

Covid-19 and your 2020 Budget

NJ Municipal Clerks via the NJ League of
Municipalities

April 28, 2020

THANKS FOR KEEPING US INFORMED

NJMMA

NJSLOM

DLGS

GFOANJ

GENERAL COMMENTS

The recent COVID 19 issues are affecting all levels of federal, state, county and local government. In NJ we are right in the middle of our budget season. We would normally be adopting, or at worst introducing, our budgets this month. We would be formulating our spending plans for this year so as to provide the services that our taxpayers and constituents rightfully expect.

However, that is not what we are doing. We are scrambling to keep our facilities open, to hold public meetings, to do the business of government.

At the end of this crisis, after all ramifications have been felt, we are still required to adhere to certain rules, regulations and statutes. You will adopt a 2020 spending plan. You will adopt a 2021 spending plan, and so forth.

GENERAL COMMENTS

What you do not want to do is create a financial situation in 2020 that hampers or restricts your ability to provide services in future years.

A prudent approach to your 2020 budget is advisable.

A new look at what you will really be able to provide to your taxpayers in 2020 is advisable

In the end what are you comfortable with in terms of a level of taxation for 2020 ?

- Do you take into account the other financial hardships that your residents and taxpayers are enduring?

State Freezes Spending

State Treasurer Muoio issued a new [voluntary disclosure statement](#) to bond holders providing detail on the potential impact COVID-19 may have on the State's finances, including revenue collection and pension fund contributions. The disclosure statement also noted that the Director of the Office of Management and Budget on Friday placed \$920,613,854 of appropriation into reserve in order to ensure sufficient cash and budget authority to meet emergency and statutorily required obligations.

Included among the items was \$141,851,261 from Homestead Benefit Program; \$4,782,689 from Senior Freeze Program; and \$44,738,465 from Municipal Aid Programs.

The municipal aid programs is primarily transitional aid for municipalities that operate on a fiscal year calendar.

The State Treasurer also noted that the state expects a decline in revenues in Fiscal Year 2020 and Fiscal Year 2021, which include significant reductions in gross income tax revenues, corporate business tax revenues, and sales tax revenue, motor fuels taxes and casino-related taxes. Lottery sales have already started to decline and it is anticipated that trend will continue.

STATE REVENUE PROBLEMS

the state budget is incredibly volatile right now and the current year revenues are off by at least \$2 billion.

next years revenues are off by probably 2-8 billion depending on how long this goes.

the federal money, mostly, can't be used to address state revenue losses. And it can't be used by local governments for that purpose either. (cost driven)

Income. Sales. Corporate. Tolls. Casino. Transit fare revenue. Realty transfer revenue. Lottery revenue. Hotel motel tax revenue. Court fine/fee skims. toll revenue... motor vehicle surcharge revenue... motor vehicle fees

S 2338- PL 2020, ch 19- LATEST

The bill modifies the duration of State Fiscal Year 2020 to conclude on September 30, 2020 and sets October 1, 2020 as the start of State Fiscal Year 2021. The bill also requires that any additional spending required to support the operations of the State from July 1, 2020 through September 30, 2020 be made through the enactment of a general law that amends or provides for a supplemental appropriation to that annual appropriations act. **This change does not apply to municipalities that adopt the State's fiscal year (9) and does not prevent municipalities from converting to a calendar fiscal year.**

The bill requires the State Treasurer to prepare a report on the financial condition of the State budget for State Fiscal Years 2020 and 2021, which must be submitted to the Legislature by May 22, 2020 and prominently displayed on the Office of Management and Budget's website.

The State Treasurer's report is to include: (1) an update on State revenue collections through the first nine months of State Fiscal Year 2020 and a revised forecast of revenue projections for the remainder of the current fiscal year; (2) a detailed plan of spending from State, federal, and all other governmental funds for the continuation of essential governmental operations during the remainder of State Fiscal Year 2020; and (3) an assessment of current economic conditions and the potential impact of the economy on the proposed budget for State Fiscal Year 2021.

The Governor is required to formulate and transmit a revised budget message for State Fiscal Year 2021, as altered by the bill. The revised budget message is to meet all requirements set forth in law for the budget message, except that the required estimate of balances on hand shall be as of October 1 instead of July 1. The Governor is required to present the revised budget message by August 25, 2020.

