



State of New Jersey

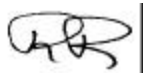
DEPARTMENT OF EDUCATION
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Commissioner

July 1, 2004

TO: Chief School Administrators
School Business Administrators/Board Secretaries

FROM: Richard Rosenberg 
Assistant Commissioner

SUBJECT: Enactment of S1701 and Revision of A4Fs for Appropriation of Surplus to 3% for 2004-05

The budget signed by Governor McGreevey yesterday provides unprecedented levels of funding for the school children of the state of New Jersey. Through this additional funding and through increased accountability for spending by local districts, New Jersey will be able to assure that all children can attain educational excellence. To insure this increased accountability and that funds are directed to the classroom and programs of benefit to children, in addition to the budget, Governor McGreevey signed into law today S1701 which changes many existing areas and practices related to school district budgeting and financial operations. The key revisions include:

- ? Revision to the calculation of school district spending caps (effective for development of 2005-06 budgets);
- ? Limiting spending on administration to the district's regional threshold and further limiting the annual growth of these costs;
- ? Lowering the allowable maximum surplus (undesignated, unreserved fund balance) for all regular, nonvocational school districts in 2004-05 to 3% or \$100,000, whichever is greater, and in 2005-06, to 2% or \$100,000, whichever is greater;
- ? Requiring Commissioner approval of transfers in any general fund account greater than 10%, on a cumulative basis;
- ? Restricting appropriation of underbudgeted/unbudgeted revenue and additional surplus for the first nine months (July to March) to only emergencies after petitioning the Commissioner for such appropriation, and requires Commissioner approval for

appropriation from these sources for T &E reasons during the last three months (April to June); and

- ? Eliminating the ability to transfer undesignated, unreserved surplus by board resolution to either the capital or maintenance reserve during the year.

The new law includes other provisions and authorizes the Commissioner to issue regulations that would become effective immediately upon filing. Many of these changes will require such regulations and the department is currently reviewing the full scope of the new law related to existing regulations and statute in order to issue updated and new regulations on these requirements.

Revision of 2004-05 A4Fs

The most immediate impact of this new law is the requirement for all regular, nonvocational districts, to appropriate current year surplus over 3% to offset 2004-05 tax levies. This will require revision and recertification of 2004-05 A4Fs for many districts. Under the new law, the estimate of surplus for this purpose is based on the amount included in the budget presented to the voters/board of school estimate, in April of 2004.

Districts that estimated surplus amounts in their proposed budget over 3% but less than \$50,000 are not required to revise their 2004-05 A4Fs. These districts, however, as all regular, nonvocational districts, will be subject to the 3% surplus calculation at June 30, 2004 in the annual audit. All Abbott districts that receive discretionary educational opportunity aid are still required to go down to 2% at June 30, 2004.

The process for recertification of A4Fs and 2004-05 tax levies is as follows:

- Each County Superintendent has been provided a list of all the districts in their county showing the districts over 3% and the districts unaffected by the new provision; for districts over 3% the list includes the amount of surplus over 3% to be appropriated (netted by any reduction made by a municipal governing body(ies) in review/certification of a defeated budget) and the revised 2004-05 tax levy to be recertified based on appropriation of this additional surplus.
- The tax levy reduction has been calculated based on the district's estimated unreserved, undesignated balances on line 1670 (column 2) of the recap of balances in the proposed 2004-05 budget.
- The County Superintendent shall notify every affected district in its county to the amount of additional surplus appropriation/tax levy reduction required. Such districts must revise their 2004-05 budget by increasing line 121 (budgeted fund balance), reducing line 150

(tax levy), and adjusting the recap of balances accordingly, run the edits and reprint the A4F. Districts with a split year can adjust the reduction on the A4F as permitted.

- The board secretary must sign the revised A4F and submit it to the County Superintendent (prior to submission to the municipal clerk) along with the revenues and recap of balances for verification. The County Superintendent will verify that revenues are reflected accordingly and that the revised A4F corresponds to the required amount, sign/date the A4F as approved, and return the verified/approved A4F to the district for provision to the municipal clerk(s) for signature. After municipal clerk signature, the standard process for A4F distribution should be followed (the standard list of the recipients to receive the A4F is on page 202 (regular districts) and page 204 (regional districts) of the 2004-05 Budget Guidelines).
- At the next scheduled board meeting, the board should adopt the revised 2004-05 budget with the approved revisions in budgeted fund balance and tax levy.

This process should be completed as soon as possible, but take no longer than 10 working days as county boards of taxation are pending issuance of tax bills to reflect these changes.

Affected districts are required to retransmit the budget following verification/approval by the County Superintendent of the revised A4F. The 2003-04 annual audit program will be issued within a few weeks and include the new requirements related to surplus at June 30, 2004, as well as other provisions to the extent applicable.

Signed Certification for Post-April Appropriation of Surplus for 2003-04 T&E Needs

The revision to N.J.S.A. 18A:7F-7 that reduces allowable surplus balances to 3% for 2004-05 also stipulates that for this determination, all post-April election (or post April board of school estimate approval) appropriation of surplus to increase spending or appropriation to capital and/or maintenance reserve prior to passage of this law are "null and void." This section of the new law, however, includes a provision for the Commissioner to review and approve any such post-April election appropriations if the district can demonstrate such appropriation/transfer was necessary to address a T&E need for the 2003-04 school year. While we are still determining the full meaning of this provision, it is clear that transfers to capital and/or maintenance reserve for future needs beyond the current year, even if included in the long range facilities plan or maintenance plan, would not be considered a legal demonstration of need for 2003-04.

Any district that wishes to demonstrate such appropriation/transfer was for a T&E need in 2003-04 must submit to the County Superintendent a signed Certification to this fact with its submission of the revised A4F for approval. The signed Certification must specify the specific purpose of the appropriation, why it was necessary for a 2003-04 T&E need, and that no other line-item balances were available. The chief school administrator, business administrator and board president must sign this Certification. Any Certification and corresponding adjustment to

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the required tax levy reduction from the County Superintendent's list will be subject to audit; adjusted amounts determined to be for a purpose beyond 2003-04 or not necessary due to available line-item balances will be reserved and designated for tax relief in 2005-06.

The new law includes many changes and I strongly encourage everyone to review this new legislation and inform your boards of education of these changes. We will continue review the new law and keep you informed. A Q&A will be posted and updated accordingly.

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