



ANALYSIS OF THE NEW JERSEY BUDGET

**DEPARTMENT OF
COMMUNITY AFFAIRS**

FISCAL YEAR

2011 - 2012

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Local Government Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Scott A. Brodsky.

Questions or comments may be directed to the OLS Local Government Section (609-292-1596) or the Legislative Budget and Finance Office (609-292-8030).

DEPARTMENT OF COMMUNITY AFFAIRS

Budget Pages..... C-4, C-10, C-11, C-17, C-24,
C-26, to C-28, D-39 to D-58, F-8, F-9

Fiscal Summary (\$000)

	Expended FY 2010	Adjusted Appropriation FY 2011	Recommended FY 2012	Percent Change 2011-12
State Budgeted	\$874,559	\$736,529	\$724,875	(1.6%)
Federal Funds	\$445,812	\$544,923	\$443,053	(18.7%)
<u>Other</u>	<u>\$80,129</u>	<u>\$74,246</u>	<u>\$85,054</u>	<u>14.6%</u>
Grand Total	\$1,400,500	\$1,355,698	\$1,252,982	(7.6%)

Personnel Summary - Positions By Funding Source

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change 2011-12
State	106	102	112	9.8%
Federal	267	268	284	6.0%
<u>Other</u>	<u>685</u>	<u>636</u>	<u>608</u>	<u>(4.4%)</u>
Total Positions	1,058	1,006	1,004	(.2%)

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

Link to Website: <http://www.njleg.state.nj.us/legislativepub/finance.asp>

Highlights

- The State appropriation for Consolidated Municipal Property Tax Relief Aid (CMPTRA) remains unchanged from the Fiscal Year 2011 adjusted appropriation of \$505.3 million. However, budget language allows for the transfer of \$261.2 million from CMPTRA to the Energy Tax Receipts Property Tax Relief Fund to support the annual inflation increase in Energy Tax Receipts Property Tax Relief Aid, resulting in no change in the combined total aid distributed through these two programs.
- Funding for the State's only discretionary municipal financial assistance program, Transitional Aid to Localities, is \$149 million, a reduction of \$10 million from the FY 2011 adjusted appropriation of \$159 million.
- The Budget anticipates all sales tax revenue collected in urban enterprise zones (UEZs) as State revenue, diverting about \$94 million from the Enterprise Zone Assistance Fund that is normally dedicated to assisting UEZ municipalities in undertaking public improvements and economic development projects. Funding for local UEZ projects and administrative activities is confined to balances remaining at the end of Fiscal Year 2011.
- New State funding for affordable housing production purposes is limited to collections of the additional fee segment of the realty transfer fee above the amount anticipated, but only to the extent that they are not needed to provide a minimum funding level of \$20 million for the State Rental Assistance Program.
- State funding for all grant programs, including Prevention of Homelessness, Shelter Assistance, Recreation for the Handicapped, Special Olympics, the Lead Hazard Control Assistance Fund, and Women's Programs remains unchanged from the Fiscal Year 2011 adjusted appropriation.

Background Papers

- Transitional Aid to Localities p. 23
- The Municipal Best Practices Initiative p. 27

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS (\$000)

	Expended FY 2010	Adj. Approp. FY 2011	Recom. FY 2012	Percent Change	
				2010-12	2011-12
General Fund					
Direct State Services	\$49,081	\$38,848	\$37,194	(24.2%)	(4.3%)
Grants-In-Aid	30,167	21,220	21,220	(29.7%)	0.0%
State Aid	213,376	164,600	154,600	(27.5%)	(6.1%)
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	\$292,624	\$224,668	\$213,014	(27.2%)	(5.2%)
Property Tax Relief Fund					
Direct State Services	\$0	\$0	\$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	581,935	511,861	511,861	(12.0%)	0.0%
Sub-Total	\$581,935	\$511,861	\$511,861	(12.0%)	0.0%
Casino Revenue Fund	\$0	\$0	\$0	0.0%	0.0%
Casino Control Fund	\$0	\$0	\$0	0.0%	0.0%
State Total	\$874,559	\$736,529	\$724,875	(17.1%)	(1.6%)
Federal Funds	\$445,812	\$544,923	\$443,053	(0.6%)	(18.7%)
Other Funds	\$80,129	\$74,246	\$85,054	6.1%	14.6%
Grand Total	\$1,400,500	\$1,355,698	\$1,252,982	(10.5%)	(7.6%)

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2010	Revised FY 2011	Funded FY 2012	Percent Change	
				2010-12	2011-12
State	106	102	112	5.7%	9.8%
Federal	267	268	284	6.4%	6.0%
All Other	685	636	608	(11.2%)	(4.4%)
Total Positions	1,058	1,006	1,004	(5.1%)	(0.2%)

FY 2010 (as of December) and revised FY 2011 (as of January) personnel data reflect actual payroll counts. FY 2012 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	35.5%	34.6%	34.6%	---	---
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Significant Changes/New Programs (\$000)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2011</u>	<u>Recomm.</u> <u>FY 2012</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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COMMUNITY DEVELOPMENT MANAGEMENT

Direct State Services

Affordable Housing	\$2,041	\$1,716	(\$ 325)	(15.9%)	D-44
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This appropriation supports, with a portion of revenues raised by the realty transfer fee, affordable housing program administration. New State funding for affordable housing production is limited to the anticipated amount of realty transfer fee collections above \$28 million, but only to the extent that those funds are not needed for the State Rental Assistance Program. Budget language appropriates at least \$20 million from the New Jersey Affordable Housing Trust Fund for the State Rental Assistance Program.

Council on Affordable Housing	\$2,487	\$1,247	(\$1,240)	(49.9%)	D-44
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This appropriation supports, with a portion of revenues raised by the realty transfer fee, the operations of the Council on Affordable Housing (COAH). According to its website, COAH is an administrative and regulatory agency that reviews municipal petitions for substantive certification of a housing element and a fair share plan "establishing a realistic opportunity for the provision of housing affordable to low and moderate income households directly related to certificates of occupancy issued for residential and non-residential market rate development." The Council's website also indicates that it has 20 employees. The reduced appropriation is expected to result in 10 fewer positions.

Federal Funds

Housing Services	\$300,741	\$263,238	(\$37,503)	(12.5%)	D-45
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Key factors in the anticipated reduction in federal funds for Housing Services programs are a \$45 million decrease in funding for the Neighborhood Stabilization Program (NSP) and an \$8.1 million increase in funding for the Section 8 Housing Voucher Program. Authorized by Pub.L.110-289, the "Housing and Economic Recovery Act of 2008", the NSP appropriated \$3.9 billion in emergency assistance formula grants to state and local governments for the redevelopment of abandoned and foreclosed homes. \$51.4 million was awarded to New Jersey while \$12.5 million was awarded to five local governments directly. The Section 8 Housing Voucher Program assists in making safe and quality housing in the private rental market affordable to low and very-low income households by reducing housing costs through direct rent subsidy payments to landlords.

Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp. FY 2011</u>	<u>Recomm. FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Budget Page</u>
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All Other Funds

Housing Services	\$24,027	\$39,184	\$15,157	63.1%	D-45
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Key factors affecting the anticipated increase in State appropriations of dedicated funds in Fiscal Year 2012 are a \$9 million transfer from the New Jersey Housing and Mortgage Agency to support the State Rental Assistance Program and a \$6.1 million increase in monies received by the New Jersey Affordable Housing Trust Fund. It is unclear whether the increase in the latter will be needed for State rental assistance or made available for affordable housing production.

