



# Division of Local Government Services

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# Municipal Budgeting Overview for Newly Elected Officials

**Presented by Jason Martucci**  
**Legislative & Regulatory Affairs Officer, DLGS**

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# Budget Basics

## What is a budget?

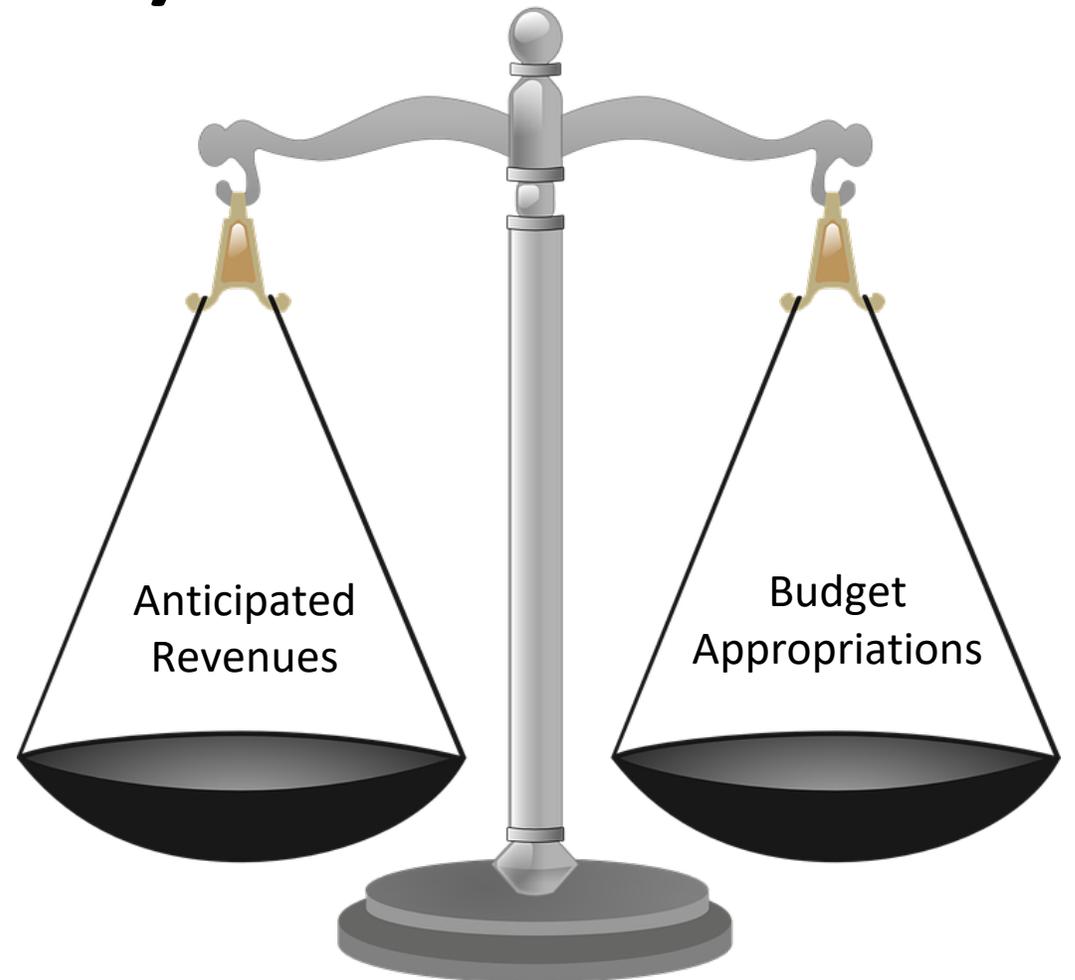
A financial framework for spending

- Comprised of anticipated revenues and appropriations.



# Budget Basics (continued)

The budget is required to be **“balanced”** - collect sufficient cash to meet all the required expenses.