S 2338- PL 2020, ch 19- LATEST

DOES NOT NECESSARILY MEAN

- That DLGS and county budget approvals **will** be late
- That you **will** not get your certified tax rates in time for June tax billing
- That you **will** not get your state aid payments this year

DOES MEAN

- That the state is trying to take of its' financial affairs first
- That this is a new concept, so they are still working on the ramifications for everyone
- That as much as it pains us, we need to wait on what implications this has for local units
- That you are still able to intro/ adopt your budgets as you deem necessary, financially prudent- **WITHIN THE CURRENT BUDGET LAW PARAMETERS**

FN Updates

2020-06 Emergency Procurement & Use of Storm Recovery Reserves

- In circumstances where an emergency affecting the public health, safety or welfare requires the immediate delivery of goods or the performance of services, a contract may be awarded without public bidding regardless of the bid threshold.
- Municipalities and counties with storm recovery reserves may use those funds for the coronavirus response. Any reimbursement of these expenditures shall be deposited back into the reserve.

2020-07 Guidance on Budgets, Tax Bills & Deposit of Funds

- Calendar moved again- Intro April 30, Adopt May 30
- For budget adoption hearings held via conference call, livestream, online meeting or other methods of remote communication, the local unit must facilitate public comment during the public hearing. The budget advertisement shall include information on how the public can remotely access the governing body meeting and provide comment during the meeting
- Recommend estimated tax bills since the counties may not certify rates timely (do they really ever?)
- 48 hour rule- if you cant get to bank for whatever reason, safeguard

LFN Updates

2020-08 CY 2020/SFY 2021 State Aid Certification

- No change from CY 2019 aid categories

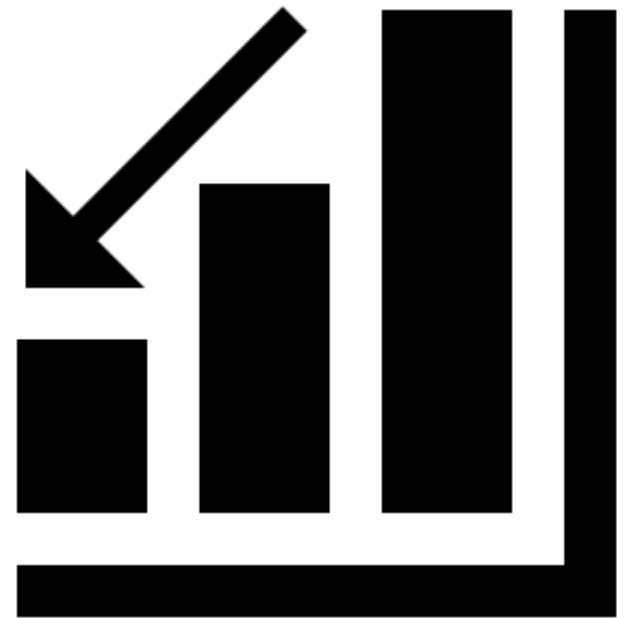
2020-09 FEMA Declaration

2020-10 Supplemental Procurement Guidance

ONLY RELY ON OFFICIAL GUIDANCE THROUGH LFN OR EGG

About 300 towns have adopted. Several more have the go ahead for adoption but have not yet done so

REVENUES-
DECLINE



Revenues

The anticipation of most revenues based solely on what was realized in the prior year (2019) will surely create a deficit in those revenues, reduce your year end fund balance and possibly create a deficit in operations. The majority of your local revenues are or will be impacted by the COVID 19 crisis.

As your towns reduce or eliminate hours of operation and face to face interaction with your customers those recurring fees and permits will suffer.

Imho – dlgs should not be allowing you to anticipate at the 2019 level

REVENUES- DECLINE?

Most notably UCC fees, user program fees for recreation and senior activities, court fines (superior court closed all courts until 4/26 for now)

- Don't forget you will have to do refunds for revenue already collected- don't count it

Facility rentals- will be down

ABC- been delayed until sept 30. Some may go out of business

Shared Services- depends on the service- tied to a revenue stream like court?

External revenues that flow to your budget will also suffer. Most notably hotel and motel taxes which are on a two month lag (what you receive via the State in April is for February collections).

- What is realistic expectation that travel will resume to normal levels this year

LEA for fire inspections will be down-

- 4th qtr 2019 paid in 2020.
- Other qtrs. Will suffer
- How long to get back up to full inspection level

State Div of Fire Safety

The State Division of Fire Safety has suspended conducting inspections and reinspections at all health care related facilities during the effective period of Executive Order 103. This includes nursing homes, assisted living facilities, hospitals, clinics, doctors' offices, etc

Effective immediately, the Division has suspended performing certificate of smoke alarm, carbon monoxide alarm, and portable fire extinguisher compliance (CSACMAPFEC) inspections during the effective period of Executive Order 103

The Division strongly recommends local enforcing agencies suspend in-person CSACMAPFEC inspections as well. Instead, local enforcing agencies should utilize the affidavit approach as outlined above until Executive Order 103 expires. Local enforcing agencies may direct the requestor to provide a virtual tour and demonstration of the devices. Utilizing something like face time, skype, video or something similar would allow you to verify compliance if further assurance is required

REVENUES-
STABLE



REVENUES – STABLE?