SOCIAL SERVICES PROGRAMS

Federal Funds

Community Resources	\$241,070	\$178,100	(\$62,970)	(26.1%)	D-51
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The department anticipates a decrease of \$63 million in federal appropriations for Community Resources Programs in Fiscal Year 2012 as follows: \$4.0 million less for the Lead Hazard Reduction Demonstration Program; \$9.0 million less for the Weatherization Assistance Program; and \$50.0 million less for the Low Income Home Energy Assistance Program (LIHEAP). According to the federal Department of Housing and Urban Development, the Lead Hazard Reduction Demonstration Grant Program assists urban jurisdictions with the greatest lead-based paint hazard control needs in undertaking programs for the identification and control of lead-based paint hazards in eligible privately owned rental and owner-occupied housing units. The Weatherization Assistance Program assists elderly, handicapped, and low-income persons in weatherizing their homes, improving heating system efficiency, and conserving energy. LIHEAP helps very low-income residents with their heating and cooling bills, and makes provisions for emergency heating system services and emergency fuel assistance within the Home Energy Assistance Program.

Women's Programs	\$3,054	\$1,715	(\$1,339)	(43.8%)	D-51
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The department anticipates a decrease of \$1.3 million in federal appropriations for Women's Programs as follows: \$290,000 less for Rape Prevention and Education funding that is received through a transfer of funds from the Department of Law and Public Safety from the Violence Against Women Act, and the elimination of \$1.050 million in federal funding for the Health Services Career Ladder grant program. The Health Services Career Ladder was a one-time funding opportunity for the Division on Women to formalize an existing organizational structure by coordinating separate programs, and to provide funds to establish classroom and practical training with local community care facilities, nursing homes, hospitals, and New Jersey colleges and universities that train health services professionals, in order to provide eligible women job training and placement.

Significant Changes/New Programs (\$000) (Cont'd)

<u>Budget Item</u>	<u>Adj. Approp.</u> <u>FY 2011</u>	<u>Recomm.</u> <u>FY 2012</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Budget</u> <u>Page</u>
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GOVERNMENT DIRECTION, MANAGEMENT, AND CONTROL

State Aid

Transitional Aid to Localities	\$159,000	\$149,000	(\$10,000)	(6.3%)	D-54
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Transitional Aid to Localities replaced Extraordinary Aid, Special Municipal Aid, and Trenton Capital City Aid as the State’s only discretionary municipal government financial assistance program. According to Local Finance Notice 2011-7, this aid “will only be available to municipalities anticipating difficulties making payments toward nondiscretionary or critical obligations including, but not limited to, debt service, contractual obligations, and public safety payroll. Applying for aid under this program is a declaration that the municipality is incapable of meeting its obligations and managing its finances without special State assistance an intervention.” In Fiscal Year 2011, 31 municipalities submitted applications requesting \$257.3 million in general budget support; 22 municipalities have been awarded \$157 million in State aid.

All Other Funds

Urban Enterprise Zone Authority	\$2,500	\$1,650	(\$ 850)	(34.0%)	D-55
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Established by section 4 of P.L.1983, c.303 (C.52:27H-63), the New Jersey Enterprise Zone Authority administers the New Jersey Urban Enterprise Zone (UEZ) Program. The Authority’s responsibilities include the promulgation of criteria for the designation of UEZs; continuing review and supervision of zone development plans; and the evaluation of individual UEZ proposals to use sales tax revenues for projects and eligible municipal services. The proposed reduction for the New Jersey Enterprise Zone Authority administrative budget consists of decreases in funding for salaries and fringe benefits by \$712,000) and for other costs by \$138,000. Personnel data on page D-53 of the Fiscal Year 2012 proposed budget indicates that the number of positions at the UEZ Authority will be reduced from 19 to 9. The Budget will confine local UEZ funding to unspent balances as of June 30, 2011 and will allow those balances to be spent locally without the need for approval of the Authority. The decrease in administrative funding reflects the diminishment of the Authority’s duties.

Significant Language Changes

Shelter Assistance

Deletion

2011 Handbook: p. B-24
2012 Budget: —

~~The unexpended balances at the end of the preceding fiscal year in the Shelter Assistance account is appropriated for the expenses of the Shelter Assistance Program.~~

Explanation

This language provision permits the carry forward of any unexpended balances in the Shelter Assistance account. As of March 15, 2011, the Shelter Assistance account has an unexpended balance of \$1.77 million while \$21,950 has been expended and approximately \$767,000 has been placed in budget reserve. State appropriations for Shelter Assistance support two programs. The Shelter Support and Emergency Housing Grant provides funds to renovate and improve existing homeless shelters and transitional housing, and pay certain social services and operating costs. The Shelter Housing Exit Program provides security deposits and rental assistance to victims of domestic violence and their children currently living in domestic shelters or in transitional housing facilities. The Fiscal Year 2012 proposed budget recommends \$2.3 million in State funds for Shelter Assistance.

New Jersey Housing and Mortgage Finance Agency funding for the State Rental Assistance Program

Addition

2011 Handbook: —
2012 Budget: p. D-46

Notwithstanding the provisions of any law or regulation to the contrary, such sums as may be received from the New Jersey Housing and Mortgage Finance Agency for the State Rental Assistance Program are appropriated to the Department of Community Affairs for the purposes of providing Rental Assistance.

Explanation

This new language provision appropriates funds expected to be transferred from the New Jersey Housing and Mortgage Finance Agency (NJHMFA) to the Department of Community Affairs (DCA) for the purposes of providing Rental Assistance. The Fiscal Year 2012 proposed budget anticipates a transfer of \$9 million from the NJHMFA to the DCA to support the State Rental Assistance Program.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Additional State Funds for Relocation Assistance

Revision

2011 Handbook: p. B-24
2012 Budget: p. D-47

~~In addition to the sum hereinabove appropriated for Relocation Assistance~~ Notwithstanding the provisions of any law or regulation to the contrary, such amounts as may be required to fund relocation costs of boarding home residents are appropriated from the Boarding Home Rental Assistance Fund.

Explanation

As revised, the language provision permits the use of monies in the Boarding Home Rental Assistance Fund to fund the relocation costs of boarding home residents. The current language provision permits the appropriation of funds for this purpose in addition to any sums appropriated for Relocation Assistance. However, the State Aid appropriation for Relocation Assistance was eliminated at the end of Fiscal Year 2009. Established by section 14 of P.L.1983, c.530 (C.55:14K-14), the Boarding House Rental Assistance Fund finances life safety improvements by the New Jersey Housing and Mortgage Finance Agency for the benefit of residents of boarding homes and accounts for the repayment of such loans. The Fiscal Year 2012 proposed budget anticipates a fund balance of \$795,000 on June 30, 2011.

State Matching Funds for the HOME Investment Partnership Program

Addition

2011 Handbook: —
2012 Budget: p. D-47

Of the sum hereinabove appropriated for the New Jersey Affordable Housing Trust Fund, such sums as are necessary may be pledged as a match for the HOME Investment Partnership Program to ensure adherence to the federal matching requirements for affordable housing production.

