

(c) Municipalities shall not receive both a reduction and a credit for the same housing unit. The Council's intent with the reductions and the credits is to ensure that a municipality's obligation is lowered by one, or by a rental bonus credit provided: the municipality has created a realistic opportunity that resulted in a sound housing unit; or, if the unit has not yet materialized, the municipality continues to offer the realistic opportunity. A reduction shall be considered a credit when a low or moderate income unit is constructed (or in the case of a regional contribution agreement, the contract terms are honored) and appropriately restricted to a low or moderate income household.

(d) Unless otherwise stated, a municipality shall receive credits for housing activity prior to the date of the publication of its petition for substantive certification, provided such activity complies with criteria for credits in this subchapter. A municipality shall document eligible new construction with certificates of occupancy; eligible rehabilitation with final inspections; and transferred units with evidence of the required transfer of funds to the sending municipality.

(e) For units constructed after December 15, 1986, a municipality shall receive credits for housing activity that complies with the criteria in this subchapter and with the rules governing new construction, and transferred units (via a regional contribution agreement) between 1987-1993, in accordance with N.J.A.C. 5:92, a housing unit constructed under the auspices of a government funded, financed or otherwise assisted housing program designed specifically for households whose income does not exceed 80 percent of median shall also be eligible for a credit provided:

1. At least half of the units are affordable to households whose incomes do not exceed 50 percent of median income; and
2. The units are governed by controls on affordability that are substantially the same as those set forth in N.J.A.C. 5:92.

(f) A credit and/or a reduction in excess of the municipal precertified need shall be applied on a one for one basis or as a rental bonus credit against its future housing obligation.

Amended by R.1995 d.491, effective September 5, 1995.
See: 27 N.J.R. 2134(a), 27 N.J.R. 3329(a).

5:93-3.2 Credits for units constructed between April 1, 1980 and December 15, 1986

(a) A housing unit created and occupied between April 1, 1980 and December 15, 1986 is eligible for a one for one credit when it has been developed specifically for households whose income does not exceed 80 percent of median income and the unit is governed by controls on affordability that are the same as those set forth in N.J.A.C. 5:92-12 and Appendix E, incorporated herein by reference.

(b) A municipality may receive a one for one credit for each unit satisfying the following criteria:

1. The unit shall have been constructed between April 1, 1980 and December 15, 1986. The municipality shall document the date of construction with a certificate of occupancy date;
2. The unit shall have been certified to be in sound condition as a result of an exterior inspection performed by a licensed building inspector; and
3. The unit is currently occupied by a low or moderate income household. The municipality shall document household income eligibility with a certification of household income in a form adopted by the Council. Such certification shall be signed by a head of household. It shall be reviewable only by the Council or its staff and shall not be a public record.

5:93-3.3 Credits for housing activity subsequent to December 15, 1986

(a) A municipality shall receive a one for one credit for every low or moderate income unit constructed within its borders or within a receiving municipality as a result of a regional contribution agreement that addresses its 1987-1993 housing need provided:

1. The unit has not been addressed in N.J.A.C. 5:93-2.14, Reduction; and
2. The unit complies with the criteria referenced in N.J.A.C. 5:93-3.1(e).

(b) A municipality shall also receive a rental bonus credit for every eligible unit of low and moderate income housing that meets the criteria in N.J.A.C. 5:93-5.14(d).

Amended by R.1995 d.491, effective September 5, 1995.
See: 27 N.J.R. 2134(a), 27 N.J.R. 3329(a).

5:93-3.4 Rehabilitation subsequent to the 1990 census

(a) A municipality may receive credit for rehabilitation of low and moderate income substandard units performed subsequent to April 1, 1990.

(b) Units shall be eligible for crediting if:

1. They were rehabilitated up to the applicable code standard and that the average capital cost expended on rehabilitating the housing units was at least \$8,000; and

2. The unit is currently occupied by the occupants who resided within the unit at the time of rehabilitation or by other eligible low or moderate income households.

(c) Credits for rehabilitation shall not exceed the rehabilitation component and shall only be credited against the rehabilitation component.

5:93-3.5 Reductions for unbuilt housing

(a) Where land has been zoned for low and moderate income housing, the Council shall review sites for suitability and determine if the previously zoned sites present a realistic opportunity for low and moderate income housing before granting a reduction. In its review, the Council shall include but not be limited to a consideration of environmental factors, the location of existing infrastructure and the likelihood of the current zoning to result in the creation of low and moderate income housing during the period of substantive certification. Such a review shall result in a determination of the appropriate reduction and may result in requirements for zoning amendments.

(b) For previously certified sites that remain undeveloped, a municipality may propose an alternative zoning density and set aside as the result of a developer agreement. The Council shall certify each form of zoning and calculate the higher yield in addressing the fair share obligation. If the alternative zoning is exercised and there are unmet units, the Council shall not require the municipality to zone additional sites unless there are compelling reasons. Unmet units shall be addressed in the Council's third fair share cycle.

Amended by R.1995 d.491, effective September 5, 1995.
See: 27 N.J.R. 2134(a), 27 N.J.R. 3329(a).

5:93-3.6 Reductions for substantial compliance

(a) A reduction of the 1987-1999 inclusionary component of the calculated need shall be granted according to the following schedule when the Council determines that a municipality has substantially complied with the terms of its substantive certification, and has actually created, within the municipality or issued building permits for a substantial percentage of the new units that were part of the new units that were part of the municipal 1987-1993 housing obligation within the period of substantive certification (as extended by a grant of interim substantive certification pursuant to N.J.A.C. 5:91-14.1(a)):

Percentage of Units Completed	Reduction
90+	20 percent
80-89	10 percent
70-79	5 percent

This reduction shall be based solely on the percentage of new low and moderate income units constructed within the municipality that received substantive certification or were the recipients of building permits. The percentage of units completed shall be determined by dividing the number of new low and moderate income units actually constructed or receiving building permits within the municipality by the number of low and moderate income units designated for construction within the municipality in the 1987-1993 fair share plan.

Example: If the municipal housing element and fair share plan that received substantive certification designated 100 units to be constructed in the municipality and another 75 units to be transferred to a receiving municipality via a regional contribution agreement, the reduction shall be based on the percentage of the 100 units that were to be constructed within the municipality that received substantive certification.

(b) The reduction in (a) above shall only be applied to the inclusionary component of the 1987-1999 calculated need, as determined by the Council. This reduction shall be applied to the remaining inclusionary component after the Council has accepted all other reductions and credits (including any rental bonus).

