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

“The Strength of NJ Local Government Finances & Changes to Municipal Qualified Bond Act”

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NJ Municipal Financial Oversight Headlines

“Atlantic City Watchdogs – How Strong State Oversight Helps NJ Municipalities Avoid Bankruptcy”
(The Pew Charitable Trusts – August 26, 2015)
- No bankruptcies in NJ since Fort Lee in 1939
- First oversight program established in NJ in 1931

“New Jersey Cities and Counties Remain Resilient Despite State’s Credit Challenges”
(Moody’s Investor Service – December 2, 2014)
- Local government portion of NJ’s pension plans are funded at a higher level
- Property taxes are generally more stable
- Not overly reliant on State aid
- Strong State oversight
Department of Community Affairs
Division of Local Government Services (DLGS)

- Provides technical and financial assistance
- Helps ensure financial integrity of all local government units
- Reviews local government financial actions
- Guides conduct of local government officials
Local Finance Board

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

- Certified Municipal/County Finance Officer
- Registered Municipal Clerk
- Certified Municipal Tax Collector
- Certified Public Works Manager
- Qualified Purchasing Agent
- Certified Municipal Planning and Zoning Board Members
Specific Areas of Oversight and Local Assistance to Municipalities

- Local Finance Notices (LFN’s)
- Local Public Contracts Law
- Legislative and Regulatory Research
- Municipal Financial Analysis and Reporting
- Tax Collection
- Deferred Comp Plans
- LOSAP’s
- Shared Services
- Municipal Consolidation
- Best Practices Inventory
Financial Regulation and Assistance

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

- Professional Assistance
New Jersey’s “CAPS”

- Appropriations CAP
  - Based on CPI changes (0% in 2016)
  - Excludes debt service and capital
  - COLA Ordinance – increases appropriations cap to 3 ½ %

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

- Debt CAP
  - 3.5% of last 3 years’ average equalized valuations

- Interest Arbitration Award CAP
  - 2% increase of base salary
  - Reforms also established procedural timelines, expanded publicly available copies of labor agreements, reporting of actual contract costs
Transitional Aid Program

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

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

- Broad powers to Local Finance Board (i.e. adoption of annual budget)
DLGS Role in Municipal Bond Financing

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

- General Municipal Oversight
  - Improves confidence of bond investors
Municipal Qualified Bond Act

- Strengthen financial credit for NJ municipalities with a pledge of and **statutory lien** on:
  - State Urban Aid
  - Gross Receipts Tax
  - State Revenue Sharing
  - Municipal Purposes Tax Assistance Fund distributions
  - Business Personal Property Tax Replacement Revenues
  - Other funds appropriated as State aid

- Benefits of Municipal Qualified Bonds:
  - Expand market
  - Lower interest costs

- LFB must approve based on:
  - Need for the facilities to be financed
  - Ability to punctually pay principal and interest on its debts
  - Reasonableness of cost of purposes or improvements to be financed
Questions?