Explanation

This new language provision permits appropriations to the New Jersey Affordable Housing Trust Fund to be used to meet federal matching requirements required by the HOME Investment Partnership Program. Authorized under Title II of Pub.L.101-625, the "Cranston-Gonzalez National Affordable Housing Act", the HOME Investment Partnership Program provides formula grants to States and localities to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people. All participating jurisdictions must contribute or match \$.25 for each \$1.00 of HOME funds spent on affordable housing. The Fiscal Year 2012 budget anticipates \$7.852 million in federal grants for the HOME Investment Partnership Program.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Technical Assistance Grants to Non-Profit Housing Organizations and Authorities for Affordable Housing and Community Development Opportunities

Revision

2011 Handbook: p. B-25
2012 Budget: p. D-47

Notwithstanding the provisions of any law or regulation to the contrary, ~~of the amount hereinabove appropriated for the Affordable Housing program, an amount not to exceed \$7,000,000~~ may be used to provide technical assistance grants to non-profit housing organizations and authorities for creating and supporting affordable housing and community development opportunities.

Explanation

As revised, this budget language would permit the use of any amount of funds appropriated for the Affordable Housing program to be used to provide technical assistance grants to non-profit housing organizations and authorities for creating and supporting affordable housing and community development opportunities. Prior to Fiscal Year 2011, the Department of Community Affairs provided direct operating support to non-profits engaged in housing production through a grant program administered by the Office of Housing Advocacy (OHA). In Fiscal Year 2009, grantees received a base amount of \$70,000 per year and had the opportunity to earn up to \$115,500 in bonus funding based on the number of housing units produced. The OHA "capacity grants" were not funded in Fiscal Year 2011.

Report on Low Income Housing Tax Credit Projects

Deletion

2011 Handbook: p. B-25
2012 Budget: —

~~The Commissioner of Community Affairs shall provide, at least two months prior to the close of the Fiscal Year, a report to the Joint Budget Oversight Committee that details all of the project subsidies provided to low income housing tax credit projects funded by the State's allocation of federal American Recovery and Reinvestment Act of 2009 funds as well as funds provided to these projects derived from the realty transfer fee receipts.~~

Explanation

This Fiscal Year 2010 and 2011 language provision requires the Commissioner of Community Affairs to provide a report to the Joint Budget Oversight Committee (JBOC) regarding the use of New Jersey's allocation of federal low income housing tax credits funded by the American Recovery and Reinvestment Act of 2009. In response to an Fiscal Year 2011 OLS Discussion

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Point inquiring about the status of this report, the Department of Community Affairs stated that the report was due to JBOC by May 1 and "...will shortly be submitted" but the OLS has no record indicating the transmittal of the aforementioned report.

The Tax Credit Assistance Program (TCAP) provided grant funding for capital investment in Low Income Housing Tax Credit Projects via a formula-based allotment to State housing credit allocation agencies. The housing credit agencies in each State must distribute the funds competitively and according to a qualified action plan. Projects awarded low income housing tax credits in federal fiscal years 2007, 2008, and 2009 are eligible for funding, but housing credit agencies must give priority to projects that are expected to be completed by February 2012. Federal regulations require 75% of TCAP funds to be committed by February 2010; 75% must be expended by February 2011; and 100% must be expended by February 2012. The New Jersey Housing and Mortgage Finance Agency is the State's credit allocation agency.

According to the federal Department of Housing and Urban Development (HUD), New Jersey received \$61.2 million in TCAP funding. As of January 31, 2011, these funds have been committed to 17 projects that are expected to produce 1,261 housing units. The most recent information available from HUD also indicates that \$48.4 million of these funds have been disbursed while 36 units have been completed.

Local Unit Alignment, Reorganization, and Consolidation Commission

Deletion

2011 Handbook: p. B-27
2012 Budget: —

~~The unexpended balance at the end of the preceding fiscal year in the Local Unit Alignment, Reorganization, and Consolidation Commission account is appropriated for the same purpose, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

This language provision allowed for the carry forward of any unspent monies appropriated to the Local Unit Alignment, Reorganization, and Consolidation Commission (LUARCC). As of March 15, 2011, approximately \$55,000 in LUARCC funds have been spent while \$157,706 has been placed in budget reserve. Established by P.L.2007, c.57, LUARCC is charged with studying and reporting on the structure and functions of county and municipal government, including local taxing districts, their statutory bases, the fiscal relationship between local governments, and the appropriate allocation of service delivery responsibilities from the standpoint of service efficiency. The Commission may recommend legislative changes which would encourage the more efficient operation of local government.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

New Jersey Urban Enterprise Zone Authority Administrative Services

Deletion	2011 Handbook: p. B-27 2012 Budget: —
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~~There is appropriated from the Enterprise Zone Assistance Fund such sums as are necessary for administrative services provided by the New Jersey Enterprise Zone Authority in accordance with section 11 of P.L.1993, c.367 (C.52:27H-65.1), subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

This language provision permitted the New Jersey Enterprise Zone Authority to use administrative monies from the Enterprise Zone Assistance Fund to perform a fiscal impact study of each original urban enterprise zone (UEZ) and 11 new UEZs established by P.L.1993, c.167. Pursuant to this mandate, the authority commissioned Response Analysis Corporation of Princeton, New Jersey and Urbanomics of Wayne, New Jersey to prepared the New Jersey Urban Enterprise Zone Fiscal Impact Study. The study, dated July 31, 1998, addressed whether the UEZ program was carrying out the legislative intent of the act; whether the program is effective; and whether increasing the number of zones adversely impacts the program.



County Prosecutors and Officials Salary Increase

Deletion	2011 Handbook: p. B-28 2012 Budget: —
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~~In addition to the amount hereinabove appropriated for County Prosecutors and Officials Salary Increase (P.L.2007, c.350), there is appropriated such additional sums as may be required to fulfill the provisions of P.L.2007, c.350, subject to the approval of the Director of the Division of Budget and Accounting.~~

Explanation

This language provision authorized additional appropriations as necessary to reimburse those counties that increased the salaries of officials affected by P.L.2007. c.350 after the annual certification deadline set by the Division of Local Government Services. The Executive Branch has indicated that nearly all counties have increased the salaries for each affected position (County Clerk, Sheriff, Surrogate, and Register of Deeds and Mortgages) to the statutory minimum. Therefore, this language is no longer necessary because the chance of any further retroactive reimbursements is negligible, and the magnitude of any such reimbursements would be relatively small and manageable within existing State funds.



EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Transitional Aid to Localities

Revision

2011 Handbook: p. B-28
2012 Budget: p. D-55

Notwithstanding the provisions of any law or regulation to the contrary, the amount hereinabove appropriated for Transitional Aid to Localities shall be allocated to provide short-term financial assistance where needed to help a municipality which is in serious fiscal distress to meet immediate budgetary needs and regain financial stability. A municipality shall be deemed eligible for transitional aid if the municipality is identified by the Director of the Division of Local Government Services (Director) as experiencing serious fiscal distress where the Director determines that, despite local officials having implemented substantive cost reduction strategies, there continues to exist conditions of serious fiscal distress, which may include but not be limited to, substantial structural or accumulated deficits, ongoing reliance on non-recurring revenues, limited ability to raise supplemental non-property tax revenues extraordinary demands for public safety appropriations, and other factors indicating an ability to raise sufficient revenues to meet budgetary requirements that substantially jeopardizes the fiscal integrity of the municipality. Municipalities seeking transitional aid shall file an application on a form prescribed by the Director which application, among other things, shall set forth the minimum criteria which must be met in order for an application to be considered by the Director for a determination of eligibility. The Director shall determine whether a municipality which files an application meeting such minimum criteria is in serious fiscal distress, and, if so, what amount of transitional aid should be provided to address the municipality's serious fiscal distress. The transitional aid shall be provided to the municipality subject to such conditions, requirements, orders, and oversight as the Director deems necessary including the implementation of government, administrative, and operational efficiency and oversight measures necessary for the fiscal recovery of the municipality, provided however, that an amount of Transitional Aid to Localities as determined by the Director of the Division of Local Government Services for a municipality may be deemed to constitute Consolidated Municipal Property Tax Relief Aid in an amount not in excess of the amount of Transitional Aid to Localities such municipality received in fiscal year 2011 and shall not reduce the amount of Consolidated Municipal Property Tax Relief Aid such municipality shall receive for fiscal year 2012. The Director may identify a municipality that has received a reduction in Open Space Payments in Lieu of Taxes as experiencing serious fiscal distress.

Explanation

This language provision establishes the qualifications and procedures governing the Transitional Aid to Localities municipal financial assistance program for Fiscal Year 2012. This program replaced the Extraordinary Aid, Special Municipal Aid, and Trenton Capital City Aid programs. The Fiscal Year 2012 proposed budget recommends a State Aid appropriation of \$149 million, a decrease of \$10 million from the Fiscal Year 2011 adjusted appropriation of

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Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

\$159 million. 22 municipalities received Transitional Aid in Fiscal Year 2011. A detailed explanation of this program is set forth in a background paper on page 23.

As revised, this language permits the Director to identify a municipality that has received a reduction in Open Space Payments in Lieu of Taxes as experiencing fiscal distress. The Director of the Division of Local Government Services would also be permitted to re-categorize an amount of Transitional Aid as additional base aid under the Consolidated Municipal Property Tax Relief Aid (CMPTRA) program. Such aid would not be subject to the same conditions as State funds that remain categorized as Transitional Aid. It is unclear whether this re-categorization would then allow the Director to waive oversight provisions for certain municipalities, or whether this relates to shifts of aid from CMPTRA to Energy Receipts Tax Property Tax Relief Aid.



Transitional Aid to Localities – Administration	
Revision	2011 Handbook: p. B-28 2012 Budget: p. D-55

Of the amount hereinabove appropriated for the Transitional Aid to Localities program, an amount not to exceed 1% is appropriated for the administrative costs of the program and for administrative costs associated with the oversight of any municipalities coming under supervision pursuant to N.J.S.A.52:27BB-54 et seq., subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

As revised, this language provision expands the permissible uses by the Division of Local Government Services of 1%, or \$1.49 million, of the amount appropriated for the Transitional Aid to Localities program to include administrative costs associated with the oversight of any municipality placed under State supervision pursuant to N.J.S.A.52:27BB-54 et. seq. Section 54 of P.L.1947, c.151 the "Local Government Supervision Act (1947)," provides for the "imposition of special restraints upon municipalities in, or in danger of falling into, unsound financial condition in order to forestall defaults upon local obligations and demoralized finances that burden local taxpayers and destroy the efficiency of local services."



EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Cap Exclusions for the "Reserve for Tax Appeals"

Deletion

2011 Handbook: p. B-28
2012 Budget:

~~Notwithstanding the provisions of any law or regulation to the contrary, municipal appropriations for "Reserve for Tax Appeals" may be made in exception to spending limitations pursuant to section 3 of P.L.1976, c.68 (C.40A:4-45.3) and to tax levy limitations pursuant to section 10 of P.L.2007, c.62 (C.40A:4-45.45).~~

Explanation

The deletion of this language provision would subject municipal appropriations for the "Reserve for Tax Appeals" to spending and tax levy limitations established by current law. The Reserve for Tax Appeals allows municipal governments to budget contingency funds that are used to pay refunds to property owners that file successful appeals of their property assessments. The amount set aside each year varies due to the unpredictability of tax appeal filings.

Unemployment and Transitional Aid to Localities

Addition

2011 Handbook: —
2012 Budget: p. D-55

The amount hereinabove appropriated for Transitional Aid to Localities is subject to the following condition: notwithstanding the provisions of N.J.S.A.43:21-14 or any other law or regulation to the contrary, the Commissioner of the Department of Labor and Workforce Development, in consultation with the Commissioner of the Department of Community Affairs, is authorized to enter into individualized payment plan agreements with municipalities that receive Transitional Aid for the reimbursement of unemployment benefits paid to former employees of such municipal government units, at reasonable interest rates based on current market conditions, and on such other terms and conditions as may be determined to be appropriate by the Commissioner of the Department of Labor and Workforce Development. Any municipality that enters into an individualized payment plan agreement pursuant to this section shall be required to expend all funds budgeted for this activity remaining as of the last day of its budget year for the repayment of outstanding obligations under the plan.

Explanation

This language provision allows the Commissioner of Labor and Workforce Development, in consultation with the Commissioner of Community Affairs, to establish an individualized

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

unemployment fund reimbursement plan for a municipality that receives Transitional Aid in lieu of the standard repayment terms and conditions outlined in current law. This language provision is intended to provide for greater flexibility to lessen the immediate financial burden on Transitional Aid recipients, already coping with difficult fiscal conditions, of reimbursing the unemployment fund.

Distribution and Transfer of Consolidated Municipal Property Tax Relief Aid

Revision

2011 Handbook: p. B-28
2012 Budget: p. D-56

Notwithstanding the provisions of any law or regulation to the contrary, the amount hereinabove appropriated for Consolidated Municipal Property Tax Relief Aid shall be distributed in the same amounts, and to the same municipalities which received funding pursuant to the previous fiscal year’s annual appropriations act, provided further, however, that from the amount hereinabove appropriated there is transferred to the Energy Tax Receipts Property Tax Relief Fund account such sums as were determined for fiscal year 2003, fiscal year 2008, fiscal year 2009, ~~and~~ fiscal year 2010, and fiscal year 2012 pursuant to subsection e. of section 2 of P.L.1997, c.167 (C.52:27D-439) as amended by P.L.1999, c.168.

