



State of New Jersey
Department of Community Affairs
Division of Local Government Services

“Budgeting in the Municipal World”

Christine Caruso, Deputy Director DLGS

An Orientation for Municipal Officials That Are Newly Elected, Re-Elected, or Experienced
January 7, 2017 – Hilton Meadowlands Hotel

NJ Municipal Financial Oversight Headlines

- ▶ “Atlantic City Watchdogs – How Strong State Oversight Helps NJ Municipalities Avoid Bankruptcy”
(The Pew Charitable Trusts – August 26, 2015)
 - No bankruptcies in NJ since Fort Lee in 1939
 - First oversight program established in NJ in 1931
- ▶ “Moody’s says state takeover of Atlantic City likely to prevent a default, a credit positive”
Reuters – November 28, 2016
- ▶ “Atlantic City Takeover Seen as Averting Near-Term Default”
Bond Buyer – November 28, 2016



Department of Community Affairs Division of Local Government Services (DLGS)

Timothy J. Cunningham – Director of the Division

- ▶ Provides technical and financial assistance
- ▶ Helps ensure financial integrity of all local government units
- ▶ Reviews local government financial actions
- ▶ Guides conduct of local government officials
- ▶ Website: <http://www.nj.gov/dca/divisions/dlgs/>



Local Finance Board

- ▶ Created by the Local Government Supervision Act of 1947
- ▶ Comprised of 7 Members in addition to the Chair
- ▶ Promulgates rules and regulations for local finance
- ▶ Conducts hearings for a wide variety of issues (LFB is referenced in ~55 statutory provisions)
- ▶ Oversight of Local Government Ethics Law



Local Government Ethics Law

- ▶ Local Government Ethics Law (N.J.S.A. 40A:9-22) is **your responsibility**
- ▶ “Whenever the public **perceives** a conflict between the private interests and the public duties of a government officer or employee, that confidence is imperiled.”
- ▶ DLGS Role:
 - ▶ LFB has power to initiate, receive, hear and review complaints and hold hearings regarding possible violations
 - ▶ DLGS receives ethics inquiries
 - ▶ DLGS receives requests for advisory opinions
 - ▶ Financial Disclosure Statements - filing is **your responsibility**
 - ▶ Due annually – April 30th
 - ▶ DLGS imposes fines for non-compliance



Professional Certifications

- ▶ Certified Municipal/County Finance Officer
- ▶ Registered Municipal Clerk
- ▶ Certified Municipal Tax Collector
- ▶ Certified Public Works Manager
- ▶ Qualified Purchasing Agent



Other Areas of Oversight and Local Assistance to Municipalities

- ▶ Local Finance Notices (LFN's)
- ▶ Local Public Contracts Law
- ▶ Legislative and Regulatory Research
- ▶ Tax/State Aid Analysis and Reporting
- ▶ Tax Collection
- ▶ Deferred Comp Plans
- ▶ Shared Services
- ▶ Municipal Consolidation
- ▶ Best Practices Inventory
- ▶ LOSAP's
- ▶ GovConnect



Transitional Aid Program

- ▶ Discretionary aid based on application requests from municipalities with structural budget imbalances
- ▶ Recipients enter into an MOU with DLGS with strict provisions:
 - ▶ Goals: improve economic development, reduce staffing costs, reduce non-essential services, maximize recurring revenues, address findings in audit reports
 - ▶ State Fiscal Oversight Monitor assigned
 - ▶ Transition Plan to phase out TA in 2 years
 - ▶ Hiring and termination restrictions
 - ▶ Contract restrictions
 - ▶ Director approves all collective bargaining agreements
 - ▶ Anti-nepotism and pay-to-play policies
 - ▶ 13 municipalities received TA in CY 2015/FY 2016



State Supervision

- ▶ Takes effect in the following conditions:
 - ▶ Defaulting on bond payments
 - ▶ Failing to pay amounts due to State, county, school district or special district for two years
 - ▶ Appropriations for cash deficit above a maximum amount
 - ▶ Failure to collect at least 70% of taxes
 - ▶ Debt liquidation in excess of 25% of appropriations
 - ▶ Unable to pay bills
 - ▶ Failure to comply with local bond, budget and fiscal affairs laws
- ▶ Broad powers to Local Finance Board (i.e. adoption of annual budget)



DLGS Role in Municipal Bond Financing

- ▶ **Local Finance Board Approval**
 - ▶ Approval of certain bond financings and refundings
 - ▶ Waiver of down payment
 - ▶ Non-conforming maturity schedule
 - ▶ Debt cap waiver

