

**LFN 2008-5**

**March 4, 2008**

# Local Finance Notice

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Director

## Contact Information

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### Financial Regulation and Assistance

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### Local Finance Board

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## Distribution

Municipal Clerks  
Municipal Chief Financial  
Officers

## CY 2008 State Aid Certification

On February 26, 2008, Governor Jon S. Corzine presented his proposed FY 2009 budget to the State Legislature. The transmission of the budget authorizes the Division to provide CY 2008 and SFY 2009 State Aid revenue estimates to municipal governments.

Governor Corzine stressed that the State is facing a dire fiscal situation. In his address to the Legislature, the Governor noted that "my budget takes the necessary and painful steps to reconcile years of mismatch between recurring expenditures and recurring revenues ... by cutting spending."

The Governor further explained the impact on local government, explaining that, "With regard to local aid, hospitals, higher education and health care we sought to minimize, retarget and share the burdens of cuts as responsibly as possible. For instance, while all categories of municipal aid will be reduced, communities with populations of less than 10,000 will receive less direct support. However, these communities will receive priority consideration for \$32 million in grants to develop shared services or consolidation agreements."

As the Governor pointed out in his speech, State government is taking extraordinary steps to control State spending: "We cut thousands of jobs. We cut entire departments. We cut programs ... We cut aid, and we cut inflationary increases wherever we legally or humanely could. In this budget ... government takes the spending hit ... not our hard-pressed taxpayers or the most vulnerable."

Consistent with the Governor's comments, municipal officials should first examine all costs and consider how services are provided, discuss opportunities for sharing services with their neighbors, and take advantage of all opportunities of reducing costs, before exercising their authority to increase property taxes.

The details of these reductions and language follow below. Chief Financial Officers are urged to distribute this information to elected officials and staff as appropriate, and to their Registered Municipal Accountant.

## Budget Certifications and Introduction Deadline Changes

Formula-based State Aid programs are shown on Sheet 5 of the budget. For CY 2008 they are as follows:

1. Consolidated Municipal Property Tax Relief Aid (CMPTRA)
2. Energy Tax Receipts (ETR)/ Supplemental Energy Tax Receipts (S-ETR)
3. Watershed Moratorium Offset
4. Pinelands Property Tax Stabilization
5. Highlands Property Tax Stabilization Aid
6. Garden State Trust Fund

The aid certification for each calendar year municipality is available on the Division's web site under the [Municipal State Aid](#) heading. Certifications are **not** being mailed and must be obtained directly from the web site. The certifications show aid allocations for each municipality and shall be used in preparing the revenue section of CY 2008 budgets. A full spreadsheet of CY 2008 and SFY 2009 budgeted allocations is also on the web site. While the proposed budget can serve as a guide to SFY municipalities, final SFY Certifications will be posted once the final budget is adopted in June.

Given the timing and changes in the aid program, the Division is extending the statutory dates for municipal budget introduction and adoption as follows:

<b>Introduction and Adoption of Budget</b>	<b>Statutory Date</b>	<b>2<sup>nd</sup> Revised Date</b>
Municipal Introduction and approval of budget	2/11	3/20
Municipal Adoption	3/20	4/30

No other dates are changed. Any municipality that plans an "early" budget referendum (see [Local Finance Notice 2008-2](#)) must contact the Division as soon as possible.

## Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts /Supplemental Energy Tax Receipts

The CMPTRA program sustains a reduction of \$62 million (7.4%). The budget also accounts for this year's mandatory Energy Tax Receipts inflation increase of five percent, as it has for the past several years, by transferring the five percent ETR increase from CMPTRA to ETR. This ETR transfer is calculated prior to the application of the \$62 million reduction.

The reductions to the program are based on the following elements (Note: all population based calculations use the State Department of Labor and Workforce Development [2006 Municipal Population Estimates](#)):

- Application of the ETR transfer  
The ETR transfer contains two elements: 1) a reduction of five percent of the municipality's ETR allocation; and 2) a prorated reduction to all municipalities that receive CMPTRA to offset the part of the ETR increase that was not absorbed on the first round when the CMPTRA reductions reduced the allocation to zero.