Explanation

As was the case in Fiscal Year 2003 and from Fiscal Years 2006 to Fiscal Year 2010, the Fiscal Year 2012 proposed budget provides that the annual inflation adjustment to the Energy Tax Receipts Property Tax Relief Fund (\$23.58 million or 2.2%) be funded by reallocating Consolidated Municipal Property Tax Relief Aid (CMPTRA) rather than by appropriating additional State funds. Municipalities will thus receive no inflation-based municipal aid increases.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Best Practices Inventory	
Revision	2011 Handbook: p. B-29 2012 Budget: p. D-56
<p>Notwithstanding the provisions of any law or regulation to the contrary, the release of the final 5% payment or \$500, whichever is greater, of the total annual amount due for the current fiscal year from Consolidated Municipal Property Tax Relief Aid to municipalities is subject to the following condition: the municipality shall submit to the Director of the Division of Local Government Services a report describing the municipality's compliance with the "Best Practices Inventory" established by the Director of the Division of Local Government Services and shall receive at least a minimum score on such inventory as determined by the Director of the Division of Local Government Services; provided, however, that the Director may take into account the particular circumstances of a municipality in computing such score. Provided further, however, that in the event the Best Practices Inventory" is not issued by September 1, 2010, no amounts shall be withheld from final payments to municipalities pursuant to this paragraph. In preparing the Best Practices Inventory, the Director shall identify best municipal practices in the areas of general administration, fiscal management, and operational activities, as well as the particular circumstances of a municipality, in determining the release of the final 5% payment or \$500, whichever is greater, of the total amount due for the current fiscal year, but in not event shall amounts be withheld with respect to municipal practices occurring prior to the issuance of the <u>Best Practices Inventory unless related to a municipal practice identified in the Best Practices Inventory established in 2010.</u></p>	

Explanation

This language provision sets the terms and conditions for the municipal Best Practices Inventory established in Fiscal Year 2011. The proposed revisions would permit the State to withhold the final 5% or \$500, whichever is greater, of the total amount of Consolidated Municipal Property Tax Relief Aid due to municipalities that do not receive a minimum score indicating compliance with a "Best Practices Inventory". Municipalities may not be penalized for engaging in practices occurring prior to the issuance of the Best Practices Inventory, unless a particular practice is related to municipal practices identified in the Best Practices Inventory established in 2010. A similar language provision in the Department of the Treasury budget (page D-391) provides for the withholding of the same percentage or amount of Energy Tax Receipts Property Tax Relief Aid payment from municipalities that do not meet the minimum best practices standards. For more information about the municipal "Best Practices Inventory", please refer to the background paper on page 27.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Best Practices Inventory – Re-Appropriation of Withheld Aid Payments

Addition

2011 Handbook: —
2012 Budget: p. D-56

Notwithstanding the provisions of any law or regulation to the contrary, amounts withheld from the final 5% or \$500, whichever is greater, of the total amount due for the current fiscal year from Consolidated Municipal Property Tax Relief Aid to municipalities as described hereinabove are appropriated to municipalities with exemplary scores on the “Best Practices Inventory” described hereinabove in such amounts as recommended by the Director of the Division of Local Government Services, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

This new language provision permits the Director of the Division of Local Government Services to redistribute Consolidated Municipal Property Tax Relief Aid withheld from municipalities that fail to achieve minimum best practices scores to municipalities that achieve an exemplary best practices score. A similar language provision in the Department of the Treasury budget (page D-391) provides for the redistribution of Energy Tax Receipts Property Tax Relief Aid in a like manner.



New Home Warranty Security Fund

Deletion

2011 Handbook: p. E-7
2012 Budget: —

~~75. There is appropriated \$6,400,000 from the New Home Warranty Security Fund for transfer to the General Fund as State revenue.~~

Explanation

The Fiscal Year 2011 Appropriations Act allows for the transfer of \$6.4 million from the New Home Warranty Security Fund to support general State purposes. No such transfer is authorized for Fiscal Year 2012. The New Home Warranty Security Fund is projected to end Fiscal Year 2011 and Fiscal Year 2012 with balances of \$6.2 million and \$2.0 million, respectively.



EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Municipal Aid Formula	
Deletion	2011 Handbook: p. E-7 2012 Budget: —

~~76. Notwithstanding the provisions of any law or regulation to the contrary, the amounts appropriated to municipalities from the Consolidated Municipal Property Tax Relief Aid appropriation in the Department of Community Affairs and from the Energy Tax Receipts Property Tax Relief Fund appropriation in the Department of the Treasury shall be reduced pursuant to a formula based on equalized tax rates and wealth as such formula is further described on Local Finance Notice 2010-8 published on March 18, 2010 by the Department of Community Affairs—Division of Local Government Services and as set forth for each municipality in such notice; provided further, however that as a result of the above aid reduction calculations for such municipalities, an additional amount shall be provided to any municipality to ensure that the aid reductions themselves do not result in more than a \$250 increase over 2009 average residential property taxes as calculated by the Division of Local Government Services.~~

Explanation

This language provision prescribed the formula for distributing Consolidated Municipal Property Tax Relief Aid and Energy Receipts Property Tax Relief Aid in Fiscal Year 2011. The Fiscal Year 2011 Appropriations Act reduced municipal formula aid allocated through Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Aid by \$271.4 million. According to Local Finance Notice 2010-8, this decrease was allocated to each municipality based on a formula that is predicated on a measurement of each area’s wealth and tax burden. Additional aid was provided to ensure that the proposed aid reductions did not result in an increase over 2009 property taxes of more than \$250. Because the Fiscal Year 2012 proposed budget recommends no change in the total amount of formula aid distributed to each municipality, this language is no longer necessary.

Municipal Aid Penalty for Using Levy Cap Adjustments	
Deletion	2011 Handbook: p. E-7 2012 Budget: —

~~77. Notwithstanding the provision of section 10 of P.L.2007, c.62 (C.40A:4-45.45) or any other law or regulation to the contrary, of the amounts hereinabove appropriated from the Consolidated Municipal Property Tax Relief Aid appropriation in the Department of Community Affairs and from the Energy Tax Receipts Property Tax Relief Fund in the Department of the Treasury for payments to municipalities, there shall be deducted from such aid an amount equal to the amount of the reduction in State formula aid from the previous local budget year which the municipality took into account in establishing its adjusted levy increase for the current local budget year consistent with section 10 of P.L.2007, c.62 (C.40A:4-45.45).~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Explanation

Section 10 of P.L.2007, c.62 permitted municipalities to increase their property tax levies beyond the 4% limit by any amount of State formula aid reduction. This language provision required additional reductions in aid to any municipality that chose that option. Section 9 of P.L.2010, c.44 deleted the levy cap exclusion for reductions in State formula aid. Therefore, this language is no longer necessary. It is unknown whether any municipalities experienced an aid reduction as a result of this language.



Enterprise Zone Assistance Fund Appropriation to the General Fund

Revision

2011 Handbook: p. E-7
2012 Budget: p. F-8

79. Notwithstanding the provisions of any other law or regulation to the contrary, there is appropriated as revenue to the General Fund the revenue credited the current fiscal ~~2011~~ year to each account for each enterprise zone in the Enterprise Zone Assistance Fund attributable to local projects and the local costs for administering the Urban Enterprise Zone program, as defined by section 29 of P.L.1983, c.303 (C.52:27H-88).

Explanation

This language provision is updated to continue to transfer to the General Fund as State revenues the portion of sales tax revenues collected in urban enterprise zones (UEZ) and deposited in the Enterprise Zone Assistance Fund that would otherwise be for local use. In Fiscal Year 2011, the Governor proposes to shift \$89 million from the Fund for revenue to balance the State budget while the Fiscal Year 2012 budget anticipates a transfer of \$94 million in sales tax revenues to support the State budget.

Pursuant to section 9 of P.L.2001, c.347 (C.52:27H-80), municipalities receive a portion of the sales tax revenue collection in the zones in the first five years the UEZ is in existence; 2% in the second five year period; 1% in the final five-year period; and no revenues in the final year. These funds must be used to assist UEZ municipalities in undertaking public improvements, economic development projects, and in upgrading eligible municipal services in the zones.



EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Urban Enterprise Zone Budget Limitation

Deletion

2011 Handbook: p. E-8
2012 Budget: —

~~Notwithstanding the provisions of any law or regulation to the contrary, the amounts appropriated for the Urban Enterprise Zone program are subject to the following conditions: the New Jersey Urban Enterprise Zone Authority may approve applications by an urban enterprise zone for the use of project funds for administrative purposes; provided further, however, that in using project funds for administrative purposes, the entire administrative budget of such urban enterprise zone shall not exceed 90% of its fiscal year 2010 administrative budget.~~

Explanation

This language provision permits the New Jersey Urban Enterprise Zone Authority to approve the use of project funds by urban enterprise zones (UEZ) for administrative purpose only if the UEZ that has made the application limits its Fiscal Year 2011 budget for administrative purposes to an amount not greater than 90% of its Fiscal Year 2010 budget for administrative purposes. A new language provision on page F-9 of the Fiscal Year 2012 proposed budget limits the administrative budget of each UEZ to an amount not greater than its Fiscal Year 2011 administrative budget.

Use of Business Employment Incentive Program Funds for Urban Enterprise Zone Projects

Deletion

2011 Handbook: p. E-8
2012 Budget: —

~~89. Notwithstanding the provisions of any law or regulation to the contrary, there is appropriated to the Enterprise Zone Assistance Fund such sums as are necessary for projects and administrative services of enterprise zones as described in this paragraph, not to exceed one half of the amount that otherwise would have been credited to the Enterprise Zone Assistance Fund in Fiscal Year 2011 pursuant to section 9 of P.L.2001, c.347 (C.52:27H-80). The amount hereinabove appropriated may be allocated to individual enterprise zones in order to ensure continuity of projects that are approved by the Authority and for their administrative operations, in amounts to be determined by the Commissioner of Community Affairs, subject to the approval of the Director of the Division of Budget and Accounting. Provided however, if less than one half of the amount that otherwise would have been credited to the Enterprise Zone Assistance Fund in Fiscal Year 2011 pursuant to section 9 of P.L.2001, c.347 (C.52:27H-80) is appropriated pursuant to this paragraph and if there are unfunded projects for which a zone could draw from the sums provided pursuant to this paragraph, or there are unfunded projects that would have been eligible for funding except~~

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

~~for the veto of the Authority's minutes pursuant to section 29 of P.L.2008, c.27 (C.52:27H-63), and if the State Treasurer certifies on May 1 that there are funds that have not yet been expended or encumbered in the Business Employment Incentive Program account, a sum sufficient to fund said projects and spending requests shall be transferred from the unexpended and unencumbered funds in the Business Employment Incentive Program account to the Enterprise Zone Assistance Fund, such that the sum so transferred and the amount appropriated hereinabove shall not together exceed one half of the amount otherwise would have been credited to the Enterprise Zone Assistance Fund in Fiscal Year 2011 pursuant to section 9 of P.L.2001, c.347 (C.52:27H-80). Each zone shall receive no greater proportion of these funds than the proportion of revenues generated in the zone, except if the Commissioner determines on May 1 that a zone has not drawn down its proportionate share the unused proportion of that share may be allocated to other zones.~~

Explanation

This language provision provides for an allocation of sales tax revenue to the Enterprise Zone Assistance Fund an amount no greater than one-half of the amount that would have otherwise been credited to the fund in Fiscal Year 2011 pursuant to N.J.S.A.52:27H-80. These funds may be used to ensure the continuity of projects approved by the New Jersey Enterprise Zone Authority and for administrative operations in each urban enterprise zone (UEZ). This language provision also permits the transfer of funds that have not yet been expended or encumbered by the Business Incentive Employment Program (BIEP) from the BEIP account to the Enterprise Zone Assistance Fund. The amount transferred cannot exceed one-half of the amount of sales tax revenue that would have otherwise been credited to the Enterprise Zone Assistance Fund in Fiscal Year 2011. The amount of funding allocated to each zone is limited to the proportionate share revenues generated by the UEZ.

Before funds can be transferred from the BEIP account to the Enterprise Zone Assistance Fund, three conditions must be met. First, the State must appropriate less than the required amount of sales tax revenue to the Enterprise Zone Assistance Fund. Second, there are either projects could have been funded by theses revenues or there are unfunded projects that would have been eligible for funding except for a veto of the Authority's minutes pursuant to N.J.S.A.52:27H-63. Third, the State Treasurer must certify on May 1 that there are funds that have not yet been expended or encumbered in the BEIP account.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Significant Language Changes (Cont'd)

Unexpended Balances Enterprise Zone Assistance Fund	
Addition	2011 Handbook: — 2012 Budget: p. F-9

Notwithstanding the provisions of any other law or regulation to the contrary, the unexpended balances at the end of the preceding fiscal year in each account for each enterprise zone in the Enterprise Zone Assistance Fund attributable to local projects and the local costs for administering the Urban Enterprise Zone program are appropriated to each enterprise zone for the purposes described in section 29 of P.L.1983, c,303 (C.52:27H-88). Such funds shall be disbursed to such enterprise zones by November 1, 2011. Provided further, the use of such unexpended balances and the use of second generation funds for eligible purposes by such enterprise zones shall not require approval by the New Jersey Urban Enterprise Zone Authority. Further, an enterprise zone may use project funds for administrative purposes, but the entire administrative budget of such enterprise zone shall not exceed its fiscal year 2011 administrative budget.

Explanation

This new language provision requires the disbursement by November 1, 2011 of the unexpended balances in the Enterprise Zone Assistance Fund account of each urban enterprise zone (UEZ) attributable to local projects and administrative costs to each UEZ. The use of these funds would not require the approval of the New Jersey Urban Enterprise Zone Authority. The administrative budget of each UEZ may not exceed its administrative budget in Fiscal Year 2011. Allocation of these unexpended balances in accordance with this language, together with language eliminating new revenue allocations to the Enterprise Zone Assistance Fund, would conclude State financial assistance to local enterprise zone authorities for Fiscal Year 2012.

EXPLANATION: FY 2011 language not recommended for FY 2012 denoted by strikethrough.
Recommended FY 2012 language that did not appear in FY 2011 denoted by underlining.

Background Paper: Transitional Aid to Localities

Budget Pages.... D-54 and D-55

The Fiscal Year 2011 Appropriations Act eliminated separate appropriations for Extraordinary Aid, Special Municipal Aid, and Trenton Capital City Aid and replaced them with a new municipal financial assistance program named Transitional Aid to Localities (hereinafter "Transitional Aid"). State support for discretionary municipal aid was thus reduced by \$61.8 million from the Fiscal Year 2011 level of \$220.8 million. The FY 2012 budget recommends a funding level of \$149 million, a reduction of \$10 million from the Fiscal Year 2011 adjusted appropriation of \$159 million. In Fiscal Year 2011, 31 municipalities submitted applications requesting \$257 million in additional State assistance; 22 municipalities were awarded \$157 million in Transitional Aid.

Local Finance Notice (LFN) 2011-7, issued by the Division of Local Government Services on February 15, 2011 describes the Transitional Aid application process for Calendar Year 2011 and Fiscal Year 2012. Transitional Aid is anticipated to be the only discretionary aid available to provide general support of municipal budgets. It will be available only to municipalities anticipating making payments toward nondiscretionary or critical obligations including, but not limited to, debt service, contractual obligations, and public safety payroll. The LFN also states: "Applying for aid under this program is a declaration that the municipality is incapable of meeting its obligations and managing its finances without special state assistance and intervention."