Franchise fees paid in January- so good there

Host Benefit fees- local trash to the dump may be up (houses,condo, apts- no one eating out) but commercial will be way down

PILOT – probably ok

Cell Tower Leases- probably ok

Shared Services- depends on the service- tied to a revenue stream like court?

REVENUES- UTILITIES

Has to be huge negative impact on golf, marina, beach, parking,

- Re-evaluate sending \$\$ to current fund if the utility will not be self liquidating at year end based on new revenue projections
- Will impact debt service requirements
- Even after social distancing is lifted people will be wary

Other like water or sewer may see different impacts

- High residential usage- PEOPLE AT HOME 24/7
- Low commercial usage

REVENUES- DEPT RESPONSIBILITY

Every revenue center needs to re-evaluate their expectations of 2020 revenue

Many face to face interactive revenues from recreation, aging programs may be down 50%

- Do you really feel comfortable starting them up? Do the participants?

Delinquent Taxes

If you had planned to conduct your tax sale in the next several months you may want to consider moving that to later in the year to allow those taxpayers with 2019 delinquencies the time to pay. Most of your taxpayers are also being financially impacted by this crisis.

In either case you may want to consider a movement to conducting an online tax sale.

DLGS had been in a PILOT phase for this. The PILOT has expired. If you wish to conduct an online tax sale you will need your governing body to adopt a resolution to approve and you will need to follow the LPCL to procure these services.

Current taxes

As respects your 2020 tax collection rate it is very conceivable that it will not equal your 2019 rate given the overarching effect on the economy as a whole. Be mindful of this as you formulate your level of taxation for 2020. The schools, counties, fire districts still get 100 % of their taxation levels. Any decline in the rate from last year to this year falls solely on you and your local fund balance.

your expected fund balance regeneration from added and omitted taxes may not materialize to the extent that you had hoped for. The delay in the issuance of CO's will translate to fewer months that these new assessments will be taxed in 2020.

REVENUE – OTHER

Look to your mrna revenues to see if you have any significant recurring revenues that you can anticipate this year

- Cell tower leases in rocky hill were very significant
- Insurance refunds?

Deferred school tax to create “ fund balance”

- Would have to amend your AFS to reflect on the appropriate sheets
- Resolution of the GB to establish
- Creates artificial surplus- but it can used as revenue in 2020 budget
- Can be reversed in future years
- CHECK WITH YOUR AUDITOR

LEVY CAP WAIVERS

- This may be the year you have to use them
- But- still a decision of the level of taxation you (the GB) is willing to impose

SPENDING

A new complete review of every department and operating function is warranted at this point. As you already know the majority of your spending plan is determined even before you start the budget process. I.e. debt service (unless you have refunding opportunities), pension, group insurance, workers comp, general liability, collectively bargained wages, deferred charges, utility costs.

REPRIORITIZE EVERYTHING

Reduce Personnel Costs

This is the biggest areas of expense for most governments, so a serious retrenchment effort will have to address personnel costs

- Short-term hiring freeze
- Eliminate vacant positions
- Stretch professional development funds- ALL IN FOR WEBINARS !!!
- Share personnel across departments
- no vacation that will create OT
- Negotiate moving COL increase to next year
- Voluntary time off for employees
- Mandatory time off for employees
- Rethink staffing ratios (police)

Personnel Related

The CARES Act (the **Act**), dramatically extends the deadline for employers to make social security tax payments on 2020 payroll. This deferral expands upon earlier Treasury announcements extending until July 15 the deadline for filing income tax returns and making payments of income tax (and, seemingly, self-employment tax) that would otherwise have been due on April 15

An employer's payroll tax liability consists of two components: social security tax at a rate of **6.2%** (subject to a cap), and Medicare tax at a rate of 1.45%. **Under the Act, the social security portion of an employer's payroll tax liability on employee salaries for the period beginning March 27, 2020 and ending on December 31, 2020 is not due at any time during 2020**, but rather the deadline for making such payments has been extended to the following dates:

Payment of 50% of such tax liability is due by December 31, 2021, and

Payment of the remaining 50% of such tax liability is due by December 31, 2022.

CHECK WITH YOUR PAYROLL COMPANY

Reduce Capital Spending

Capital assets are often very costly, so even a modest reduction in spending could result in significant savings

- Defer certain capital asset purchases
- Reduce the scope of capital asset investments
- No CIF this year
 - Look at old capital ordinance balances. Cancel or re-purpose

Reduce Materials or Contractor Costs

Though not as significant as personnel or capital, many governments can find savings in existing contracts that may not be as painful to cut

- Reexamine maintenance and replacement standards
 - Near end of life? Cheaper and more effective to purchase new?
- Reduce paper costs
 - Electronic PO, payments to vendors? Agendas?
- Save energy
- Review software maintenance contracts
- Rethink subsidies
 - Sports organizations, first aid squads, community groups

Create More Advantageous Inflows and Outflows of Cash

These techniques won't balance your budget but can help better manage the incidence of expenditures and revenues during the year.