Example: A municipality has a 1987-1999 precredited need of 200. It had a 1987-1993 inclusionary component of 100. All 100 new units were actually constructed or received building permits within the municipality. The reduction for substantial compliance is 20 percent. The remaining calculated need is 100. However, the rehabilitation component is 20, leaving an inclusionary component of 80. The 20 percent reduction is applied to the 80 remaining new units, leaving an inclusionary component of 64.

New Rule, R.1994 d.563, effective November 7, 1994.
See: 26 N.J.R. 2514(a), 26 N.J.R. 4349(b).
Amended by R.1995 d.491, effective September 5, 1995.
See: 27 N.J.R. 2134(a), 27 N.J.R. 3329(a).

SUBCHAPTER 4. MUNICIPAL ADJUSTMENTS

5:93-4.1 Purpose and background

(a) Subchapters 2 and 3 delineate the criteria for determining the municipal housing obligation. However, there may be instances where a municipality can exhaust an entire resource (land, water or sewer) and still not be able to provide a realistic opportunity for addressing the need for low and moderate income housing as determined by the Council. This subchapter outlines standards and procedures for municipalities to demonstrate that the municipal response to its housing obligation is limited by the lack of land, water or sewer. The procedures in this subchapter shall not be used to reduce or defer the rehabilitation component.

STRUCTURAL CONDITIONS SURVEY DATE: _____

RATE COMPONENT: GOOD/EXCELLENT = 0
 FAIR/POOR = X

SURVEYOR: _____

STREET: _____				COMPONENTS								DEFICIENT STRUCTURE MARK "YES" OR "NO"	COMMENTS
ADDRESS	BLOCK	LOT	NUMBER OF DWELLING UNITS	ONE "X" AND STRUCTURE IS DEFICIENT				TWO "Xs" AND STRUCTURE IS DEFICIENT					
				FOUNDATION	SIDING AND WALLS	ROOF AND CHIMNEY	WINDOWS AND DOORS	EAVES/SOFFETS GUTTERS/LEADS	RAILS/STAIRS STEPS/PORCH	FIRE ESCAPE			

DEFINITIONS FOR STRUCTURAL CONDITIONS

The following relates to structural components of a residential building. Refer to the attached diagram for component identification.

Excellent to Good—The condition of the component is like new or requires standard maintenance.

Examples:

Foundation—The component may need minor re-pointing and/or paint or the removal of shrubs or vines to protect it from deterioration.

Handrails, Steps, Stairs, Porch—A component or components may need paint and/or re-nailing or tightening.

Siding and Walls—The components may need light scraping and painting and/or re-nailing of loose siding.

Windows and Doors—The components may need light scraping and painting and appear to be operational.

Eaves, Soffets, Gutters, Leaders—The components may need light scraping and painting. Gutters may need realignment. Leaders may need re-attachment.

* Excessive cracks can mean multiple cracks affecting structural integrity or a crack or cracks as wide as 1/8 inch.

Roof and Chimney—No immediate repair is needed on the roof. The chimney is straight but may need minor re-pointing.

Fire Escape—The component may need scraping and painting and is properly functioning.

Fair to Poor—The condition of the component requires immediate maintenance, repair or replacement. Further deterioration may adversely affect other exterior and/or interior components.

Examples:

Foundation—The component needs re-pointing, replacement of some stones, brick or blocks or some rebuilding due to: loose, broken or missing bricks or block; missing mortar; excessive cracks in the masonry*; deterioration of masonry surface; pargeeting pulling away; sinking; or being out-of-plumb.

Handrails, Steps, Stairs, Porch—The components need replacement of boards, risers, joists, rafters, and/or beams, etc. due to: sagging; broken or unsound supports; a sinking

or structurally unsound foundation; broken, missing or rotted boards; missing or unsound railings or balusters; broken or missing trim; missing mortar in the masonry or the masonry being generally deteriorated; excessive cracks in the masonry*; or worn steps.

Siding and Walls

Brick—The component needs re-pointing, spot replacement, reconstruction, etc. due to: sagging; bowing; being out-of-plumb; excessive cracks in the masonry*; missing bricks or missing mortar.

Stucco—The component needs patching, spot replacement, or reconstruction and painting due to deteriorated surface, cracks, holes, water damage, or bowing.

Wood—The component needs patching, spot replacement, or reconstruction and painting due to sagging, bowing, being out-of-plumb, rot, water damage, loose boards, cracked or broken boards.

Siding—The component needs spot, area or total replacement due to broken or missing siding.

Windows and Doors and Related Trim (Exclusive of Storm Doors and Windows)

Windows—The component needs putty or new glass. Other indicators of a fair/poor component include: missing or broken trim; missing or broken sill; a frame or sash out of square; rotted wood; and/or inoperable windows.

Doors—Indicators of a fair/poor door include: broken glass; a frame out of square; missing or broken trims; interior grade doors being used as exterior doors; rotted wood.

Eaves, Soffets, Gutters, Leaders—Indicators of a fair/poor component include: broken or hanging sections; holes, rot leakage and/or missing sections; significant deterioration; or animal infestation.

Roof and Chimney

Roof—The component needs moderate scattered shingle replacement, area replacement or total replacement due to: sagging; exposed paper or sheathing; hole(s); curling of shingles; blistering of rolled roofing; cracked shingles; missing shingles; rusted metal roof; and/or leakage.

Chimney—The component needs partial or total reconstruction due to: sinking; being out-of-plumb; excessive cracks*; loose, broken or missing bricks; missing mortar; deteriorated surface and/or lack of a flue.

Fire Escape—The component needs significant physical repairs or replacement and/or is not fully operational.

TECHNICAL APPENDIX D

The Cost of Providing Infrastructure

Application: The Cost of Providing Infrastructure

September 4, 1986

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I. Purpose

The purpose of this study is to provide an approach to the development of **financial evaluation forms** to be used by the Council on Affordable Housing and the Department of Community Affairs. This form will provide the necessary data to review whether necessary capital expenditures to support proposed inclusionary housing development obligations would result in "prohibitive costs" to the respective local jurisdictions.

Study Approach

The approach taken to accomplish the study's objective is to first present the theoretical background and analytical approaches that have been used to measure prohibitive costs from the perspective of a community's financial capacity. The infrastructure costs are limited to **water and sewer systems only**.