Some of the qualifications and procedures governing the Transitional Aid to Localities program are stated in a language provision on Page B-28 of the Fiscal Year 2011 Appropriations Handbook and Page D-55 of the Fiscal Year 2012 budget. In order to qualify for short-term financial assistance to meet immediate budgetary needs, a municipality must experience serious financial distress even after local officials have implemented substantive cost reductions. Conditions that may indicate serious fiscal distress including the following: substantial structural or accumulated deficits, an ongoing reliance on non-recurring revenues, a limited ability to raise additional non-property tax revenues, extraordinary demands for public safety appropriations, and other factors indicating a constrained ability to raise sufficient revenues to meet budgetary requirements that substantially jeopardizes the fiscal integrity of the municipality. A budget language revision would permit the Director of the Division of Local Government Services to identify a municipality that has received a reduction in Open Space Payments in Lieu of Taxes as experiencing serious fiscal distress.

For FY 2012, the LFN sets forth additional criteria for eligibility. The pool of potential applicants has been narrowed to two groups: municipalities that received Transitional Aid in Fiscal Year 2011; and municipalities that did not receive Transitional Aid, but meet all other program criteria, and also either experienced a loss of equalized property value of at least 2% from 2009 and 2010; or suffered an extraordinary revenue loss (exclusive of State formula aid reductions) or specific extraordinary appropriation increases, other than appropriation increases common to other municipalities.

The LFN also sets these additional criteria a municipality must meet in order to be considered for the award of funds under the Transitional Aid program:

Background Paper: Transitional Aid to Localities (Cont'd)

- The municipal budget must be introduced, but not adopted, at the time the application is made and is subject to review by the Division of Local Government Services;
- The municipality must provide evidence of “demonstrated reductions” in salary and wage costs;
- The levy increase in the proposed budget must exceed an increase of \$250 in property taxes on an average residential parcel;
- The municipality must have publicly advertised, by March 7, 2011 that it may seek voter approval to exceed that statutory levy cap at an election on April 27, 2011;
- The municipality must demonstrate severe fiscal distress that it will result in a constrained ability to raise sufficient revenues to meet budgetary requirements;
- The proposed municipal budget must show cost reductions from 2010 and include an explanation and documentation of all cost reduction efforts, especially in the areas of shared services and energy costs;
- An applicant must also describe any actions it has taken to increase revenues and assess all existing local revenues, whether or not rates can be increased, and a plan to implement any changes; and
- The municipality must introduce a model “pay-to-play” ordinance, prior to March 18, 2011, limiting the awarding of public contracts by the municipality or its agencies to business entities that have made a contribution pursuant to N.J.S.A.19:44A-1 et seq. and limiting the contributions that holders of a contract can make during the term of that contract.

The Division has announced that it expects Transitional Aid to be awarded prior to the April 7 deadline for making a final decision with regard to holding a referendum.

The Director of the Division of Local Government Services is charged with prescribing a Transitional Aid application, which must set forth the minimum criteria that must be met by a municipality in order for the Director to determine its eligibility for financial assistance. Applicants are required to explain the circumstances in their municipality that have resulted in a need for Transitional Aid, provide information about their financial practices, and provide substantial background information including organization charts, debt service schedules, and salary and wage data for individual employees. Municipalities that operate on a Calendar Fiscal Year (January 1 to December 31) were required to submit to their applications to the Division by March 11, 2011. Municipalities operating on the State Fiscal Year (July 1 to June 30) were required to file a notification of intent to apply and an estimate of funding to be requested by March 18, 2011.

Municipalities that receive Transitional Aid are subject to any conditions, requirements, orders, and oversight as the Director deems necessary including the implementation of government, administrative, and operational efficiency and oversight measures necessary for the fiscal recovery of the municipality. To that end, a municipality must sign a Memorandum of Understanding with the Director submitting to broad State controls over hiring, procurement, and other matters; enact or strengthen comprehensive “pay-to-play” ordinances; perform reasonable revaluations or reassessments or property as required by law; and submit to additional fiscal control measures that may be ordered from time-to-time. The memorandum of understanding also requires a municipality to submit a transition plan detailing how intends to eliminate its reliance on Transitional Aid. The plan must provide for a phase out of Transitional aid over a period of no more than four years. If the municipality fails to substantially comply

Background Paper: Transitional Aid to Localities (Cont'd)

with the memorandum of understanding, or fails to submit an itemized plan of action to eliminate its budget deficit, or fails to adopt its budget, it will be placed under formal State supervision, pursuant to N.J.S.A.52:27BB-54 et seq.

The applications submitted by municipalities for Transitional Aid in Fiscal Year 2011 cited a variety of causes of budget difficulties¹. Chief among these were increases in labor costs associated with expenditures for public safety, increases in employer contributions for employee health care and pensions, and a general decline in other municipal revenues, such as State aid, interest income, court fees and fines, and construction fees. Several municipalities alluded to issues related to property taxes or their tax base, such as a loss of ratables, a high proportion of tax exempt property, and the payment of an unusually high amount of property tax appeal refunds. High litigation expenses, environmental responsibilities, increases in utility costs, and a reduction or the loss of Urban Enterprise Zone grant funding were also mentioned as having contributed to the fiscal problems with which these municipalities must cope.

Applicants also considered a wide range of ameliorative actions that could help them meet their financial challenges. In the area of salary and wage reductions, all 31 applicants expressed an intent to either furlough or layoff employees, not replace retirees, limit overtime, replace uniformed employees with non-uniformed employees, reduce the salaries of new employees, and issue demotions. More than three-quarters of all applicants were exploring shared services while more than one-third decided to raise fees, apply for additional financial assistance or other grant funds, change the delivery of solid waste removal services, and engage in new redevelopment efforts in order to increase their ratable base. Other deficit reduction efforts include increased sharing of health care costs between employers and employees and attempts to reduce utility costs through energy efficiency audits and the installation of solar panels.

¹ The author gratefully acknowledges the assistance of Carley Fisher-Maltese, Raimondo Fellow (Spring 2011) in reviewing and summarizing the Transitional Aid applications.

Background Paper: Transitional Aid to Localities (Cont'd)

The chart below lists all municipalities that applied for Transitional Aid in Fiscal Year 2011, the amount of aid requested, the amount of aid awarded, the amount of aid each municipality received in Fiscal Year 2010, and the source of funding in the prior fiscal year².

