



Municipal Budgeting Overview

Department of Community Affairs
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The Basics

What is a budget?

A budget establishes a financial framework for municipal spending during the year. Consists of revenue and appropriations.

Why is it important?

The annual budget determines what services your municipality can provide its residents in the upcoming year, it ensures that the municipality's obligations are adequately funded (e.g. payroll, debt service).

Property tax bills are issued based on the property tax levy set by the municipality. Other levies compose the total tax bill (e.g. county, school, special districts).

Revenue and spending decisions made for the current year budget will affect your municipality's financial position in future years.

Governing Law

Local Budget Law (N.J.S.A. 40A:4-1 et seq.)

Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.)

N.J.A.C. 5:30 (various implementing regulations)

Timing

- Elected governing body must adopt a budget each year.
- All except for 6 municipalities are on a calendar year budget cycle (Jan 1 to Dec 31). The remainder are on a State Fiscal Year budget cycle (July 1 through June 30).
- The budget process should begin in November of each year (May for SFY municipalities). At this point, administration officials need to meet with each department head to determine spending needs for the upcoming year.
- In Faulkner Act municipalities, the Mayor/Administration must transmit a proposed municipal budget to the Council by January 15 .
- Governing body shall introduce the municipal budget by March 10 and adopt the budget by April 20.
 - However, for several years DLGS's Local Finance Board has authorized the Division Director to extend the dates for introduction and adoption of municipal budgets beyond the statutory dates.
 - For 2023, the Director has authorized extensions for an additional month, transmission 2/27, Introduction 3/31, adoption 4/28, or the next following governing body meeting following these dates.
- For SFY municipalities, adjust these dates accordingly.

Key Revenue Sources

- Property taxes
 - the amount needed to support operations is set by the general purposes tax levy, established annually in the municipal budget
- State Aid – Mainly Energy Tax Receipts, many but not all municipalities also receive Consolidated Municipal Property Tax Relief Act (CMPTRA) Aid
- Examples of other revenues include:
 - Licenses (e.g. mercantile, liquor licenses)
 - A portion of fines and penalties collected through municipal court
 - Payments received for services provided to other local governments (shared services agreements)
 - Utility fees and charges
 - Other municipal levies dedicated to specific purposes: Open Space, Library, Arts & Culture
 - hotel/motel tax, local cannabis tax

Key Appropriations

Appropriations consist of anticipated annual expenses to run your municipality.

Key municipal appropriations include:

- Salary & Wage
- Pension Contributions (Police/Fire; PERS)
- Health Benefits
- Worker's Compensation & Other Liability Insurance
- Maintenance, Fuel, Utilities
- Professional Services (e.g. legal, engineering)
- Debt service

Employee compensation is the largest municipal expense.

A municipality must meet its debt service obligations and avoid default.

The State has a proactive policy of preventing default and municipal bankruptcies through various oversight and assistance mechanisms administered by the Division of Local Government Services.

Surplus (Fund Balance)

- The amount of unexpended funds that a municipality will have on hand for the next following fiscal year. Think of it as a municipality's "savings account".
- By accumulating surplus year-to-year, a municipality can help protect against unexpected revenue losses, and can be used to help reduce the need to increase the municipal tax levy when faced with substantial cost increases (be judicious when using for this purpose).
- The Division encourages municipalities to have an established policy concerning surplus accumulation and its sustainable use in the annual budget. Ratings agencies want to see this, which helps with a municipality's bond rating.

