

Budgeting in the Municipal World

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Department of Community Affairs

Division of Local Government Services (DLGS)

- Thomas H. Neff serves as the Director of the Division
- The Division of Local Government Services:
 - Provides technical and financial assistance in budgeting, financial reporting, joint services, purchasing, and management issues
 - Most importantly, however, they are responsible for the financial integrity of all local government units
 - They review and approve all municipal, county and fire district budgets and review many local government financial actions and also govern and guide the conduct of local government officials
- Internal Organization of the DLGS:
 - Hardcore Financial Regulation and Assistance
 - Other Services / Local Management Services and Regulation
- Regularly issues Local Finance Notices as guidance to local government on current issues

Local Finance Board


- Within the DLGS is the Local Finance Board
- Comprised of 7 Members in addition to the Chair
 - The Director of the DLGS is the Ex-Officio Chair of the Board
- Created in conjunction with the Local Government Supervision Act of 1947
- Promulgates rules and regulations for local finance
- Conducts hearings for a wide variety of issues ranging from extensions of credit for municipalities that want to exceed their debt threshold to approving the formation of a new local authority or utility

Reason DLGS Takes an Active Role in Local Budgeting

- There is diversity in local government budgeting competence: some excellent, vast majority acceptable, some... ehhhhhhhhh
- Bankruptcy/default impacts bad officials and innocent constituents, and other communities when investor confidence in region declines
- New Jersey recognizes need to protect innocents and others from bad actors

Role of the State of New Jersey: Four Main Components

UNLIKE OTHER STATES (CALIFORNIA, ETC)

1. Laws, LFB, DLGS and tradition maintain a system that make serious fiscal distress rare
 2. When serious distress rears its head, State system prevents bankruptcy or default
 3. NJ intervenes aggressively to restore stability
 4. State implements reforms to reduce local spending pressures in all communities
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Budgeting in the Municipal World

WHAT EVERY ELECTED OFFICIAL SHOULD KNOW



The World Around Us

Best Practices

Revenue Accountability

Loss

Municipal Consolidation!

**Do more
with Less!**

Increased Fiscal Oversight!

Transparency

Planning is the Key

- Planning, Planning & more Planning
- “HOPE” is not a Plan
- Taking a proactive approach to Municipal Budgeting is the key to a successful budget and the financial viability of the organization
- We are forced to react to the economic environment around us, legislative actions and much more
- Planning for contingencies and the unknown will better prepare your community to deal with these unknown pressures
- “Murphy’s Law!” – What can go Wrong will go Wrong! ... and it fact does

How to deal with the unexpected

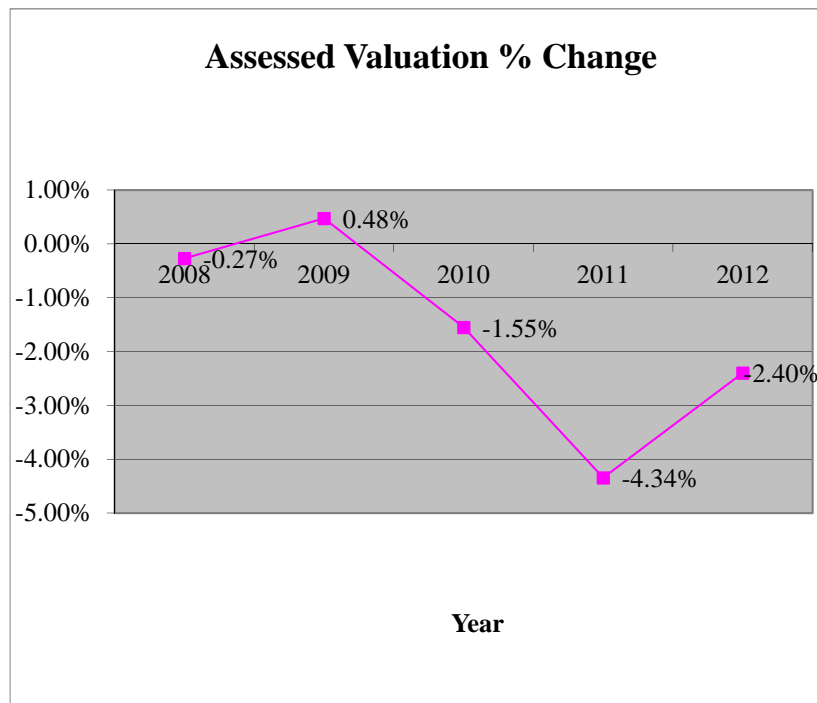
- Establishing and Maintaining Emergency Reserves
 - Super Storm Sandy
 - October Snow Storm
 - Hurricane Irene
 - Unusual or Excessive Snow Events
- Fund Balance Levels
- Reserve for Tax Appeals
- Accumulated Absences Trust Fund
- Reserve for Litigation
- Snow Emergency Trust Fund