# Budget Basics (continued)



## A Good Budget :

- Has a long-term perspective,
- Focuses budget decisions on outcomes,
- Includes communication with the public



# **Budget Basics (continued)**

## **Common Pitfalls in Municipal Budgeting:**

- **Using one-time revenues for ongoing expenses endangers the financial future .**
- **Only looking at the impact of decisions on current budgets without regard to future budgets.**
- **Can't spend money that's not in the budget.**

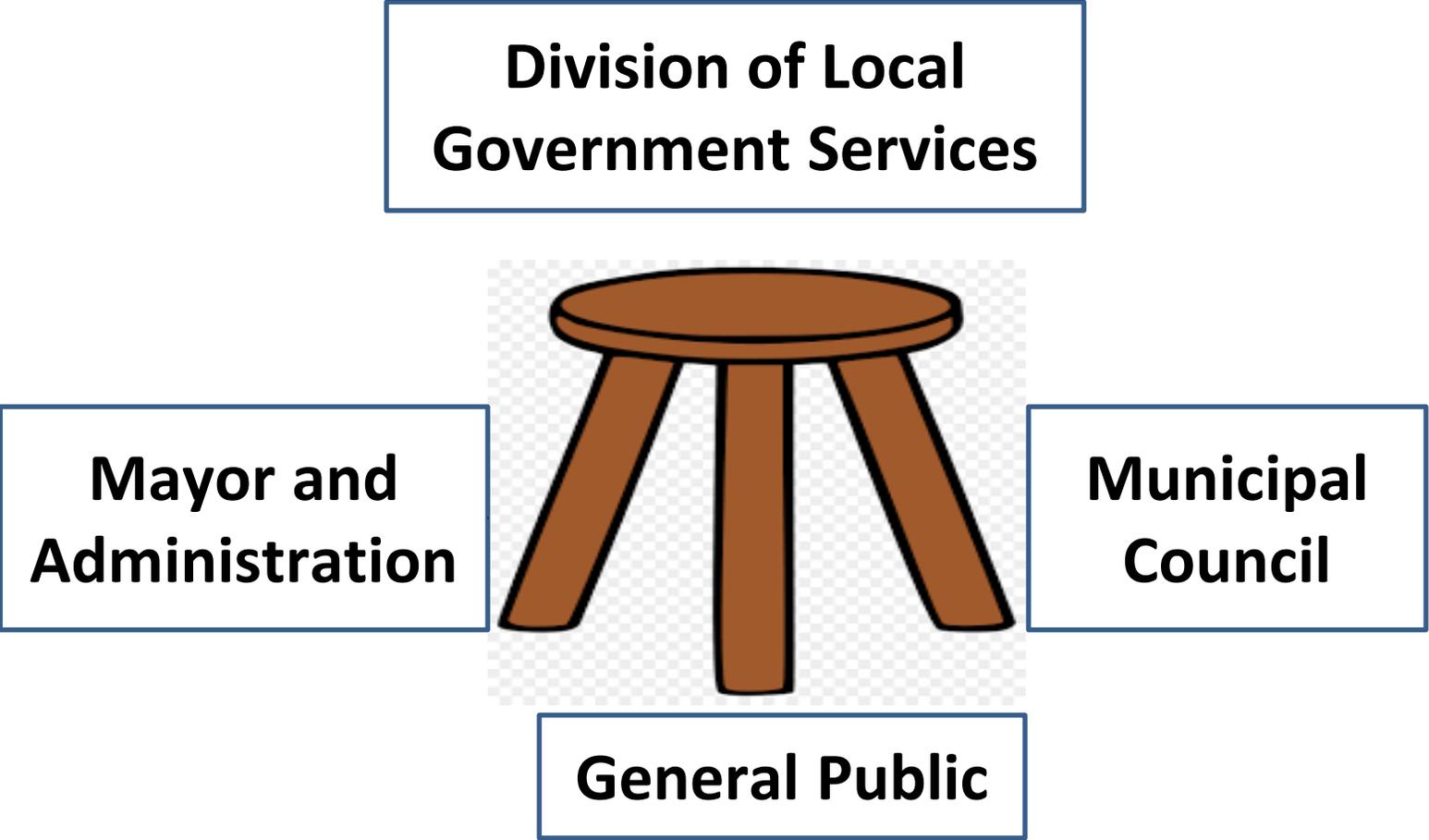
# Why the Budget is important

The development and adoption of a municipal budget is one of the elected official's most important responsibilities.