Section III presents the data requirements needed to measure prohibitive cost and a discussion of indicators that provide a perspective on municipal and financial conditions and status.

Section IV includes a series of worksheets that make up the financial evaluation form. These worksheets provide information on municipal taxes, demographic and statistical data employed to calculate indicators of economic vitality, revenues/expenditures, income data on water and sewer enterprise funds, rates charged to users of each water and sewer service system, wastewater system costs, and costs per household.

Section V presents comparative data on which to make an evaluation of prohibitive costs against generally accepted industry standards. These standards are drawn from Moody's Investors Service selected indicators of Municipal Performance for 1985.

II. Assumptions and Suggested Analytical Approach

The service area and the type of financing, general obligation, revenue bond, special district or tax increment financing will have a direct bearing on who bears the burden of the system costs. A general obligation bond or a revenue bond supported by general property taxes or user charges from an entire jurisdiction has the broadest distribution of cost impacts. An improvement district or tax increment financing district with assessment or "impact fees" levied directly against the properties who benefit from the new system costs has more narrow cost distribution effects. The boundaries of the service area and the method of revenue generation to pay for the project financing must be explicitly defined.

A municipality's ability to pay for the new infrastructure will depend on a judgment as to whether or not its indicators of financial condition indicate "fiscal stress" will result from the added community expenditure. These indicators are objective in nature as described in Section III below and should be judged against the standards of the financial and debt ratios presented in Section V. Generally, a community with poor financial and debt ratios that are below the median ratios are strong candidates for a jurisdiction likely to experience "prohibitive costs" from the new infrastructure. These are generally communities with the lowest investment grade or below investment grade ratings from national rating agencies (Moody's, Standard & Poor's and Fitch).

Many tax-exempt municipal bonds and notes are given ratings to indicate their degree of creditworthiness security from risk or default. Three major national rating agencies analyze the municipal authorities issuing bonds. They are Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service. (Moody's and Standard & Poor's also will rate short-term issues.) Small issues of municipal bonds and notes are often sold without a credit rating.

Creditworthiness	Moody's	Standard & Poor's and Fitch
Prime (highest quality debt)	Aaa	AAA
Excellent	Aa	AA
Good	A	A
Average	Baa	BBB
Fair	Ba	BB
Poor	B	—
Marginal	Caa	B
Default	C	D

Bonds rated between prime and average are considered "investment grade" by banks and conservative investors. Those rated below average are considered "speculative" by the same investors.

* See Karen M. Seidel "Oregon Municipal Fiscal Indicators," Bureau of Governmental Research and Service, University of Oregon, October

In addition, Standard & Poor's has added plus and minus signs to the ratings of certain securities in order to differentiate between stronger and weaker credit ratings. This was done because there were so many bonds in each category. Similarly, Moody's adds a number one to the ratings of bonds that possess the strongest bonds in a category. For example, the strongest bonds in the Aa category are rated Aa1, the strongest bonds in the A category are rated A1, and the strongest bonds in the Baa category are rated Baa1.

Consistency of Standards

It is recommended that the same standards of "prohibitive costs" be used by the Council on Affordable Housing, Local Finance Board, and Department of Environmental Protection in their evaluation of each community.

Limitations

The limitations of these suggested approaches are the difficulties in synthesizing the municipal indicators into a single decision on prohibitive cost. These limitations can be overcome with more sophisticated analysis by developing a prohibitive cost index, perhaps with the technique of multiple discriminant analysis of the indicators. This approach groups indicators into common dimensions of municipal financial capability which can then be classified according to high, average or low strength.*

III. Data Requirements

Accurate data is fundamental to accurate analysis. The selected indicators are based on techniques by credit and municipal analysts for evaluating municipal financial condition.

In some cases, a particular data item may be simply unavailable or inappropriate, in which case it should be left out. In all cases, however, it is important that data be consistent during the period under examination. If accounting or recording procedures change from one fiscal year to another, adjustments should be made so that each year's data are comparable.

Data Requirements

The data needed for analysis fall into four general categories:

- expenditure elements,
- tax base elements,
- revenue elements, and
- demographics elements.

1983.

The analysis of financial conditions is based on an examination of the trends and behavior of key indicators over time. Data are collected for the most recent five-year period for which information is complete.

Data will usually be obtained from annual financial reports and other accounting or reporting statements. A list of suggested sources appears in the Appendix.

A. Economic and Social Factors

Economic and social factors are of primary importance in assessing the creditworthiness of a jurisdiction. A strong economic base should enable an issuer to overcome some weakness in debt, legal and financial factors and to maintain a sound credit position. On the other hand, a weak or declining economy will demand that an issuer exert the utmost care in debt and financial management to protect creditworthiness. A strong credit usually shows greater than average economic diversity, wealth, and growth. Measures of economic base include total personal income, income per capita, population changes, and changes in per capita income.

Wealth

A wealthy economic base will be indicated by above-average per capita property values, personal income and wholesale and retail sales. Negative aspects here would be a high or rapidly growing proportion of the population at or below the poverty level or on welfare rolls.

Growth

A strong credit also requires a growing economic base, although not all growth is necessarily viewed as favorable. Extremely rapid growth based heavily upon speculative factors may lead to excessive build-up of debt and/or taxes which could prove unsupportable over the long run. While growth is not always a favorable sign, a decline in economic resources is viewed as a negative factor since it would be highly unusual for such a decline to be offset by a tapering of demands on the tax base. Growth rates in population should approximate the state and national averages.

Population

Population is a fundamental indicator of economic growth. Growth in population is associated with increases in retail sales and with growth in consumer-related jobs. Population increases attributable to migration are often additionally associated with construction and durable manufacturing job expansion as well as service sector expansion, particularly the components of business service, government and tourist recreation. Growth at faster rates than the national average indicates an increasing share of the U.S. market. Similarly, population growth exceeding regional rates indicates economic shifts within the region.

Personal income

Personal income is a powerful indicator of economic strength and viewed over time can reveal strong basic trends. Income is also a major fiscal resource of state governments and, therefore, is the standard against which debt and taxes are compared. If income is rising more rapidly than in the nation and/or region as a whole, shifts in economic base composition are a strong possibility. Growth in composition can be expected as can growth in government revenues from sales and income taxes.

Per Capita Income

Per capita income below the national average can be both favorable and unfavorable. Low incomes are associated with low quality public education and, consequently, low skilled labor. Low level and limited scope of government services and a low debt burden also are associated with low per capita income.