Preparing the Municipal Budget

Accurate & timely financial data on revenue realization, expenditure obligations

- Chief financial officer's assessment of municipality's cash flow (ability to fund its expenditure obligations given the amount and timing of revenue collection)
 - Tax collection rate (% collected versus uncollected)
 - Revenue collection for any municipal utilities
 - A utility is an operation with a self-contained budget, must be self-liquidating (revenues must at least match obligations)
 - Examples - water, sewer, parking, swimming pool, golf course
- Results of tax sale - selling liens for unpaid property taxes and municipal charges [e.g. water, sewer, special assessments] to investors, allowing municipality to collect unpaid obligations
 - Municipality must hold a tax sale at least once a year
 - Municipality becomes holder of liens not sold at tax sale (i.e. "struck off")

Preparing the Municipal Budget

- Municipal tax collector should assess current operations and, if needed, recommend necessary actions to improve collection rate and marketability of liens
- Municipal tax assessor should help analyze current assessed valuation and trends – increased ratables allow additional spending without increasing the municipal tax levy
 - ratio of assessments to true market values,
 - tax appeals (settled/adjudicated/ongoing)
 - Do current real estate market trends require a revaluation?
- Construction (UCC) officials
 - Forecast for new construction related to building permits, new ratables and added assessments coming online
 - Permit fee revenue for purposes of offsetting costs of operating the construction code office
- Police department and municipal court administrator – revenue from fines and penalties
- Trust Fund balances (open space, recreation)

Preparing the Municipal Budget

- Overall assessment on operational and staffing needs for current year
- Analysis of costs necessitated by labor agreements and individual employment agreements (step increases, cost of living [COLA] increases)
- Input from municipal auditor
- Contracted vendors – engineers, insurance risk consultants
- Public input – stakeholders in local government

Annual Financial Statement & Annual Audit

Annual Financial Statement (unaudited prior year financials)

- Due February 10 (extended this year to March 3). Needed to provide an accurate picture of municipality's current fiscal condition.

Annual Audit Report

- Municipal Audit Report for prior budget year due beginning of July, or January for municipalities on SFY budget cycle.
 - Audit for 2022 fiscal year (CY munis) is due in July
 - Audits test a municipality's compliance with accounting standards, Local Budget Law, Local Fiscal Affairs Law, and other laws pertaining to municipalities.
 - Governing body must certify to having reviewed audit.
 - Publish audit findings in a synopsis of audit published in newspaper, governing body must adopt corrective action plan to address findings.

Capital Budget

- The budget document also consists of the capital budget which is a multiple year projection of anticipated capital expenditures.
- The capital budget is an essential tool for planning rehabilitation and replacement of roads, buildings, water/sewer mains, recreation facilities, and other infrastructure.
- Work closely with your municipal engineer and public works.
- Municipalities 10,000 or more = 6 year capital budget
- Municipalities Under 10,000 = 3 year capital budget

Capital Budget

- Capital expenditures can be funded by:
 - Short-term notes or bonds
 - Long term bonds
 - Fully funded (pay-go)
 - Cash Flow, which would be short term until short term notes or long-term bonds are executed.
- For current year capital, generally required to put a down payment of 5% into your operating budget appropriations.
- Municipal water systems - Water Quality Accountability Act (WQAA) requires capital budget to incorporate improvements in system's Asset Management Plan. An annual report submitted to DEP.

Budget Limitations

1. Levy Cap – Limits municipal tax levy increases to no more than 2% of prior year's levy, unless voters approve increase at a referendum

General levy cap formula:

- Start with prior year amount to be raised by taxation
- Add 2% of prior year amount to be raised
- Add municipal tax value of added assessments
- Add exclusions:
 - Capital expenditures
 - Debt service
 - Pension costs – amount over 2% increase
 - Health insurance amount over 2% (up to 19.6% for this year)
 - Governor-declared emergencies
 - Cap “bank” – difference between actual and maximum permitted increase (up to 3 years)

Budget Limitations

2. Appropriation Cap

- Generally limits appropriations increases to 2.5 % of prior year appropriations.
 - Cap may be increased to no more than 3 ½% if cost-of-living adjustment (COLA) ordinance is introduced prior to introduction of budget.
- There are several statutory exceptions to the appropriations CAP, some similar to levy cap exceptions but several distinct ones.
 - Health insurance increase exception = 17.6%
- If appropriations beyond cap, a referendum is required.
- Because of this, the 2% tax levy cap will generally be the more restrictive of the two budget caps applicable to municipalities.