- The budget is the funding tool for operations. The annual budget determines what services your municipality can provide its residents in the upcoming year.
- Allocating scarce resources, it is representative of the public policies.
- It ensures the local governmental entity's obligations are adequately funded (i.e., payroll, debt service, etc.).
- Revenue and spending decisions can impact multiple years.



# Participants' Roles in the Budget Process



# Role of the Executive and Municipal Administration

- Hold meetings with departments
- Formulate expenditures (what to fund, not to fund)
- Anticipate revenues
- Recommend a balanced budget to the Council

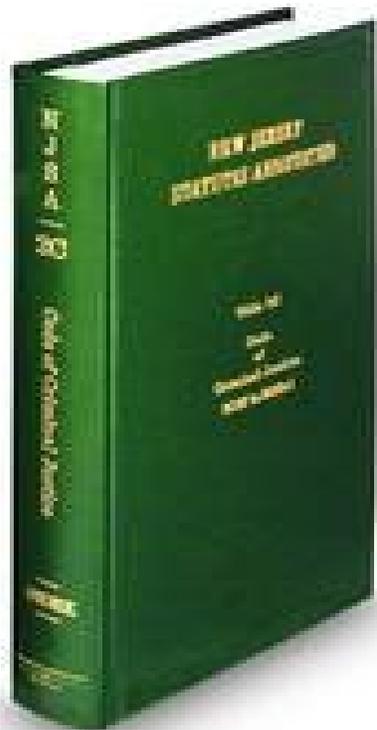


# Role of the Municipal Council

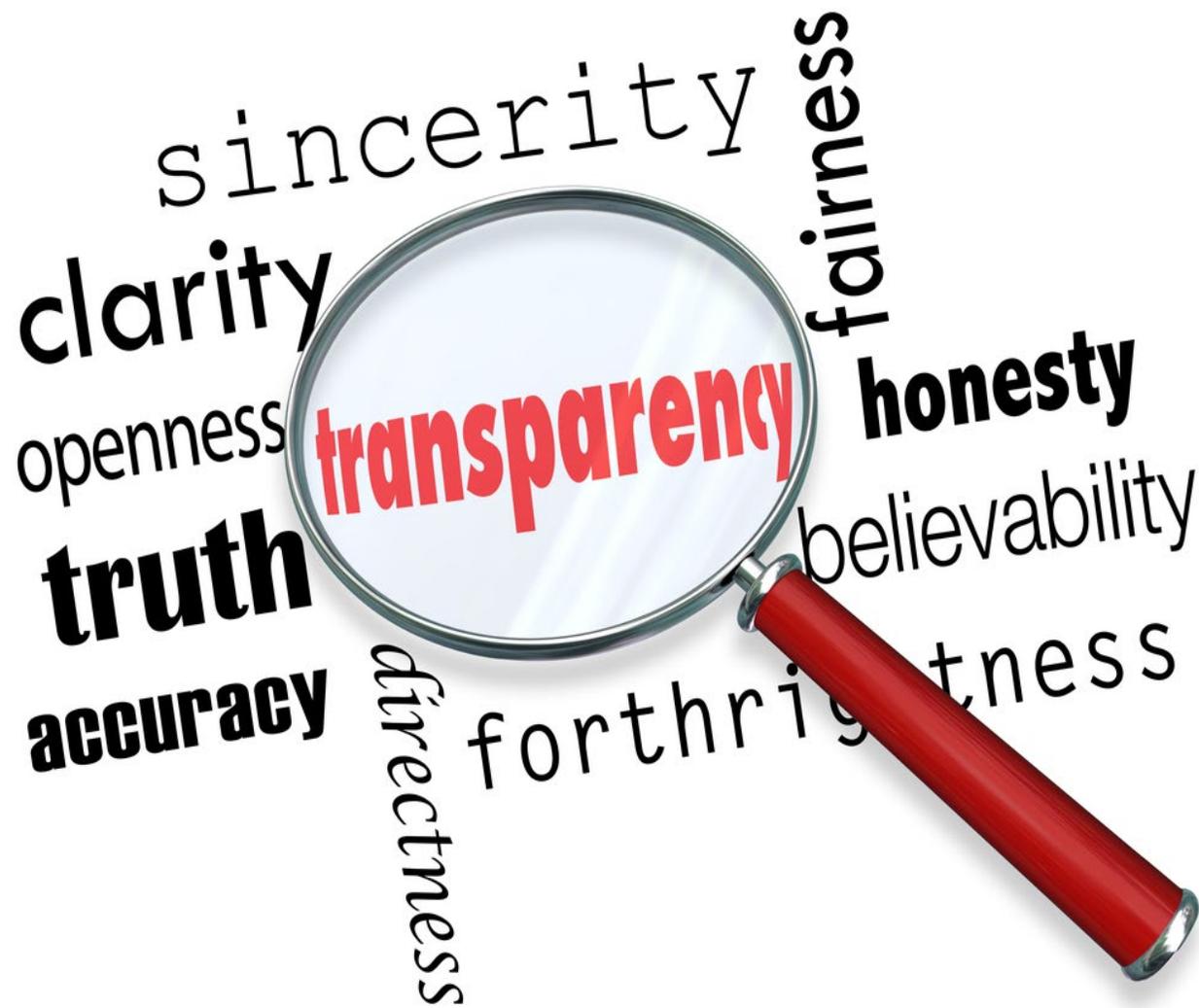
|                                     |  |
|-------------------------------------|--|
| Fund Municipal Operations           | Establish "temporary appropriations" by resolution (N.J.S.A. 40A:4-19) and establish "emergency temporary appropriations" by resolution (N.J.S.A 40A:4-20) |
| Generate Support                    | Hold a Public Hearing to allow the General Public to comment on and present objections to the municipal budget (N.J.S.A 40A:4-7)                           |
| Participate in Allocating Resources | Accept budget as is OR increase or decrease line items   |
| Adopt the Budget                    | <b>Adopt the municipal budget</b>  |

# Ongoing Role of the Municipal Council

Council may authorize the following budget amendments **after adoption of the budget** as needed:



- Chapter 159 (Budget Additions)
- Emergency Appropriations
- Budget Transfers
- Cancellation of Unexpended Balances



# Role of the General Public – Public Hearing

- The Local Budget Law (N.J.S.A 40A:4-8) requires that a **formal public hearing** be held prior to the final adoption of the budget.