Past

Historical View

- Knowing where you have been should be the foundation for any budget
- Financial Tools Available
 - Financial Trends Analysis – Developed by the GFOA of NJ for its members
 - Historical Tax Rate
 - Historical State Aid Revenue – “Replacement Revenue”
 - Tax Appeal Trends
 - Fund Balance Trends
- Other Trends that have Impacted your municipality
 - Don’t be afraid to ask for information

Assessed Valuation % Change

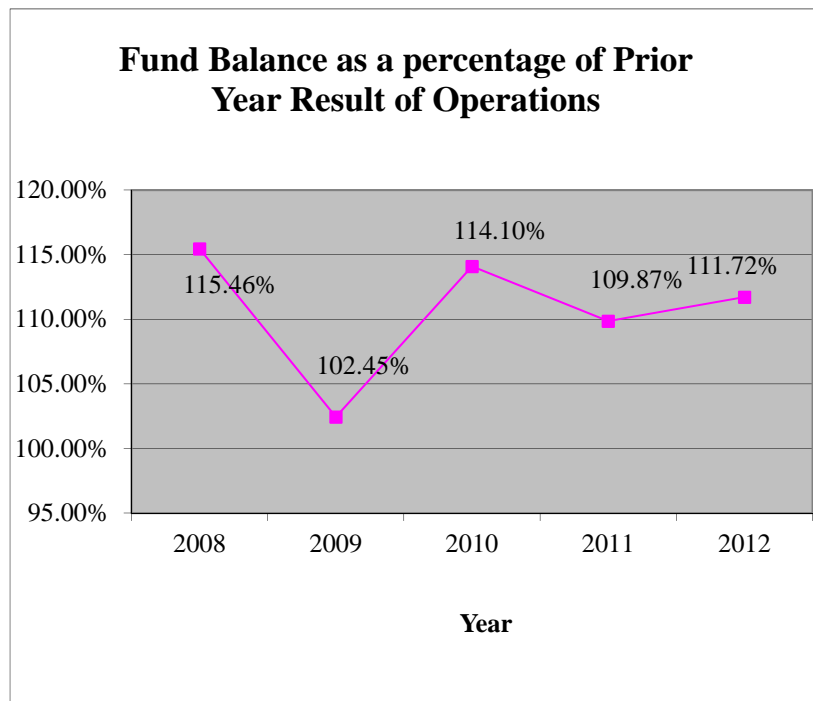


This indicator is a measure of how well a community is able to manage its tax levy cap

Growth in the range of 3% or higher would enable a community to manage its tax burden along with budget growth

It will require significant management going forward as we see the impacts of property value growth slow down and tax appeals increase

Fund Balance as a % of Prior Year Result of Operations



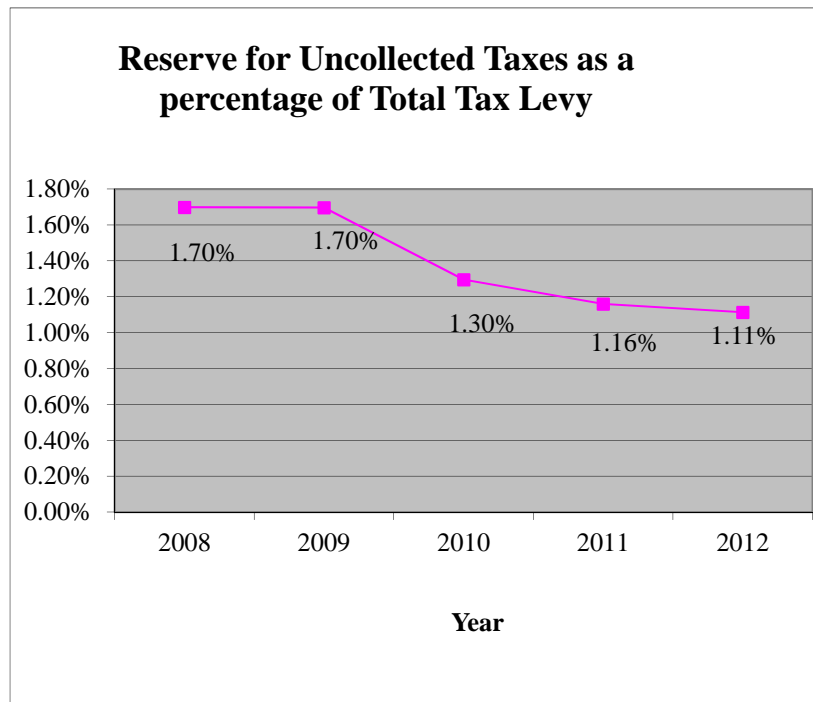
This indicator is used to measure how responsibly Fund Balance is being utilized

