, be filed with said Director within 5 days after such adoption.

Melissa Velez-Morales

From: Masser, Michelle
Sent: Wednesday, October 19, 2016 4:07 PM
To: Harris, Laura
Cc: Melissa Velez-Morales
Subject: FW: CY 2017 Municipal and County Budget Cap Information

Correspondence

Michelle Masser
Township Clerk
Mount Olive Township
PO Box 450
204 Flanders Drakestown Road
Budd Lake, NJ 07828
clerk@mtolivetwp.org
973-691-0900 X7291

-----Original Message-----
From: egg@dca.state.nj.us [mailto:egg@dca.state.nj.us]
Sent: Wednesday, October 19, 2016 4:01 PM
To: Masser, Michelle <clerkmichelle@mtolivetwp.org>
Subject: CY 2017 Municipal and County Budget Cap Information

Dear Municipal Clerk:

Local Finance 2016-18 (http://www.nj.gov/dca/divisions/dlgs/lfns/16/2016-18.pdf) addresses issues related to CY 2017 Municipal and County Budgets and the 1977 and 2010 cap laws. It includes information on the 1977 cap law Cost of Living Adjustment and the use of the COLA ordinance (resolution) and Group Health Insurance increase thresholds.

THIS NOTICE HAS BEEN SENT TO THE FOLLOWING OFFICIALS: Municipal Clerk, Chief Financial Officer / County Freeholder Board Clerk, Chief Financial Officer