# Role of the Division of Local Government Services



- Review the Introduced Budget to ensure compliance with State Statutes.
- After review, the Division of Local Government Services issues final approval prior to Council adoption. (Most budgets are reviewed once every three years).

**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.**

# Timing of the Budget Process

- The Governing Body must adopt an annual budget based upon the **Statutory Budget Deadlines (or by dates set by the Local Finance Board)**
- The **Statutory Budget Deadlines** depend on municipality's fiscal year
  - Most municipalities are on a **Calendar Year (January – December)**
  - Five municipalities are on a **State Fiscal Year (July – June)**

| Introduction and Adoption of Municipal Budget                                | Statutory Date | Revised Date |
|--|----------------|--------------|
| Mayor/Council Faulkner Act (Executive) budget transmission to governing body | 1/17           | 2/27*        |
| Submission of Annual Financial Statement                                     | 2/10           | 3/8          |
| Introduction & approval of budget  | 2/10           | 3/29*        |
| Adoption by governing body   | 3/20           | 4/30*        |

# Temporary Budget (pending final 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 & Adoption

- Introduced budget approved by vote of governing body.
- Approved introduced budget must be transmitted to DLGS within three (3) days of the vote.
- 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 requestors.
  - Approved budget must incorporate a section called the user-friendly budget - provides public with financial information in a simplified format.