Total Nonagricultural Employment

Total employment is a powerful analytic tool, but nonagricultural employment is more useful for comparison. Relatively high growth in nonagricultural jobs is a favorable sign.

B. Debt Management

Debt factors have always played a prominent role in municipal credit both because of inherent importance and because debt figures are quantifiable measures which make inter-city comparisons easier than for other factors. Three key ratios traditionally used in the industry attempt to establish the size of a unit's debt, the burden this places upon resources, and the relationship between the servicing of this debt and the unit's overall revenues. In turn, each ratio can be viewed from three aspects in an attempt to weigh its importance in the unit's credit picture: (1) the absolute level of the ratio at that point in time as compared with traditional guidelines; (2) the level of the ratio as compared with ratios of similar types of local units; and (3) the trend of that ratio within the unit being reviewed. Three additional ratios explored in evaluating an issuer's debt management policies relate to the rate of debt retirement, the level of bond anticipation note debt and the level of the unfunded pension liability. Two other items which do not readily lend themselves to quantitative analysis but should be considered in debt analysis are (1) authorized debt and projected debt needs and (2) other significant unfunded debts and contingent liabilities such as leases.

Debt Per Capita

This ratio attempts to establish the size of the unit's debt. It is measured by dividing the unit's overall net debt by its population. Overall net debt is the total tax-supported debt of the issuer as well as its proportionate share of the debt of other governments which may tax residents of that community. When this ratio reaches \$1,000 or above, debt is considered as sizeable.

Debt/Estimated Full Value

This ratio attempts to establish the burden which debt places upon resources, and is generally calculated by dividing the unit's net debt by the estimated market value of its real property. A debt burden of 3 percent or below is generally considered low. One between 3 percent and 10 percent is moderate. When the burden reaches or exceeds 10 percent, it is considered heavy and must be closely examined to determine that it will not become unmanageable in the future. The heavier the burden, the closer the attention that must be paid to the trend of that burden, the issuer's physical plant and future borrowing plans.

Debt Service/Revenues

This ratio's purpose is to indicate the flexibility that the locality will have to meet debt service (and other fixed charges although they are not directly part of the ratio) if revenues were to decline. A ratio of 10 percent or less indicates that ample flexibility should exist to meet debt service. If the ratio exceeds this level, it may be explained by a rapid debt retirement schedule or a unit in which capital expenditures are unusually large in relation to operating expenditures. If neither is true, then the higher that ratio becomes, the more concern there is about the unit's ability to meet fixed charges if an economic downturn or some other unforeseen circumstances depress revenues.

Direct Debt Due in Ten Years

This measure indicates the amount of the issuer's long-term debt which matures in ten years. Debt to finance a project should not extend beyond the expected useful life of the project. While each issuer's schedule must be viewed in terms of the types of long-term improvements being financed, it is generally true that the more rapid recapture of debt incurring capacity places the issuer in a more flexible position. Any issuer which has less than one-third of its long-term debt maturing in ten years must be carefully reviewed as to the appropriateness of such a slow retirement schedule.

C. Financial Management

A healthy credit is marked by a consistently and realistically balanced budget as reflected in the unit's income and expense statements, a cash surplus (cash and investments exceeding current liabilities) at the last balance sheet date, and maintenance of a manageable level of short-term operating debt. Other factors considered include the unit's tax burden, level of tax collections, reliability of its revenue structure and growth rate of its expenditures. A one-year deficit or drop in property tax collections may not be of particular concern if its origin is external (a national recession) and is resolved in a satisfactory manner and time period. However, if deficits persist over good and bad times, their causes must be examined closely.

Taxes

Taxes are the largest source of government revenues and we are developing data to measure **tax burden** or the ratio of taxes from own sources to personal income. (Adjusted personal income excludes welfare transfer payments from state and local taxes.) Tax burden reveals the extent to which current levels of general revenue (excluding intergovernmental revenue) limit the private use of personal income. High tax burden is viewed as a disincentive to private investment and can be an indication of excessive government programs in the face of an unhealthy private economic sector. This measure should be studied along with the component data for revenues and personal income.

Ratios used in evaluating financial management may be categorized under two areas: operating statement and balance sheet data and tax ratios.

Average Annual Increase in Expenditures

One of the most telling indicators is how rapidly an issuer's budget is growing. An increase in expenditures which exceeds growth in the tax base substantially over a period of time will usually indicate future credit problems.

Direct Expenditures

Direct expenditures are particularly revealing of the extent of government participation in the economy. If expenditures are increasing more than revenues from own sources and Federal aid, increasing reliance on debt and/or accounting gimmicks is a possibility. Rising per capita expenditures may indicate broader scope and higher quality public services, increasing welfare burdens and/or rising public employee compensation. Below average expenditures that show a sudden surge may indicate a shift to an urban economy characterized by high-skilled industries. Per capita figures facilitate comparisons among jurisdictions and within a state over time.

Comparatively high levels of expenditures should be associated with broader, better services, and some attention should be paid to apparent adequacy and delivery efficiency—or lack thereof.

Operating Surplus (Deficit) Revenues

From the income and expense statement, it is ascertained whether revenues exceeded expenditures (operating surplus) or expenditures exceeded revenues (operating deficit). An operating surplus is considered favorable or comfortable. A large surplus is not necessarily looked for, as a particularly large one may even have negative connotations as to budgeting practices. An operating deficit of more than 5 percent of revenues is of concern and must be further examined in terms of past year's performance, the reason for it (internal or external), and the plans to resolve it.

Accumulated Surplus (Deficit) Revenues

From the balance sheet, the issuer's solvency is evaluating by measuring accumulated surplus or deficit. Generally, a surplus of any size may be considered satisfactory, though a substantial decline from the prior year is deserving of further attention as to its implications for future budgets. Investigate the source of any deficit that has been allowed to accumulate in excess of 10 percent of one year's revenues and examine the issuer's ability and plans to eliminate it.

Effective Property Tax Rebate

The effective property tax rate is an overall rate taking into account not only the property tax rate of the issuer but also those of all its overlapping tax jurisdictions. The effective property tax rate is the tax rate on true or market property, thus allowing for comparisons with other units. A problem exists in using this indicator due to the diversity in revenue structures. However, it is useful in comparing like units within a specific state.