Fund Balance as a % of Prior Year Operations should be less than 100%

Utilization rates greater than 100% may be an indication that the dependence on Fund Balance may not be reasonable

Usage of greater than 100%, when monitored and planned for, is acceptable as long as the dependence is not permanent

Reserve for Uncollected Taxes as a % of Total Tax Levy

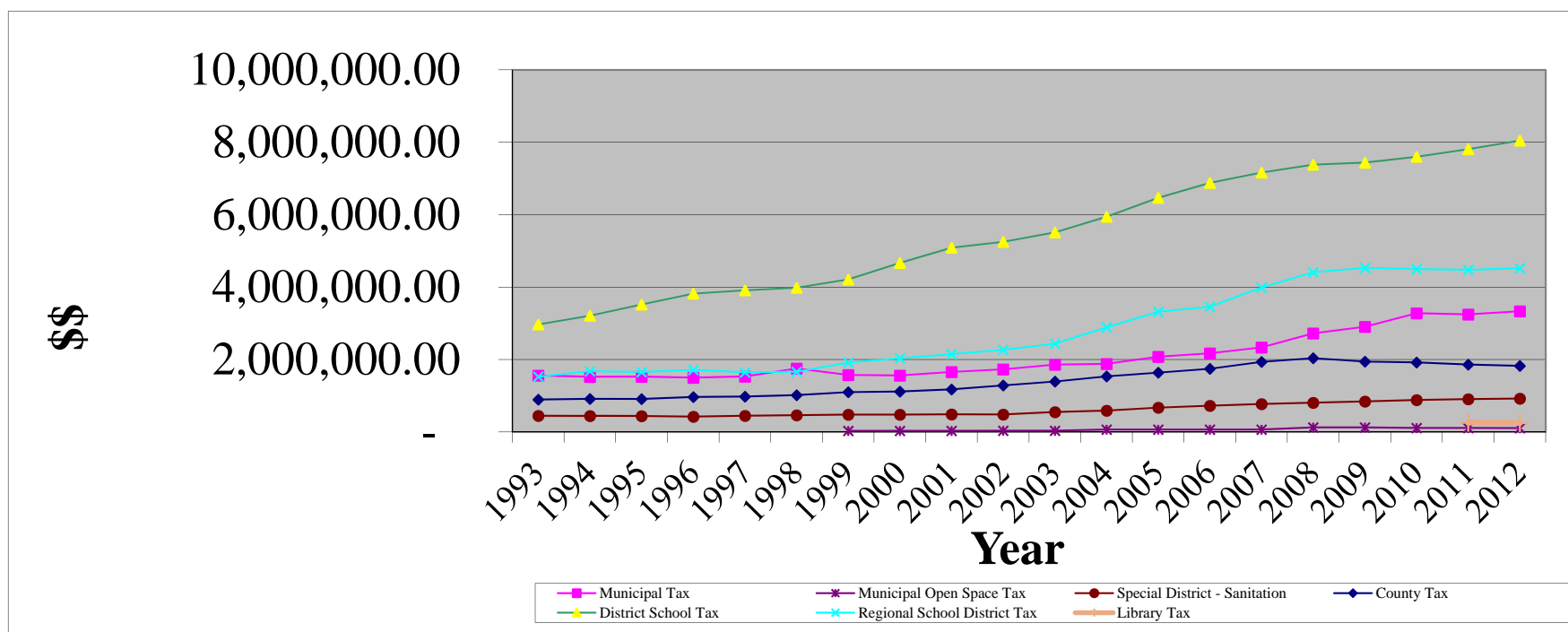


This indicator is used to measure whether the Reserve for Uncollected Taxes Account is maintained at a constant in relation to the total tax levy