# Budget Introduction & Adoption

- Public hearing must be held on date advertised, even if no action 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;
  - Increase or decrease in any appropriation item of greater than 10%; or
  - Amount to be raised by taxes would increase by greater than 5% (except emergency temporary appropriations).
- Governing body can only vote to adopt the budget (majority of full membership) once the public hearing held and, if not under local review, DLGS signs off on the budget being adopted.

# Key Revenue Sources

## Property taxes

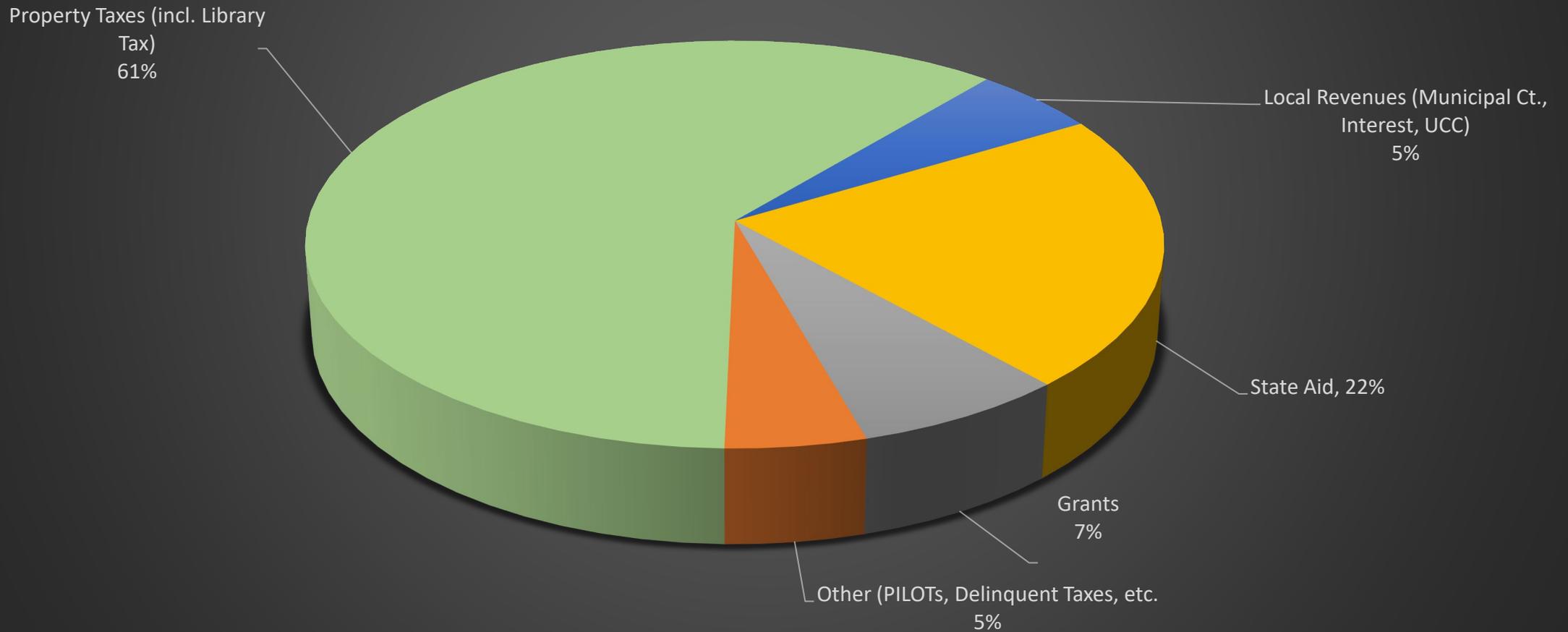
- The amount needed to support operations is set by the general purposes tax levy, established annually in the municipal budget

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
- Hotel/motel tax, local cannabis tax

# Sample Municipality Budgeted Revenues - 2023



# Surplus (Fund Balance)

The amount of unexpended funds that a municipality will have on hand for the next following fiscal year - a municipality's "rainy day 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 conservative when using surplus 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.