Tax Delinquency Ratios

The property tax collection record is important because some issuers depend heavily upon property taxes; for virtually all issuers, the tax is the budget-balancer; and, because it is one of the best measures of willingness to pay. Two ratios are primarily utilized. The first measures the collections from the current year's levy against the gross levy for that year. The second measures current collections and collections from prior years combined against the current levy.

* See Government Finance Research Center, GOVRATIO User's Manual, July 1984 and U.S. EPA, Office of Water Programs, Financial Capability Guidebook, March 1984.

IV. Financial Evaluation Forms

A series of worksheets are presented with instructions on how to fill them out. The eight worksheets are based on the indicators of financial condition as follows:

- **Worksheet # 1**—Behavior of Municipal Tax Base and Tax Revenues
- **Worksheet # 2**—Expenditure Information
- **Worksheet # 3**—Demographic and Statistical Information
- **Worksheet # 4**—Water and Sewer Enterprise Fund Information
- **Worksheet # 5**—Water and Sewer Rates
- **Worksheet # 6**—Total Estimated Annual Local Wastewater System Costs
- **Worksheet # 7**—Annual Costs per Household
- **Worksheet # 8**—Bond Rating and Debt History

These forms are drawn from various publications of the Government Finance Research Center, Washington, DC.* Computer software is available at nominal cost to process and analyze these data. A data base should be created over time to facilitate comparative analysis between the subject municipality and New Jersey averages for each of the data measurements.

Worksheet #1

Since many local governments are substantially supported by property tax revenues, Worksheet #1 is designed to track the behavior of the tax base and tax revenues, and to provide an indication of the jurisdiction's tax flexibility.

Property Taxes Levied (14) and Property Taxes Receivable (15) should be readily available in the government's Combined Statement of Revenues, Expenditures, and Changes in Fund Balance. Assessed Value

(16), Assessment Ratio (17) as a percent, and Full Market Value (18) should be available from the Assessor's Office.

If your government uses different tax levies for different classes of property, you may choose either to use the data for only the largest class of property in terms of revenue or you may calculate average or weighted average data. If you select either approach on the worksheet, identify the method used to ensure that data in subsequent years is comparable.

**Worksheet #1
Tax Information (A)**

Item Number	Description	Amount (\$)				
		19__	19__	19__	19__	19__
14.	Property Tax Levy					
	Source Documents					
15.	Property Taxes Receivable					
	Source Documents					
16.	Assessed Value					
	Source Documents					
17.	Assessment Ratio	%	%	%	%	%
	Source Documents					
18.	Full Market Value					
	Source Documents					

- Instructions:
1. Enter the total for the amount of property taxes levied or billed for each year.
 2. For each year, enter the amount of property taxes outstanding at year's end (i.e., the amount uncollected for the year of the levy).
 3. Enter the Assessed Value of Taxable Real Property.
 4. Enter the Assessment Ratio as a percent.
 5. Enter the estimated full (or true) market value of taxable property.
 6. Make a note of the document name and page number from which you gathered the data. This will serve as a reference if you need to verify the information and also will help ensure consistent information in gathering data to update the analysis in future years.

NOTES: If the Assessed Value or Full Market Value is \$1,000,000,000 or more, enter the amount in \$1000's.

For the Assessment Ratio, if you have different ratios for different classes of property, use an estimated average ratio.

Worksheet #2

Worksheet #2 also examines trends in the character of expenditures across all programs. Data for aggregate Capital Outlays (39), Debt Service (40), Short-Term Interest (41), and Fringe Benefits (42) may

be found in the government's Combined Statement of Revenues, Expenditures, and Changes in Fund Balance. These amounts are compared with Total Expenditures actually incurred (43).

**Worksheet #2
Expenditure Information (B)**

Item Number	Expenditure Type	Actual Expenditures by Type				
		19__	19__	19__	19__	19__
39.	Capital Outlays					
	Source Documents					
40.	Debt Service					
	Source Documents					
41.	Short-Term Interest					
	Source Documents					
42.	Total Expenditures					
	Source Documents					

Instructions:

1. For each year, obtain the total capital expenditures for all funds except enterprise funds. Enter these amounts in the "Capital Outlays" line.
2. For each year, obtain the total of all debt service (principal and interest) payments from all governmental funds (exclude revenue bond debt service funds). Enter these amounts for Item 39, Debt Service.
3. Similarly, for all funds except enterprise-type funds, obtain the total interest paid on short-term loans; enter the amount for each year in Item 36.
4. Obtain the total expenditures on fringe benefits from all funds except enterprise funds and enter for Item 37.

Worksheet #3

This worksheet is used to assemble demographic and statistical data employed to calculate indicators of economic vitality. If the value of Building Permits (66) and Business Licenses (67) is not available, the raw number of permits and licenses issued may be used. Population (68)

and Per Capital Income (69) may be available from a local, regional, or state planning agency; a local bank; or an economic development agency. The Consumer Price Index (70) is available from the U.S. Bureau of Labor Statistics.

**Worksheet #3
Demographic and Statistical Information**

Item Number	Description	19__	19__	19__	19__	19__
66.	Building Permits					
	Source Document					
67.	Business Licenses					
	Source Document					
68.	Population					
	Source Document					
69.	Per Capita Income	\$	\$	\$	\$	\$
	Source Document					
70.	CPI					
	Source Document	U.S. Bureau of Labor Statistics—Annual Handbook of Labor Statistics				
71.	Municipal Employees					
	Source Document					
72.	Non-Agricultural					
	Total Employment					

Instructions:

1. For Item 66, enter number of building permits issued during each year.
2. For Item 67, enter number of business licenses issued each year.
3. For Item 68, enter estimated population for each year.
4. Enter estimated per capita income for each year for Item 69.
5. Enter Consumer Price Index each year for item 70.
6. For Item 71, enter the number of full-time equivalent employees each year.
7. For Item 72, enter the covered employment figures drawn from New Jersey Covered Employment, NJ Department of Labor.

Worksheet #4

This worksheet is used to collect income data on water and sewer funds your jurisdiction may operate. Enterprise funds are those established by a government to account for operations in a manner similar to a private business, where it is the intent to recover the costs of a service or facility through user charges. Common enterprise activities include utilities (such as water and sewer services), parking facilities, airports, and transit systems.