- All municipalities with a population less than 5,000 have their CMPTRA eliminated (\$22 million)
- Municipalities with a population between 5,000 and 10,000 sustain a prorated reduction (50.64%) of \$15 million
- All recipient municipalities receive a prorated reduction (4.03%) of \$25 million.

The full CMPTRA calculation is shown on individual aid certifications. The reductions also impact municipalities with BPP adjustment responsibilities. This change is discussed below under “Business Personal Property Tax Depreciation Adjustment.”

**All budgets must reflect the increase in Energy Tax Receipts and reduction of CMPTRA. Amending resolutions for previously introduced budgets must include corrections to ETR and CMPTRA.**

The basis for the Energy Tax Receipts was described in [Local Finance Notice MC 97-6](#) (Energy Deregulation and Utility Taxes). The appropriation is broken into two components: Energy Tax Receipts (ETR) and Supplemental Energy Receipts Tax (S-ETR). The ETR will be distributed in payments made between August 1 and December 1, and the S-ETR will be a single payment on or about July 15. Aid Payment Certifications issued in July will show both payments.

**Aid Program Eliminations and Impact on the Property Tax Levy Cap**

The proposed budget eliminates three individual aid programs:

- Municipal Property Tax Assistance (two percent increase of FY 2006 combined CMPTRA and ETR allocations)
- Municipal Efficiency Performance Program (previously known as Legislative Initiative Municipal Block Grant, a per capita aid program)
- Municipal Homeland Security Aid (allocated to municipalities that spend more than \$300,000 annually in police costs)

The Property Tax Levy Cap law automatically adds the amount of formula aid loss to the municipality’s adjusted tax levy – the amount that can be raised by taxation for municipal services – which exchanges the loss in state aid for an increase in local taxes. Chief Financial Officers should include the amount of aid loss on line A-12 of the Levy Cap Calculation Data Entry worksheet.

**Role of Shared Services and Municipal Consolidation Funding**

In his speech, the Governor noted that municipalities that lost funding will receive priority consideration for \$32 million in grants to develop shared services or consolidation agreements. The proposed budget provides a total of \$25 million in a Consolidation Fund to provide funding to municipalities that consider merging with another, and continues the SHARE program with over \$7 million in funding.

Once the State budget is finalized, details of the Consolidation Fund will be developed and modifications to SHARE made to reflect the Governor’s priority. Municipal officials interested in consolidation can contact the Division at [dlgs@dca.state.nj.us](mailto:dlgs@dca.state.nj.us). In addition, the [SHARE program](#) is available and awards grants as applications are submitted.

Funding for the Regional Efficiency Aid Program (REAP), \$8 million, is also recommended for elimination in the Fiscal 2009 Budget. Since fiscal 2003, the State payment provided an incentive and reward for their efforts to consolidate, but after six years of such payments, it is time to allow the residents of these towns to benefit from consolidations that have been implemented as a result of previous incentives.

### **Extraordinary Aid**

The Governor's FY 2009 budget proposes \$32.3 million for the Extraordinary Aid program. Extraordinary Aid addresses a municipality's extraordinary need for additional state aid necessary because of a severe fiscal crisis. Please note the following concerning Extraordinary Aid:

1. To receive aid, applicants must demonstrate that significant measures are in place to reduce spending and improve governmental efficiencies.
2. Extraordinary Aid cannot not be relied upon to determine spending, as it is intended for unique, not repeating, circumstances.
3. Extraordinary Aid cannot be anticipated in CY 2008 budgets.
4. Receipt of Extraordinary Aid in CY 2008 is not guaranteed by virtue of receipt of Extraordinary Aid last year. If an introduced budget anticipates Extraordinary Aid, the budget will have to be amended to remove the revenue before the application is considered.
5. Applicants will be expected to use available surplus and minimize the reserve for uncollected taxes to achieve property tax relief.
6. Applications are due by **March 24**, and will not be considered if the 2008 budget is not introduced; the 2007 Annual Financial Statement and the 2006 audit are not on file with the Division. See [Local Finance Notice 2008-4](#) for additional information on applying for aid.
7. Extraordinary Aid will be awarded after the State adopts the FY 2009 budget. State law requires that the State budget be adopted by June 30.