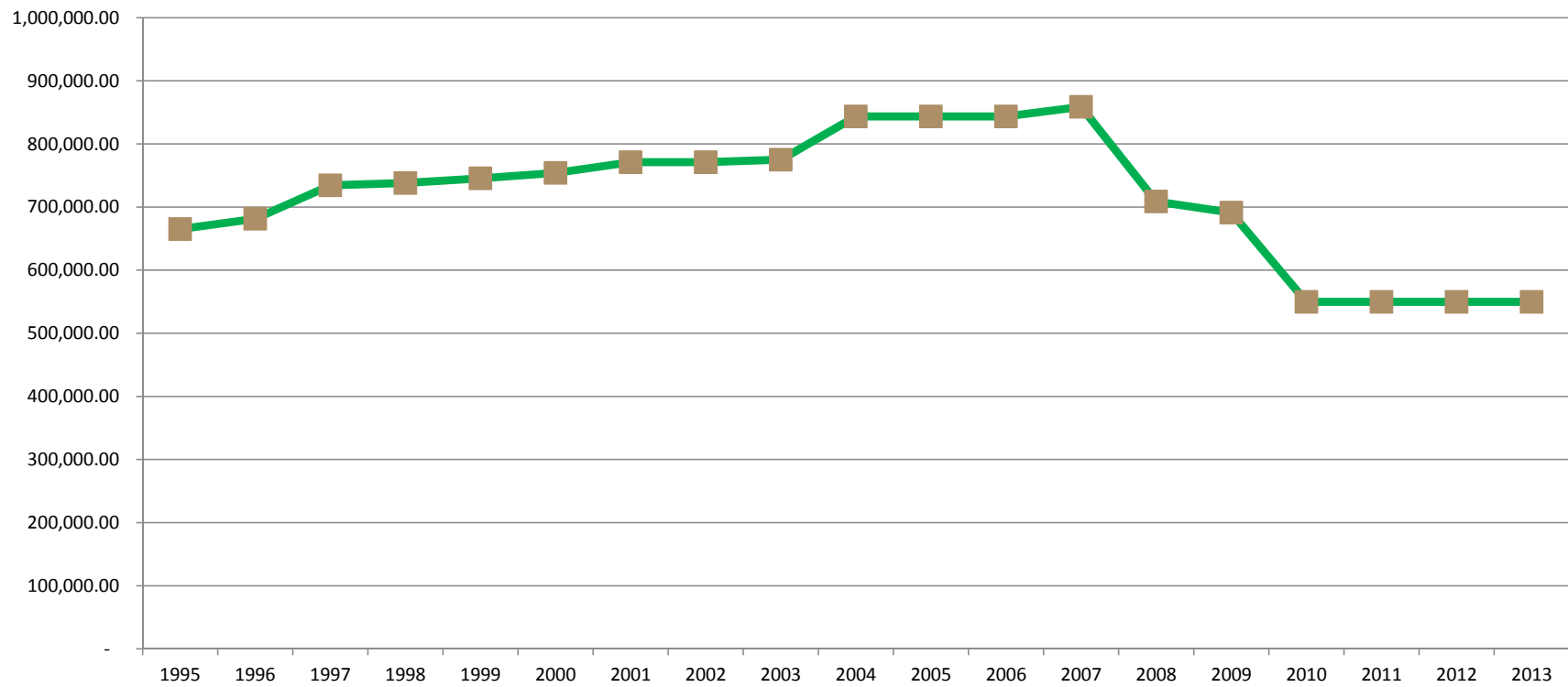
A decreasing trend may indicate that the account is being underfunded. The ideal position would be to have this account remain level from year to year

An increasing trend could be an indication that it is overfunded or possibly to correct a declining fund balance position through the Reserve for Uncollected Taxes account