The names of the water and sewer enterprise funds chosen should be entered in the left-hand column of the worksheet. The net income for each year for each of the selected enterprise funds is entered in the appropriate column on the worksheet. Generally, net income is the difference between revenues and expenses and is intended to indicate

the degree to which the enterprise is self-supporting. However, some services subsidized by the general government may include "transfers in" in the calculation of gross revenue; and some profitable services may include "transfers out" in the calculation of gross expenses. To ensure that enterprise net income figures are a comparable and accurate reflection of enterprise activity, interfund transfers, unless they represent payments or receipts for services provided (for example, for shared overhead), should be eliminated from the calculation of net income.

The "Source Department" area provides space for you to note a reference to the document (and perhaps the page number) from which the data were taken (such as Annual Audit Report; Sewer Enterprise Statement of Revenues, Expenses, and Changes in Retained Earnings; etc.).

**Worksheet #4
Enterprise Fund Information (A)**

Item Number	Enterprise Fund Name	Enterprise Fund (Net) Income (\$)				
		19__	19__	19__	19__	19__
1.	Fund					
2.	Fund					
3.	Fund					
4.	Fund					
5.	Fund					

Source Documents: 19__ _____
 19__ _____
 19__ _____
 19__ _____
 19__ _____

- Instructions:**
1. Fill in the names of up to five enterprise funds (such as water, parking, airport, sewer, etc.).
 2. Enter the (net) income amount for each fund for each year.
 3. Make a note of the document name, and page number, from which you gathered the data. This will serve as a reference if you need to verify the information and also will help ensure consistent information in gathering data to update the analysis in future years.

NOTE: Enterprise funds are those that are established to account for operations that are financed and operated in a manner similar to a business enterprise — where it is often the intent to finance the operation largely through user charges. (net) Income is the difference between revenues and expenses. (Do not include transfers.)

Worksheet #5

This worksheet is used to collect data on the rates charged to users of each Enterprise Fund service identified in Worksheet #4. Rates will be found in ordinances or rate schedules and the units on which the rates are charged should be noted in the "Unit Description" column (such as per 100 gallons, 1,000 cubic feet, hour, etc.). If the rate unit

changes from one year to the next, a conversion will be necessary to ensure that all rates for any given Enterprise Fund are comparable from year to year. If the rate structure is complex or varies from year to year an average charge per customer may be calculated to provide a comparable figure.

Worksheet #5
Enterprise Fund Information (B)

Item Number	Enterprise Fund Name	Unit Description	Enterprise Fund Rates (\$)				
			19__	19__	19__	19__	19__
6.							
7.							
8.							
9.							
10.							

Source Documents: 19 _____
 19 _____
 19 _____
 19 _____
 19 _____

- Instructions:
1. Enter the names of the enterprise funds shown in Worksheet #1.
 2. In the "Units" column, for each fund, describe the units on which the rates are based.
 3. Make a note of the document name, and page number, from which you gathered the data. This will serve as a reference if you need to verify the information and also will help ensure consistent information in gathering data to update the analysis in future years.

NOTE: If the charges are based on a complex rate structure, use an average rate per customer or per unit. Note this in the "Unit" column.

Worksheet #6

C. TOTAL ESTIMATED ANNUAL LOCAL WASTEWATER TREATMENT SYSTEM COSTS

- Existing Annual Operation, Maintenance, and Replacement Costs \$ _____ (326)
- Discontinued Annual Operation, Maintenance, and Replacement Costs to be Discontinued as a Result of Proposed Project \$ _____ (327)
- Net Existing Annual Operation, Maintenance, and Replacement Costs (Net) (326-327) \$ _____ (328)
- Existing Annual Debt Service \$ _____ (329)
- Estimated Annual Operation, Maintenance, and Replacement Costs of Proposed Facilities (215) \$ _____ (330)
- Estimated Annual Debt Service and Other Required Expenses for Proposed Facilities (325) \$ _____ (331)
- Total Estimated Annual Local Wastewater Treatment System Costs (328 + 329 + 330 + 331) \$ _____ (332)

Worksheet #7

Annual Costs Per Household

- Total Estimated Annual Wastewater Treatment System Costs (332) \$ _____ (400)
- Nonresidential Share of Total Annual Wastewater Treatment System Costs \$ _____ (401)
- Residential Share of Total Annual Wastewater Treatment System Costs (400 - 401) \$ _____ (402)
- Number of Households _____ (403)
- Annual Wastewater Treatment System Cost Per Household (402 ÷ 401) \$ _____ (404)
- Other Annual Costs Per Household (Identify) _____ \$ _____ (405)
- Total Annual Costs Per Household (404 + 405) \$ _____ (406)

Worksheet #8

Purpose of Worksheet #8

The purpose of this worksheet is to profile and summarize the community's debt position, including the proposed project.

General Instructions

This worksheet is divided into four sections, each providing background information related to the community's debt history. The sections cover bond ratings, outstanding debt, debt repayment, and debt limits.

Instructions for Section A

Line 500. Give the community's most recent general obligation bonds rating and the date of the rating.

Line 501. Give the community's (or its wastewater utility's) most recent revenue bond rating and the date of the rating.

Enter this information on the Supplemental Information Sheet (Exhibit VII). If the community has never had a rating, enter N/A as not applicable.

Worksheet #8
Sections A and B
Bond Rating and Debt History

A. BOND RATINGS

- Community's Most Recent General Obligation Bond Rating

	Rating	Date of Rating	
			(500)
- Community's Most Recent Revenue Bond Rating

	Rating	Date of Rating	
			(501)

B. DEBT

	Outstanding	+ This Project	= Total	
• General Obligation Bonds				(502)
• Revenue Bonds				(503)
• Gross Direct Debt				(504)
• Direct Net Debt				(505)
• Overlapping Net Debt				(506)
• Overall Net Debt				(507)
• Other Debt				(508)
• New Debt for Other Capital Improvements				(509)

Instructions for Section B

Line 502. Give the amount of general obligation debt outstanding, and any new debt for the proposed project. General obligation bonds are those for whose payment the full faith and credit of the issuer has been pledged and are payable most commonly from real property taxes and other general revenues. Include here any general obligation bonds secured by earmarked revenues that flow outside the general fund (double-barreled bonds).

Line 503. Give the amount of revenue bonds outstanding, including any new debt for the proposed facilities.

Line 504. Gross direct debt is the total amount of general obligation and revenue bonds outstanding. (Lines 502 plus 503)

Line 505. Direct net debt is gross direct debt (line 504) less debt that is self-supporting (revenue bonds) and double-barreled bonds.

Line 506. Overlapping net debt is the community's proportionate share of tax-supported debt of local government units located wholly or in part within the limits of a commu-

nity which must be borne by property or persons in that community's boundaries.