Adopting the Current Year Municipal Budget

Temporary Budget - pending final budget adoption

- Adopted within first 30 days of fiscal year.
- Establishes a municipality's spending authority for first 3 months of year – approximately 26.25% of prior year budget excluding debt service and capital projects.
- May adopt temporary emergency resolutions as necessary for additional spending authority until final budget is adopted – requires 2/3 vote of full membership.
- Whatever goes in temporary emergency appropriation must be funded in the final adopted budget.

Budget Introduction and Adoption

- Introduced budget approved by vote of governing body.
- The approved introduced budget must be transmitted to Division of Local Government Services within 3 days of the vote
- In order to be adopted by the governing body (majority of full membership required), the budget must be publicly advertised with a public hearing held on the budget at least 10 days prior to hearing date.
 - May advertise budget in summary form, but must give free copies of complete budget to those requesting it.
 - Approved budget must incorporate a section called the user-friendly budget, which provides the public with financial information in a simplified format.

Budget Introduction and Adoption

- Public hearing must be held on date advertised, even if no action is taken.
- Budget may be amended prior to adoption – will require re-advertising the budget and pushing back the adoption date if:
 - A new appropriation item is added in an amount exceeding 1% of the total amount of appropriations in the approved budget;
 - There is an increase or decrease in any appropriation item of greater than 10%; or
 - The amount to be raised by taxes would increase by greater than 5% (except emergency temporary appropriations).

Budget Introduction and Adoption

- The public hearing allows municipalities the opportunity to present the budget in a manner allowing public to better understand its impact on property taxes and cost pressures the municipality faces.
- The governing body can only vote to adopt the budget (majority of full membership) once the public hearing has been held and, if not under local review, DLGS approves it to be adopted.
- DLGS examines the budget to make sure that it is balanced, debt service is being met, and that the budget is in compliance with Local Budget Law.
- The introduced and approved budget is reviewed against the municipality's Annual Financial Statement and Audited Financials.

Budget Introduction and Adoption

- Generally, a municipality will only need to seek State approval for budget adoption every third year.
- Certain municipalities are not eligible for local review and must be approved by DLGS on an annual basis.
 - Such municipalities are generally fiscally-distressed or found to be in violation of laws pertaining to budgeting and financial administration.
- Local Budget Law does permit the budget to be amended after adoption for emergency expenses unforeseen at time of adoption, end-of-year transfers to underfunded appropriation line items.

Effective Budgeting is a Year-Round Process

- Explore opportunities for more efficient service delivery and increased revenue generation, such as potential shared services with neighboring municipalities, your county, and other local units.
- Spending should be sustainable. Avoid relying on one-shot revenue plug-ins that leave holes in next year's budget.
- Development of performance benchmarks to objectively measure service delivery and responsiveness to residents.
- Work with your professionals to keep eye on available grant funding, low-cost or no-cost funding of capital.
 - NJ Infrastructure Bank (I-Bank)
 - Local aid from Transportation Trust Fund
 - American Rescue Plan (ARP)

Importance of Continuous Monitoring

- Strong internal controls to guard against waste, fraud, and abuse – encumbrance system, general ledger, checks and balances, separation of duties among employees.
- Monthly reports to governing body on revenues, expenditures, investments, cash flow predictions.
- Certification by CFO of availability of funds on all contracts.
- Governing body should look closely at the bill list. In majority of municipalities, the governing body must approve all bills before they are paid. Even when governing body authorizes administration/finance officials to pay bills, the governing body must receive the list of bills paid.
- Ongoing Litigation – potential financial exposure
- Monitor grant requirements, including deadlines for obligating and expending funds.

Conclusion

The Division of Local Government Services is here to help!

If your municipality is facing fiscal challenges, contact us early.

dlgs@dca.nj.gov

609-292-6613

Local Assistance Bureau – Option 1

localassistance@dca.nj.gov