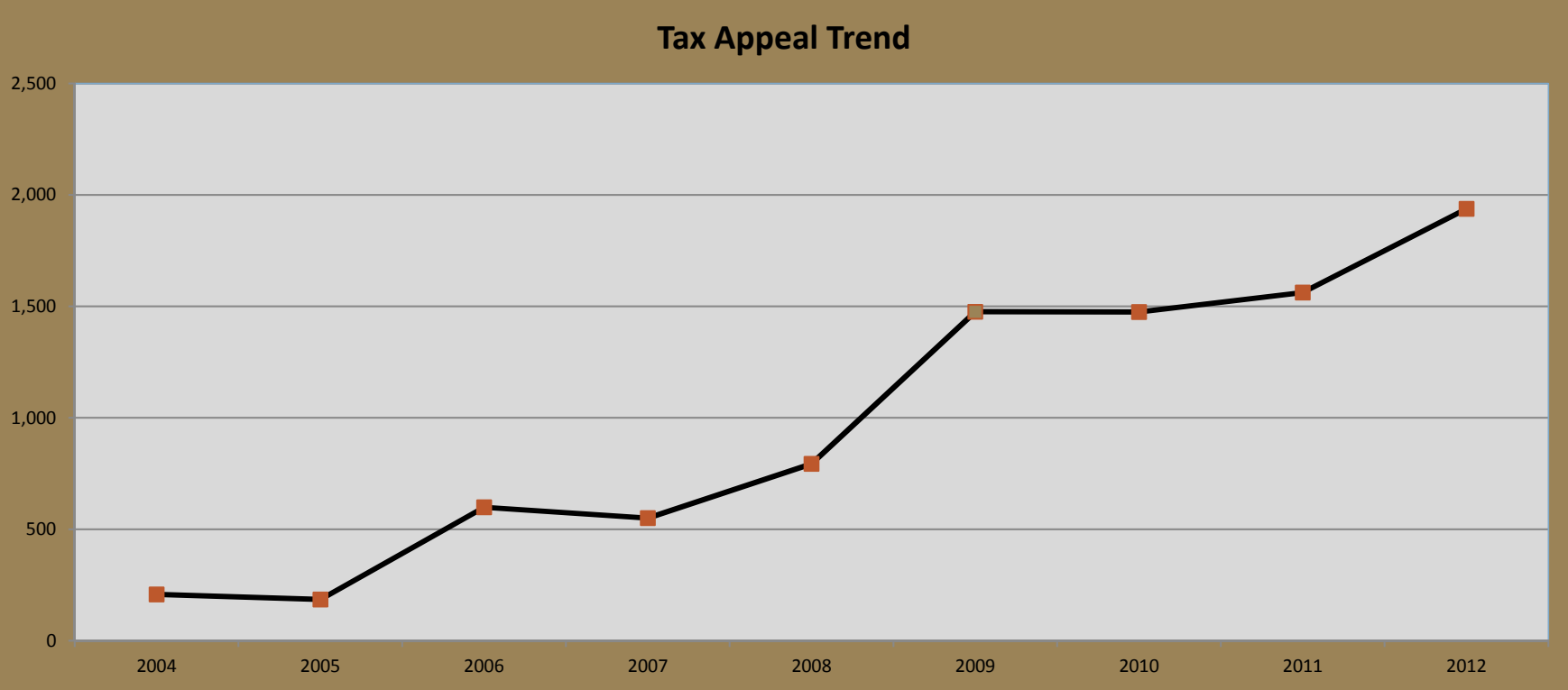
Tax Dollar Trend



Historic State Aid Graph (All Aid)




Tax Appeal Trends



Present

Questions to ask during Budget Development

- Have we learned from the mistakes of the past
 - Are we kicking the can down the road for someone else to deal with a problem
 - Can our Operations support the budget we have (Have your CFO review Sheet 19)
 - Listen to your professional staff and consultants – That is what they are paid to do
 - Utilize the resources available to you
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Operations Schedule – AFS Sheet 19

RESULTS OF 2012 OPERATION

CURRENT FUND

	Debit	Credit
Excess of Anticipated Revenues:	XXXXXXX	XXXXXXX
Miscellaneous Revenues Anticipated 80013-01	XXXXXXX	212,873.53
Delinquent Tax Collections 80013-02	XXXXXXX	20,973.20
	XXXXXXX	
Required Collection of Current Taxes 80013-03	XXXXXXX	1,186,856.78
Unexpended Balances of 2012 Budget Appropriations 80013-04	XXXXXXX	3,938.71
Miscellaneous Revenue Not Anticipated 81113-	XXXXXXX	219,633.17
Miscellaneous Revenue Not Anticipated: Proceeds of Sale of Foreclosed Property (Sheet 27) 81114-	XXXXXXX	
Payments in Lieu of Taxes on Real Property 81120-	XXXXXXX	
Sale of Municipal Assets	XXXXXXX	
Unexpended Balances of 2011 Appropriation Reserves 80013-05	XXXXXXX	199,091.02
Prior Years Interfunds Returned in 2012 80013-06	XXXXXXX	26,632.10
Cancellation of Local School Taxes Payable	XXXXXXX	
Interfunds Returned - Originating in 2009	XXXXXXX	