Line 507. Overall net debt is the sum of direct net debt and overlapping debt. (Lines 505 and 506)

Line 508. Three important debt "obligations" that should be considered in evaluating a community's debt load are outstanding leases, unfunded pension liabilities, and notes having a maturity greater than one year. Insert here the amount of other debt the community has outstanding.

Line 509. Give an estimate of the amount of future planned debt for other planned capital improvements your community is contemplating. Include any outstanding bond anticipation notes (BANs) here.

V. Standards: Comparative Analysis

This section presents a set of standards on key debt and financial ratios which judge the potentiality for "prohibitive costs," selected indicators of municipal performance based on Moody's Medians, and methods for affordability screening based on household costs.

A. Key Financial and Debt Ratios

	Financial Ratios			
	Favorable	Comfortable	Fair	Poor
Average Annual Increase of Expenditures *	Under 8%	8%-10%	12%-15%	Over 15%
Operating Surplus (Deficit)/Revenues	S	S	(D) 0-5%	(D) Over 5%
Accumulated Surplus (Deficit)/Revenues	S	S	(D) 0-10%	(D) Over 10%
Current Tax Delinquency	0-2%	2%-4%	4%-6%	Over 6%
Total Tax Delinquency	0-	0-1½%	1½%-3%	Over 3%
Effective Property Tax Rate	0-2%	2%-3%	3%-4½%	Over 5½%

* Should not be out of line with the national inflation rate.

	Debt Ratios			
	Favorable	Comfortable	Fair	Poor
Gross Debt Per Capita	\$0-500	\$500-900	\$900-1,200	Over \$1,200
Gross Debt/Estimated Full Value	0-3%	3%-7%	7%-10%	Over 10%
Debt Service/Revenues	0-10%	10%-15%	15%-20%	Over 20%
Direct Debt Due in Ten Years	Over 66⅔%	50%-66⅔%	33⅓%-50%	Under 33⅓%

B. Moody's Medians

	Moody's Ratios: 1985		
	Rank	New Jersey Amount	U.S. Median
Net Tax-Supported Debt Per Capita	15	\$ 388	\$ 258
Debt as Percent of Estimated Full Valuation	17	1.5	1.1
Net Tax-Supported Debt as a Percent of Personal Income	22	2.8	2.4
Estimated Full Valuation Per Capita	17	25,868	22,904
1983 Personal Income Per Capita	3	14,122	11,284

City and County Debt Medians

The magnitude and the burden of debt are two measures crucial to an evaluation of debt position. As a starting

approach, a method for calculating net debt has been developed which allows for comparability among local governments¹ across the United States. This net debt figure is then applied to population and tax base data. By using the population data and presenting net debt on a per capita basis, a meaningful measure of the relative size of the debt is provided.

Cities

Population Range ³	Net Debt Per Capita ²			
	Direct Net Debt Median	Low	Overall Net Debt Median	High
500,000 and over	\$559	\$271	\$ 857	\$ 2,004
300,000 to 499,999	406	215	718	1,659
200,000 to 299,999	539	291	706	1,206

Population Range ³	Direct Net Debt	Overall Net Debt		
	Median	Low	Median	High
100,000 to 199,999	362	85	554	5,211
50,000 to 99,999	369	59	658	3,199
25,000 to 49,999	384	10	689	4,135
10,000 to 24,999	533	134	713	5,843
Under 10,000	792	151	1,064	15,907

Counties

Population Range ³	Net Debt Per Capita ²		Overall Net Debt	
	Direct Net Debt Median	Low	Median	High
1,000,000 and over	\$139	\$168	\$1,049	\$ 1,981
250,000 to 999,999	158	275	607	2,071
100,000 to 249,999	96	150	580	1,379
Under 100,000	196	96	488	156,271

¹ Direct net debt figures are derived from observations of city and county governments only and do not include school districts or special districts

² Net debt is defined as a governmental unit's gross debt less sinking funds and other offsets of monies in hand for principal redemption bonds fully supported from enterprise revenues and short-term operating debt. Direct net debt refers to the net debt incurred directly in the name of a specific city or county, overall net debt further includes the net debt of overlapping and/or underlying units of government apportioned in accordance with property valuation

As a measure of a government's burden of debt, a ratio is calculated between its net debt and the estimated full value of taxable property. The estimated full value serves as a direct measure of local government wealth and, therefore, is reflective of the government's capacity to service public debt. Taxable valuation is utilized as a wealth measure because it tends to be up-to-date and readily available for all sizes of municipal government.

Population Range ³	Ratio of Net Debt to E.F.V. (%) ⁴			
	Direct Net Debt Median	Low	Overall Net Debt Median	High
500,000 and over	1.6	0.9	4.2	8.9
300,000 to 499,999	2.3	1.1	3.1	10.4
200,000 to 299,999	2.2	1.6	2.6	9.0
100,000 to 199,999	1.6	0.3	2.5	9.3
50,000 to 99,999	1.7	1.0	2.8	16.1
25,000 to 49,999	1.8	0.1	2.9	15.0
10,000 to 24,999	2.1	0.2	3.3	24.5
Under 10,000	2.4	0.1	3.6	20.0

Population Range ³	Ratio of Net Debt to E.F.V. (%) ⁴			
	Direct Net Debt Median	Low	Overall Net Debt Median	High
1,000,000 and over	0.4	0.03	4.2	4.1
250,000 to 999,999	0.6	0.7	2.5	5.2
100,000 to 249,999	0.4	0.6	2.5	5.5
Under 100,000	0.7	0.4	2.1	12.2

³ Cities and counties included in these observations have been grouped according to 1980 U.S. Census population

⁴ Estimated full value (E.F.V.) refers to the "true" or "fair" market value of all taxable property within the boundaries of the unit of government. Users of this data must be aware of the significant variations that exist in methods and quality of property assessment from state to state and even among municipal governments within a given state. Definitions of "taxable property" also vary across the country as does the dependability of equalization ratios

Enterprise Performance Medians

The following medians, derived during calendar 1984, convey various measures of performance and earning capability which are common to revenue-producing enterprises. These medians are valuable in assessing an enterprise's financial strengths and weaknesses relative to other similar enterprises.