# Key Appropriations

**Appropriations fund the annual expenses needed to operate the municipality.**

Key municipal appropriations include:

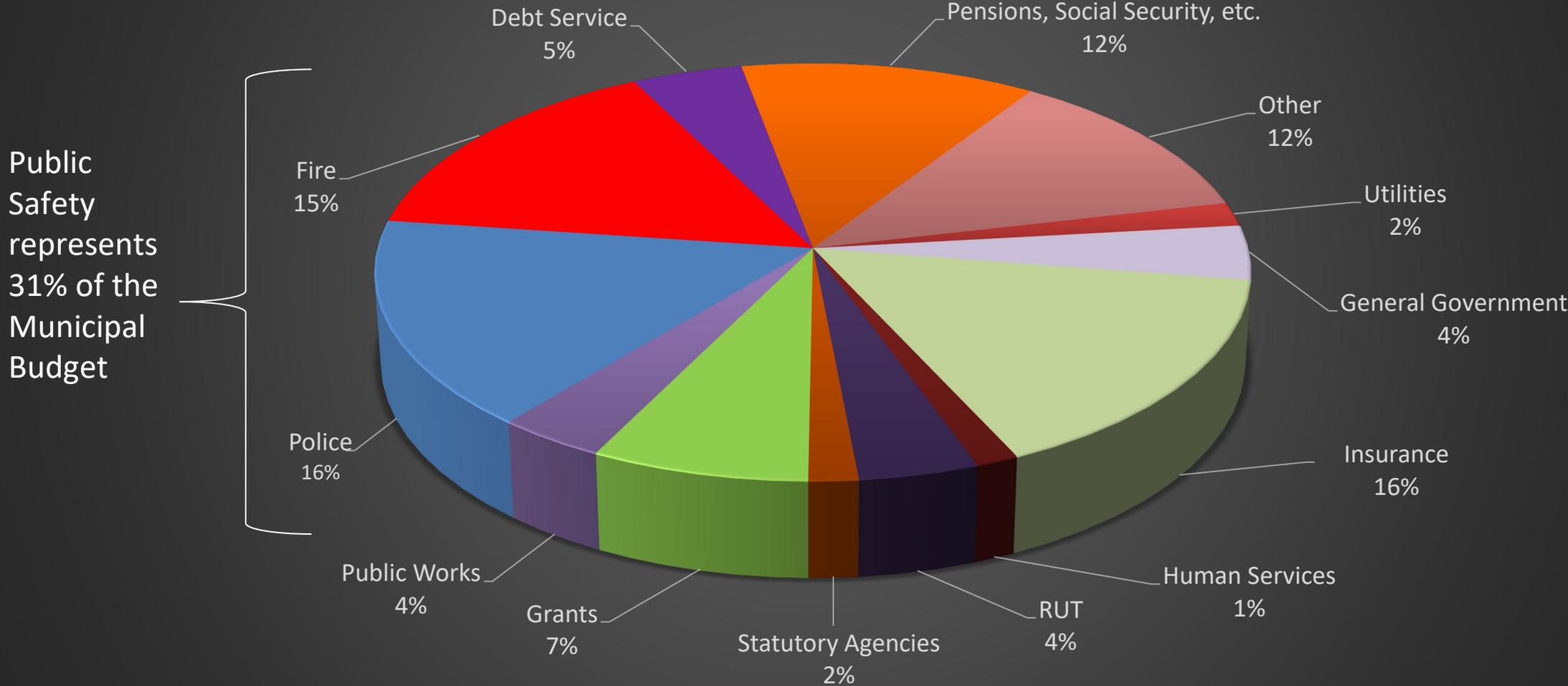
- Salaries & Wages
- Pension Contributions (PFRS; PERS)
- Health Benefits
- Worker's Compensation & Other Liability Insurance
- Maintenance, Fuel, Utilities
- Professional Services (e.g. legal, engineering)
- Debt service