Deferred School Tax Revenue: (See School Taxes, Sheets 13 & 14)		XXXXXXX	XXXXXXX
Balance January 1, 2012 80013-07			XXXXXXX
Balance December 31, 2012 80013-08		XXXXXXX	
Deficit in Anticipated Revenues:		XXXXXXX	XXXXXXX
Miscellaneous Revenues Anticipated 80013-09			XXXXXXX
Delinquent Tax Collections 80013-10			XXXXXXX
Reserve for Pending Tax Appeals		180,000.00	XXXXXXX
Required Collection of Current Taxes 80013-11			XXXXXXX
Interfund Advances Originating in 2012 80013-12		5,480.45	XXXXXXX
Federal and State Grant Funds Cancelled			XXXXXXX
Sr. Citizen Deduction Disallowed by Tax Collector - 2011		699.31	XXXXXXX
			XXXXXXX
			XXXXXXX
Deficit Balance - To Trial Balance (Sheet 3) 80013-13		XXXXXXX	
Surplus Balance - To Surplus (Sheet 21) 80013-14		1,683,818.75	XXXXXXX
		1,869,998.51	1,869,998.51


Budget Rules

- CAP Rules (Levy CAP vs. Appropriation CAP)
 - Have been in place since 1976
- Revenue Rules
- Appropriation Rules
- Temporary Budget Rules
- Adoption of Budget and requirement for Public Hearing
- Budgeting planning is different for every community – Forms of Government or Practice

Major Budget Revenues

- Property Taxes – Amount to be Raised by Taxation
- Fund Balance Anticipated (Not Surplus!)
- Miscellaneous Revenues
 - Local Revenues
 - **State Aid** without Offsetting Appropriations
 - Dedicated **Uniform Construction Code** Fees
 - Interlocal / **Shared Service** Revenues
 - Public & Private Revenues (**Grants**)
- Delinquent Tax Revenue (Prior Years & Tax Title Liens)
- Minimum Library Tax

Major Budget Appropriations

- Operations (within CAP)
 - Operations (outside CAP)
 - Contingent
 - Capital Improvements
 - Debt Service
 - Deferred Charges & Statutory Expenditures
 - Reserve for Uncollected Taxes
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What is a Line Item Budget?

- In New Jersey, each appropriation must be categorized between “Salaries & Wages” and “Other Expenses”. This is the level of detail required when preparing the State Budget Document.
- This is the format for the publicized budget. However, local units typically break their budgets down into greater detail for internal tracking purposes.

Reserve for Uncollected Taxes

- This is the amount of the tax levy that we do not anticipate will be collected
- Acts similar to an Allowance for Doubtful Accounts. We are writing off our bad debts based upon the tax collection rate of the previous year.
- We can later recoup this revenue through the Receipts from Delinquent Taxes

Budget Timeline



As you can see, you are running two budgets at a time.