### **Garden State Preservation Trust Fund**

The Garden State Preservation Trust Fund (P.L. 1999, c.152) was established to implement the recent public referendum to preserve one million acres of open space and farmland over ten years. The law provides a sliding scale of payments in lieu of taxation for property purchased by the State to replace the ratable loss absorbed by the local taxing districts. Notwithstanding other provisions of law to the contrary, the State budget authorizes municipalities to anticipate all funds as property tax relief in their budgets.

Revenues received under this program during CY 2007 should have been reserved and must be anticipated in full in the CY 2008 budget. The amount received in the fall of 2007 is shown on the certification as the amount to be anticipated in CY 2008. Please remember that based on the law, portions of this State aid may decline over time.

## Watershed, Pinelands and Highlands Aid

Legislation passed in 2004 re-established the Watershed Moratorium Offset Aid and Pinelands Property Tax Stabilization Aid. These aid amounts are fixed and are shown on the Certification for the recipients. As of the release of this Notice, Highlands Property Tax Stabilization Aid for CY 2008 has not been announced. Once announced, recipient municipalities will be permitted to anticipate those funds in their budget.

## Business Personal Property Tax Depreciation Adjustment (Verizon)

In 2001, the CMPTRA allocation was increased for those municipalities whose loss of BPP revenues, between 1998 and 2000 attributable to the change in Verizon depreciation schedules, exceeded one percent (1%) of their total tax levy in 2000. The CMPTRA allocation has been calculated to include the amount of Adjustment Aid. For reference purposes, the total Adjustment Aid and portion to be appropriated to the board(s) of education are shown only on the Certification for the affected municipalities. If your municipality does not benefit, that section of the Certification contains no amounts.

Commencing with the FY 2009 budget and with CY 2008 local budgets, to reflect the changes to CMPTRA, the amount of BPP due to boards of education will be proportionately reduced based on the reduction in the municipality's CMPTRA that is not transferred to ETR. Thus, a municipality that sustains a 50.4% percent decrease in CMPTRA funding will have its BPP obligation reduced by the same percent. Any transfer to a board of education shall not exceed the municipal CMPTRA award.

## Payment Schedule

A final aid payment schedule will be provided in July, prior to the first payment on August 1.

Payments to most municipalities are made electronically through the Automated Clearing House payment system. In order for this system to work properly, any changes in the municipality's depository bank must be reported to the Division, as soon as possible, so the necessary changes can be made in the payment computer system. If the bank or account number changes, the [Credit Authorization Agreement for Automatic Deposits form](#) and instructions can be obtained from the State Office of Management and Budget website.

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Approved: Susan Jacobucci, Director

## Table of Web Links

Page	Shortcut text	Internet Address
2	Municipal State Aid	<a href="http://www.state.nj.us/dca/lgs/muniaid/aidmenu.shtml">http://www.state.nj.us/dca/lgs/muniaid/aidmenu.shtml</a>
2	Local Finance Notice 2008-2	<a href="http://www.nj.gov/dca/lgs/lfns/08lfns/2008-2.doc">http://www.nj.gov/dca/lgs/lfns/08lfns/2008-2.doc</a>
2	2006 Municipal Population Estimates	<a href="http://www.wnjp.net/OneStopCareerCenter/LaborMarketInformation/lmi02/index.html#mun">www.wnjp.net/OneStopCareerCenter/LaborMarketInformation/lmi02/index.html#mun</a>
3	Local Finance Notice MC 97-6	<a href="http://www.nj.gov/dca/lgs/lfns/pre_98lfns/mc-1997-6.pdf">http://www.nj.gov/dca/lgs/lfns/pre_98lfns/mc-1997-6.pdf</a>
3	SHARE program	<a href="http://www.nj.gov/dca/lgs/share">http://www.nj.gov/dca/lgs/share</a>
4	Local Finance Notice 2008-4	<a href="http://www.nj.gov/dca/lgs/lfns/08lfns/2008-4.doc">http://www.nj.gov/dca/lgs/lfns/08lfns/2008-4.doc</a>
	Credit Authorization Agreement for Automatic Deposits form	<a href="http://www.state.nj.us/treasury/omb/forms/index.shtml">http://www.state.nj.us/treasury/omb/forms/index.shtml</a>