**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.**

# Sample Municipality Budgeted Appropriations - 2023 Budget



# Budget Limitations

The budget process is subject to two “Cap” laws that are intended to control property taxes in New Jersey:

- The **2010 Levy Cap Law** which imposes a 2% cap on the increase in local government tax levy, and
- The **1977 Appropriation Cap Law** which limits the increase in budget appropriations.



# 2% Property Tax 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 5.4% for this year)
  - Governor-declared emergencies
  - Cap “bank” – difference between actual and maximum permitted increase (up to 3 years)

# Appropriations 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 = 3.4% (SHBP increase above 4%)

**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.



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## Capital Budget (continued)

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Capital expenditures can be funded by:

- Short-term notes or bonds
  - Long term bonds
  - Fully funded (pay-go)
- 
- Usually requires a 5% down payment in your operating budget appropriations.
  - Municipal Water Systems - Water Quality Accountability Act (WQAA) requires the capital budget to incorporate improvements in system's Asset Management Plan. (An annual report submitted to DEP.)



# Property Tax Bill

- The **General Tax Rate** is applied against the Assessed Value of the land and improvements to the property
- The General Tax Rate is the sum of:
  - **Municipal Tax Rate, set by the Mayor and Governing Body;**
  - **School Tax Rate, set by Local and Regional Boards of Education;**
  - **County Tax Rate, set by the County Boards of Commissioners;**
  - **Library Tax Rate, set by Statute;**
  - and
  - **County/Municipal Open Space Tax Rate, set by Voter Referendum.**

The image displays a collection of property tax bills from the Township of Frelighuysen. At the top left is the '2017 FINAL TAX BILL'. Below it is the '2018 PRELIMINARY TAX BILL'. To the right of these are two '2017 PRELIMINARY TAX BILLS' for May and February. At the bottom are two more '2017 PRELIMINARY TAX BILLS' for November and August. Each bill includes a header with the township name, a table of assessed values and tax rates, and a summary of total taxes. The bills are arranged in a grid-like fashion on a light background.

# What is a Tax Point?

The amount of money it will take to increase or decrease the existing local tax rate by a penny.