Future

HAVING A GOOD CRYSTAL BALL HELPS WITH THIS



Looking Ahead

- Fund Balance Forecasting
- Operations Schedule
- Budget Projections

5 Year Budget Projections

Account Name	Adopted 2012	Adopted 2011	Adopted 2012	2013	2014	Projected 2015	2016	2017	Average Annual Increase
REVENUES									
CURRENT FUND REVENUES:									
Fund Balance	985,124	985,124	1,037,494	1,037,494	1,037,494	1,037,494	1,037,494	1,037,494	0.00%
Local Revenues	464,760	375,760	348,460	355,180	362,034	369,192	376,498	383,955	2.04%
State Aid without Offsetting Appropriations	549,711	549,711	549,711	549,711	549,711	549,711	549,711	549,711	0.00%
Uniform Construction Code Fees	39,300	39,300	58,300	59,466	60,655	61,868	63,105	64,367	2.08%
Interlocal Service Agreements	1,305,129	1,373,648	1,445,765	1,521,668	1,601,556	1,685,638	1,774,134	1,867,276	5.83%
Public and Private Revenues Offset by Appropriations	44,396	37,377	-	-	-	-	-	-	NA
Other Special Items	398,835	374,560	343,969	305,900	290,605	276,075	262,272	249,158	-5.51%
Delinquent Taxes	194,600	194,600	194,600	197,519	200,482	203,489	206,541	209,639	1.55%
Amount to be Raised by Taxation	3,281,432	3,510,518	3,580,386	3,694,707	3,823,977	3,955,122	4,088,408	4,223,958	3.59%
TOTAL ALL REVENUES	7,263,287	7,440,598	7,558,685	7,721,645	7,926,514	8,138,589	8,358,163	8,585,558	2.72%
APPROPRIATIONS									
APPROPRIATIONS WITHIN "CAPS":									
General Government	603,829	618,847	643,294	650,122	657,078	664,165	671,386	678,743	1.10%
Land Use Administration	60,065	60,065	60,945	62,038	63,151	64,285	65,440	66,617	1.86%
Insurance	559,659	590,040	642,417	655,976	669,828	683,980	698,437	713,207	2.20%
Public Safety	1,230,419	1,221,167	1,209,119	1,235,588	1,262,778	1,290,716	1,319,423	1,348,930	2.31%
Streets And Roads	408,875	410,985	409,455	415,980	422,619	429,373	436,246	443,240	1.65%
Health And Welfare	112,117	112,117	108,121	109,510	110,921	112,355	113,812	115,292	1.33%
Parks And Recreation	136,944	136,944	134,159	135,401	136,668	137,961	139,279	140,623	0.96%
Utilities & Bulk Purchase	205,000	205,000	205,000	209,100	213,282	217,548	221,899	226,337	2.08%
Uniform Construction Code	116,370	116,370	133,765	136,286	138,857	141,481	144,156	146,885	1.96%
Unclassified	6,715	6,715	10,715	10,715	10,715	10,715	10,715	10,715	0.00%
Statutory Expenditures	425,876	766,421	711,567	734,458	758,110	782,549	807,803	833,898	3.44%
TOTAL OPERATIONS WITHIN "CAPS"	3,865,869	4,244,671	4,268,557	4,355,174	4,444,007	4,535,128	4,628,596	4,724,487	2.14%
				2.03%	2.04%	2.05%	2.06%	2.07%	
OPERATIONS EXCLUDED FROM "CAPS":									
Statutory Expenditures	282,649	-	32,478	32,478	32,478	32,478	32,478	32,478	0.00%
Maintenance of Free Public Library	291,072	263,517	270,706	276,120	281,642	287,275	293,021	298,881	2.08%
Interlocal Service Agreements	1,410,629	1,479,148	1,551,265	1,629,278	1,711,318	1,797,595	1,888,330	1,983,756	5.58%
Federal And State Grants	49,276	42,257	4,880	4,880	4,880	4,880	4,880	4,880	0.00%
Capital Improvements	187,203	223,447	285,307	291,013	296,833	302,770	308,825	315,002	2.08%
Debt Service	391,172	393,694	403,487	411,557	419,788	428,184	436,748	445,483	2.08%
Deferred Charges	106,000	35,000	35,000	-	-	-	-	-	-20.00%
SUBTOTAL GENERAL APPROPRIATIONS EXCLUDED FROM "CAPS"	2,718,001	2,502,922	2,583,123	2,645,326	2,746,939	2,853,182	2,964,282	3,080,480	3.85%
SUBTOTAL APPROPRIATIONS	6,583,870	6,747,593	6,851,680	7,000,500	7,190,946	7,388,310	7,592,878	7,804,967	2.78%
Reserve For Uncollected Taxes	679,417	693,005	707,005	721,145	735,568	750,279	765,285	780,591	2.08%
TOTAL APPROPRIATIONS	7,263,287	7,440,598	7,558,685	7,721,645	7,926,514	8,138,589	8,358,163	8,585,558	2.72%
Budget Change as a Percentage		2.44%	1.59%	2.16%	2.65%	2.68%	2.70%	2.72%	

Recap

- Role of DLGS and the LFB
- Budgeting in the Past, Present & Future

Questions