Municipality	Fiscal Year	Amount requested	Amount awarded/paid	Prior FY Award	Source
Asbury Park	CY 2010	\$ 14,000,000	\$ 11,750,000	\$ 10,550,000	SMA
Bound Brook	CY 2010	\$ 1,074,000	\$ 960,000	\$ 860,000	XAid
Bridgeton	FY 2011	\$ 2,000,000	\$ 855,000	\$ 2,250,000	SMA
Camden	FY 2011	\$ 75,800,000	\$ 69,000,000	\$ 67,000,000	SMA
Chesilhurst	CY 2010	\$ 460,000	\$ 300,000	\$ 360,000	XAid
East Orange	FY 2011	\$ 8,000,000	\$ 2,850,000	\$ 2,000,000	XAid
Haledon	CY 2010	\$ 450,000	\$ 300,000	\$ 450,000	XAid
Harrison Town	CY 2010	\$ 5,535,000	\$ 1,500,000	\$ 5,300,000	SMA
Irvington	FY 2011	\$ 7,000,000	\$ 1,000,000	\$ 2,000,000	XAid
Lawnside	FY 2011	\$ 1,600,000	\$ 1,400,000	\$ 450,000	XAid
Maurice River	CY 2010	\$ 462,093	\$ 135,000	\$ 250,000	XAid
Mount Arlington	CY 2010	\$ 1,160,000	\$ 500,000	\$ 325,000	XAid
North Arlington	CY 2010	\$ 635,410	\$ 400,000	\$ -	
Passaic	FY 2011	\$ 3,150,000	\$ 1,450,000	\$ 1,000,000	XAid
Paterson	FY 2011	\$ 70,240,477	\$ 22,325,000	\$ 27,000,000	SMA
Penns Grove	CY 2010	\$ 1,050,000	\$ 1,000,000	\$ 850,000	XAid
Prospect Park	CY 2010	\$ 450,000	\$ 400,000	\$ 250,000	XAid
Salem City	CY 2010	\$ 400,000	\$ 300,000	\$ 400,000	XAid
Sussex Boro	CY 2010	\$ 225,000	\$ 100,000	\$ 90,000	XAid
Trenton	FY 2011	\$ 39,375,000	\$ 27,100,000	\$ 34,910,000	CapCity
Union City	FY 2011	\$ 13,000,000	\$ 13,000,000	\$ 12,990,411	SMA
Washington Boro	CY 2010	\$ 650,000	\$ 400,000	\$ 550,000	XAid
East Newark	CY 2010	\$ 30,000	\$ -	\$ 85,000	XAid
Hillside	FY 2011	\$ 3,100,000	\$ -	\$ 900,000	XAid
Milltown	CY 2010	\$ 450,000	\$ -	\$ 50,000	XAid
Montclair	CY 2010	\$ 1,000,000	\$ -	\$ -	
Norwood	CY 2010	\$ 350,000	\$ -	\$ 350,000	XAid
Orange	FY 2011	\$ 3,500,000	\$ -	\$ 500,000	XAid
Weehawken	FY 2011	\$ 1,200,000	\$ -	\$ 1,200,000	XAid
Woodland Twp.	CY 2010	\$ 1,000,000	\$ -	\$ -	
Total		\$ 257,346,980	\$ 157,025,000	\$ 172,920,411	

² In the "Source" column in the chart above, "CapCity" denotes Trenton Capital City Aid; "XAid" denotes Extraordinary Aid, and "SMA" denotes Special Municipal Aid.

Background Paper: The Municipal Best Practices Initiative

Budget Pages.... D-56 and D-391

The Governor announced with his Fiscal Year 2011 budget proposal that the Division of Local Government Services would be directed to work with local units to establish best practices “to ensure the sound use of State resources in municipal government.” The Governor stated that the Commissioner of Community Affairs would be authorized to promulgate and enforce the best practices standards as a condition of receiving municipal State aid. These would include, but not be limited to, standards with respect to: budget process, open government and financial transparency; conflicts of interest; open and competitive procurement; employee salary and benefit structures; risk management; and capital planning. The Commissioner would be authorized to withhold all or a portion of the final Fiscal Year 2011 State aid payment based on a “locality’s commitment to the Best Practice Standards using an objective point system that measures and incentivizes relative rather than absolute progress.” The final aid payment is five percent of the annual total.

More information about the best practices initiative was provided in Local Finance Notice 2010-8, which was issued by the Division of Local Government Services on March 18, 2010 (after the submission of the Governor’s budget proposal). In addition to describing the initiative and potential for aid reductions as a result of non-compliance, the Local Finance Notice stated that municipalities operating on a Calendar Fiscal Year would have until mid-November 2010 to certify compliance, and State Fiscal Year municipalities would have until June 2011 to meet the standards. The notice also stated the following: “It is expected that many of the best practices will be those currently deployed by municipal governments, and will encourage the adoption of new ones. The plan anticipates there will be a variety of practices that count toward meeting the minimum standards, and only practices that apply to a specific government will be considered in the evaluation.”

The development and implementation of the municipal “Best Practices Inventory” was authorized by language provisions in the Fiscal Year 2011 Appropriations Act. The State is authorized to withhold the final 5% of the total amount of both Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Relief Aid of any municipality not receiving a minimum score indicating compliance with a “Best Practices Inventory” established by the Director of the Division of Local Government Services. For Fiscal Year 2011, municipalities may not be penalized for engaging in practices occurring prior to the issuance of the “Best Practices Inventory”.

On August 26 2010, the Department of Community Affairs transmitted the “Best Practices Inventory” to all municipalities. Municipal officials were required to provide “Yes” or “No” responses to 88 questions covering the following areas: General Management (Administration, Personnel, & Procurement), Financial Management (Financial Standards, Budget Preparation, & and Budget Presentation), Public Safety, Public Works, Health, Energy & Utilities, and Municipal-School Relations. Municipalities were scored based on their response to each question, and would be assessed a reduction in municipal State aid if they provide a “Yes” response to 75 or fewer of the questions. Municipalities that operate on a January–December (CY) fiscal year were required to certify and submit their “Best Practices Inventory” checklist by October 1, 2010.

Background Paper: The Municipal Best Practices Initiative (Cont'd)

On December 2, 2010, the Department of Community Affairs released the "Best Practices Inventory" scores for CY municipalities. Of the 535 municipalities that submitted completed checklists, 160 failed to attain the required score and were assessed an aid penalty. The total amount of aid withheld from the December 1 aid payment for those municipalities that were penalized was \$99,534. In a press release announcing the posting of individual scores on its website, the DCA noted that municipalities were allowed to indicate items that were "not applicable" and provide explanations to certain questions were simple "Yes" or "No" responses did not allow for appropriate review of the survey. Municipalities were also advised they could respond "Yes" to a question if they planned to implement the practice within the next year.

The total amount of all assessed penalties, \$99,534 represents 0.15% of the final payment of municipal aid. The penalty assessed to each municipality ranged from 1% to 5% of the total final payment of Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Relief Aid. The Borough of Seaside Heights received the maximum penalty because it refused to submit the "Best Practices Inventory". A chart that shows the number of municipalities penalized, by the amount of their assessment, is below.

Amount of Assessed Penalty	Number of Municipalities
0%	375
1%	108
2%	42
3%	9
4%	0
5%	1
Total Number of Municipalities Surveyed	535

A proposed budget language revision for FY 2012 would permit the State to withhold the final 5% or \$500, whichever is greater, of the total amount of both Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts Property Tax Relief Aid if a municipality does not receive a minimum score indicating compliance with the "Best Practices Inventory". New budget language would permit the Director of the Division of Local Government Services to redistribute aid withheld from municipalities to those municipalities that receive "exemplary scores" on the "Best Practices Inventory" in Fiscal Year 2012. In Local Finance Notice 2011-8, issued on February 23, 2011, the Division of Local Government Services stated that "...additional Best Practices Information will be released in the next few weeks."

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Individuals wishing information and committee schedules on the FY 2012 budget are encouraged to contact:

**Legislative Budget and Finance Office
State House Annex
Room 140 PO Box 068
Trenton, NJ 08625
(609) 292-8030 • Fax (609) 777-2442**