- Look for areas of consistent surplus in prior budgets. What cost centers historically do not spend their budget creating the greatest cancellation to fund balance

SPENDING SPECIFICS

- Land use- no mtgs= less applications= less professional time needed
- Court- less court days= less professional needed for PD and prosecutor
- Audit- less staff at your location ?- negotiate price?
- Again- conference and other professional development cost should be down- except webinars 😊
- Contracted Garbage and Trash removal- should not be an issue. Just because there is more to pick up from residential- check with hauler anyway
 - Recycling centers may start closing
- The distance working mechanisms must be accounted for- technology is not cheap

SPENDING SPECIFICS

Vehicle Maintenance should be down- fewer cars on street/ fewer days open= fewer repairs

Facility daily operating costs should be down- fewer days open= less cost to heat, less gasoline, less electricity

Public Works-

- Snow budget- for the majority of the state this has been a nonfactor. Any money that was originally earmarked here might be able to not be budgeted or repurposed.
- Industrial cleaning of all public facilities will be a necessity from an employee and public perspective

SPENDING SPECIFICS

Unemployment

- Check your trust fund balance.
- Allocate more than normal

Group Insurance

- Expect rate increases next year to cover COVID and future pandemic related costs

Workers Comp

- Be prepared for employee claims if they contract COVID and they were still working in some environment where there was any other human interaction

WHY I HATE PEOPLE

Taxpayer

- Is the Municipal building open for me to drop off my water bill payment as I usually do?

Administrator

- Because of the COVID-19 virus the Municipal building is closed. We very much appreciate our residents, especially when they visit us for payments or other municipal services. We are looking forward to a time when we can get back to normal and you will be able to visit us in person again. But for now please send your payment by mail and it will be processed.

TaxPayer

- Are you saying I have to buy a stamp because they closed the building? I still have to go to work every day myself. If I wait until you reopen the building, it won't be late because of that, correct?

This is now a FEMA event-DR 4488

Go to your NJEM grants login for details or 866-337-8448 for help
DOCUMENT. DOCUMENT. DOCUMENT.

Start date is March 25

Pandemic declaration DR-4488 has FEMA modifying its normal process to be most expedient. The Exploratory Call, Recovery Scoping Meeting and Complete Project Worksheets procedures are being circumvented. FEMA will provide each Applicant with a "Project Worksheet template" via the Grants Portal to enter information and event related costs. That can then be "submitted" within the Grants Portal program.

The funding will then be made available to the State. The State then disburses the funding to the applicant according to State regulations

FEMA DR 4488

declared only for Category B – Emergency Protective Measures. No other Category of work is eligible (e.g., Cat A Debris Removal or Permanent Work Categories C through G).

Category Z projects to reimburse applicants for management/direct administrative costs will be addressed separately.

Labor

- These costs are for the Applicant's employees both full-time and temporary employees to backfill employees that were sent home, or seasonal employees asked to work outside of their designated season. For permanent employees, only overtime costs are eligible for DR4488. Straight time costs are not eligible. For temporary employees that were hired to perform work specific to DR 4488, both regular and overtime cost are eligible. Fringe benefits for the eligible hours/costs are eligible

CASH FLOW

Issue Tan's- just do it if you can prove cash deficit

- State aid dates could be impacted
- Mortgage deferrals could impact may/ august tax payments

Issue Estimated Tax Bills

- Budget cert's not guaranteed . State aid payments may (probably will) be delayed

Pension payments due April 1

- Don't pay until end of the grace period- end of April

Payroll taxes

- Stimulus bill allows delay in payment of the employer share of social security (6.2%) eff March 27th

OTHER

Careful of note sales

- Some institutions are trying to take advantage of the situation
- Check with municipal(financial) advisor, bond counsel about other options
- Other towns, counties, JIF's are purchasing notes

Federal Stimulus package

- Trickle to locals?
- For 2020 budget? Doubtful
- Latest \$ 484 M- none to help us. McConnell does not want to bail out states. Told them to file bankruptcy

Donations for products or services

- Check with insurance about exposure (?) for non- employees

Assembly Bill in discussion that would allow you to delay payments to schools for taxes for 1 qtr - A 3902

- UPDATE : this has been tabled for now

CLOSING COMMENTS

There is no common budget solution here

Every town has different financial position

- Not situated financially to handle disruption

Every town has different make up of the community

- More or less residential, or commercial

Resort towns will most likely be hit harder

- Supported by tourism, parking fees, beach fees

I hope the rating agencies take all the issues into consideration and do not make a bad situation worse

No finger pointing at the local level