- ▶ **General Municipal Oversight**

Other Key Professionals:

- ▶ **Bond Counsel**

- ▶ **Financial Advisor**

- ▶ **Rating Agencies**



Financial Regulation and Assistance

- ▶ **Oversee Compliance for:**
 - ▶ Budgets: Municipal, County, Authority, Fire District
 - ▶ User-Friendly Budgets
 - ▶ Budget Amendments
 - ▶ Annual Financial Statements (AFS)
 - ▶ Annual Audits
 - ▶ Annual Debt Statements/Supplementary Debt Statements

- ▶ **Professional Assistance**



Purpose of Budget

- ▶ **Municipal policy statement** to set priorities for services and programs
- ▶ **Management tool** for operations for delivery of services
- ▶ **Financial control** to grant authority to spend public funds and establish tax levy & rate



Budget Process

- ▶ Temporary Budget
- ▶ Mayor and administration prepare and introduce budget
- ▶ Public hearing is required
- ▶ Governing body adopts budget
- ▶ DLGS approves budget prior to adoption
- ▶ After budget adoption, amendments include:
 - ▶ Chapter 159s
 - ▶ Emergencies
 - ▶ Transfers
 - ▶ Dedication by rider



3 Major Components of Municipal Budgeting

- ▶ **Planning**
- ▶ **Preparing**
- ▶ **Monitoring**



Budget Planning

- ▶ Strategic planning – policy goals
- ▶ Historical information – financial trends analysis, historical tax rates, historical State aid, tax appeal trends, fund balance trends, assessed valuation changes, tax collection trends, debt analysis
- ▶ Communication with professional staff – Administrator, department heads, CFO, tax collector, tax assessor, construction officials, police, court administrator, auditor, engineers, insurance brokers
- ▶ Performance measurements – review prior results, benchmarks



Budget Preparation: Four Components of the Budget

Revenues

Levy
CAP

Appropriations

Approp.
CAP



Budget Preparation: Major Budget Revenues

- ▶ Property Taxes – amount to be raised by taxation
- ▶ Fund balance anticipated
- ▶ Miscellaneous revenues
 - ▶ Local revenues
 - ▶ State Aid without offsetting appropriations
 - ▶ Dedicated Uniform Construction Code Fees
 - ▶ Interlocal/Shared Service Revenue
 - ▶ Public & Private Revenue (Grants)
- ▶ Delinquent tax revenue – prior years and tax title liens
- ▶ Minimum library tax



Budget Preparation: Major Budget Appropriations

- ▶ Operations
- ▶ Contingent
- ▶ Capital Improvements
- ▶ Debt Service
- ▶ Deferred Charges & Statutory Expenditures
- ▶ Reserve for Uncollected Taxes



Budget Monitoring

- ▶ Current year operations affect future budgets
- ▶ Establish good internal controls
- ▶ Monthly reports to governing body
- ▶ Certification by CFO of availability of funds
- ▶ Governing body reviews list of bills to be paid
- ▶ AFS and annual audit
- ▶ Five Year forecasting



Important Budget Issues for Elected Officials

- ▶ **Use of Fund Balance**
 - ▶ Maintain a percentage of prior year operations
 - ▶ Utilize less than 100% of fund balance
- ▶ **Miscellaneous Revenues Anticipation**
- ▶ **Setting Tax Levy**
- ▶ **Appropriation Levels**
- ▶ **Tax Appeal Information**
- ▶ **Capital Budget**



Be Aware of the “CAPS”

▶ Appropriations CAP

- ▶ Based on CPI changes (0.5% in 2017)
- ▶ Excludes debt service and capital
- ▶ COLA Ordinance – increases appropriations cap to 3 ½ %

▶ Levy CAP

- ▶ 2% of prior year's levy
- ▶ Excludes shared services adjustments
- ▶ Add municipal tax value of added assessments
- ▶ Excludes: debt service, County Improvement Authority payments, capital expenditures, pension costs, health insurance, State or Federal emergencies
- ▶ Referendum required for spending over CAP limits

▶ Debt CAP

- ▶ 3.5% of last 3 years' average equalized valuations

▶ Interest Arbitration Award CAP

- ▶ 2% increase of base salary
 - ▶ Reforms also established procedural timelines, expanded publicly available copies of labor agreements, reporting of actual contract costs
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Questions?