Total Assessed Valuation of the municipality divided by \$10,000

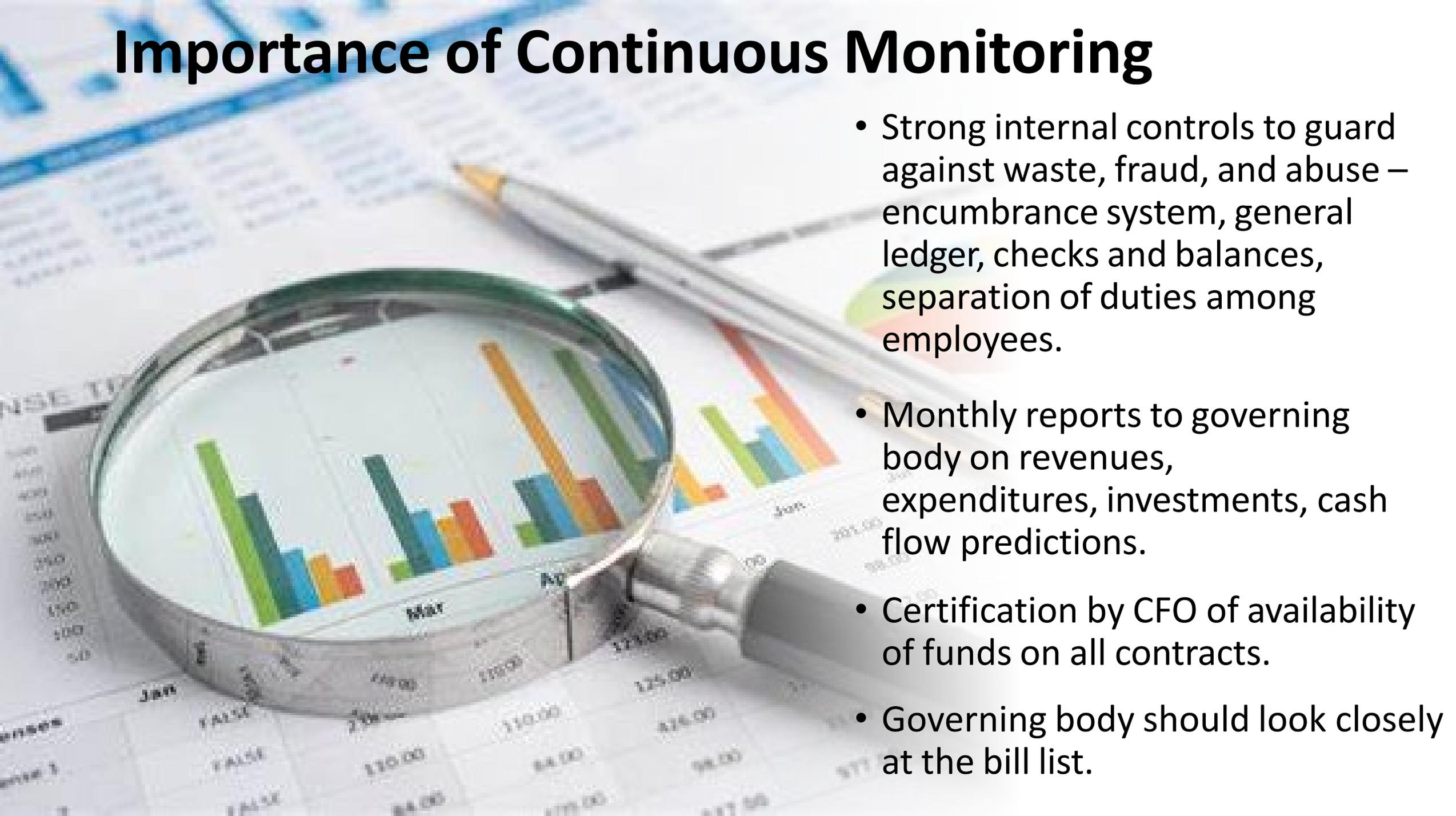


# Effective Budgeting is a Year-Round Process

- Explore opportunities for more efficient service delivery and increased revenue generation (shared services with neighboring municipalities, your county, and other local units).
- Spending should be sustainable. Avoid relying on one-shot revenue “gimmicks” 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 seek grant funding, low- cost or no-cost funding of capital.



# Importance of Continuous Monitoring

A magnifying glass is positioned over a 3D bar chart on a financial document. The chart shows data for three months: Mar, Apr, and May. The y-axis represents values from 0 to 500. The bars are colored green, blue, and orange. The magnifying glass highlights the bars for March and April. In the background, there is a pencil and a financial table with columns for months and rows for various items, some labeled 'FALSE'.

- 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.

The image is a collage of three distinct scenes. On the left, a close-up of a black computer keyboard with white lettering on the keys. In the center, a stack of white papers with several red binder rings. On the right, a close-up of two hands shaking in a firm grip, one hand appearing to be from a person of African descent and the other from a person of European descent, both wearing dark suits.

DIVISION OF LOCAL GOVERNMENT SERVICES

**For more information, please  
telephone:609.292.6613 or email: [dlgs@dca.nj.gov](mailto:dlgs@dca.nj.gov)**



**Thank you  
for your  
attention!**

**Questions?**