Ratios derived from the income statement provide measures of profitability (operating ratio and net takedown) and debt-servicing capacity (coverage and safety margins). Coverage levels demonstrate both current and prospective debt repayment ability while safety margins denote additional levels of protection. The debt ratio, which is calculated from the balance sheet, signifies the enterprise's reliance on debt financing and its capacity to support additional debt.

The medians are intended as broad indicators. Significant deviation from the median is not necessarily an indicator of credit quality and may, in fact, highlight a significant event or unusual characteristic of the enterprise (i.e., start-up operation, system expansion or restructuring, abnormal weather).

Municipal Enterprise Medians

	Electric Distrib. Systems	Electric Gen. and Trans.	Water	Sewer	Airport
Operating ratio (%)	83.9	76.0	65.0	66.8	53.2
Net take-down (%)	18.3	26.6	41.0	43.7	50.6
Interest coverage (x)	4.55	2.61	4.00	3.03	3.49
Debt svc coverage (x)	4.18	2.02	2.52	2.39	2.42
Debt svc safety margin (%)	14.0	13.7	24.3	23.5	26.7
Debt ratio (%)	44.1	60.5	28.7	19.3	43.2

	Bridge, Tunnel, and Expressway	Turnpike
Operating ratio (%)	32.2	45.8
Net take-down (%)	73.1	56.1
Interest coverage (x)	4.97	10.6
Interest safety margin (%)	43.0	53.1
Bonds retired (%)	23.1	80.8

Municipal Enterprise Definitions (Continued)

Income Statement Components and Ratios

Gross revenue and income: Operating revenues plus non-operating revenue.

Operating and maintenance expenses: Operating and maintenance expenses net of depreciation, amortization, and interest requirements.

Net revenues: Gross revenue and income less operating and maintenance expenses.

Operating ratio (%): Operating and maintenance expenses divided by total operating revenues.

Net take-down (%): Net revenues divided by gross revenue and income.

Interest coverage (x): Net revenues divided by interest requirements for year.

Interest safety margin (%): Net revenues less interest requirements for year divided by gross revenue and income.

Debt service coverage (x): Net revenues divided by principal plus interest requirements for year.

Debt service safety margin (%): Net revenues less principal and interest requirements for year divided by gross revenue and income.

Peak debt service coverage by historical net revenues (x): Net revenues divided by estimated maximum annual principal and interest requirements on all outstanding debt and the bonds to be issued.

Peak debt service coverage by projected net revenues (x): Projected net revenues for the first full fiscal year following completion of the capital project financed from the new bonds divided by estimated maximum annual principal and interest requirements on all outstanding debt and the bonds to be issued.

APPENDIX 1

Data Sources

The necessary data will be available from several different sources. A list of typical source documents is given below:

- annual financial report (audit) for each year
- adopted budget for each year
- official statement for recent bond issues
- municipal rate ordinances
- annual report of pension system
- local or state planning documents
- census department reports (for population, income, etc.)
- handbook for labor statistics (CPI)
- sections of state code governing tax or revenue limitations

APPENDIX 2

DATA DEFINITIONS *

ACCOUNTING PERIOD. A period at the end of which and for which financial statements are prepared.

ACCOUNTING PROCEDURES. All processes that discover, record, classify, and summarize financial information to produce financial reports and to provide internal control.

ACCOUNTING SYSTEM. The total structure of records and procedures that discover, record, classify, summarize and report information on the financial position and results of operations of a government or any of its funds, fund

* These definitions are from U.S. EPA, Office of Water Programs, Financial Capability Guidebook, March 1984.

types, balanced account groups, or organizational components.

ACCOUNTS PAYABLE. A liability account reflecting amounts on open account owing to private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds of the same government or to other governments).

ACCOUNTS RECEIVABLE. An asset account reflecting amounts owing on open account from private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds of the same government). Although taxes and special assessments receivable are covered by this term, they should be recorded and reported separately in Taxes Receivable and Special Assessments Receivable accounts, respectively.

ACCRUAL BASIS. The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

ACCRUED EXPENSES. Expenses incurred but not due until a later date.

ACCUMULATED DEPRECIATION. A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of fixed assets.

ADVANCE REFUNDING BONDS. Bonds issued to refund an outstanding bond issue prior to the date on which the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fiduciary, invested in U.S. Treasury Bonds or other authorized securities, and used to redeem the underlying bonds at maturity or call date and to pay interest on the bonds being refunded or the advance refunding bonds.

ASSESS. To value property officially for the purpose of taxation.

ASSESSED VALUATION. A valuation set upon real estate or other property by a government as a basis for levying taxes.

ASSESSMENT. (1) The process of making the official valuation of property for purposes of taxation. (2) The valuation placed upon property as a result of this process.

ASSESSMENT ROLE. In the case of real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner are also usually shown. In the case of personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property, and its assessed value.

ASSETS. Resources owned or held by a government that have monetary value.

AUDIT. A methodical examination of utilization of resources. It concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used.

AUDIT PROGRAM. A detailed outline of work to be done and procedures to be followed in any given audit.

AUDIT REPORT. The report prepared by an auditor covering the audit or investigation made by him. As a rule, the report should include (a) a statement of the scope of the audit; (b) explanatory comments (if any) concerning exceptions by the auditor as to application of generally accepted auditing standards; (c) opinions; (d) explanatory comments (if any) concerning verification procedures; (e) financial statements and schedules; and (f) sometimes statistical tables, supplementary comments, and recommendations. The auditor's signature follows item (c) or (d).

AUDITOR'S OPINION. A statement signed by an auditor in which he or she states that he or she has examined the financial statement in accordance with generally accepted auditing standards (with exceptions, if any) and in which he or she expresses an opinion on some or all of the constituent funds and balanced account groups of the government as inappropriate.

BALANCE SHEET. The basic financial statement that discloses the assets, liabilities, and equities of an entity at a specified date in conformity with GAAP.

BASIC FINANCIAL STATEMENTS. Those financial statements including notes thereto, that are necessary for a fair presentation of the financial position and results of operations of an entity in conformity with GAAP. Under Statement 1, basic financial statements include a balance sheet, an "all inclusive" operating statement, and (for proprietary funds, Pension Trust Funds, and Nonexpendable Trust Funds) a statement of changes in financial position.

BETTERMENT. An addition made to, or change made in, a fixed asset that is expected to prolong its life or to increase its efficiency over and above that arising from maintenance, and the cost of which is therefore added to the book value of the asset. The term is sometimes applied to sidewalks, sewers, and highways.

BOND. A written promise to pay a specified sum of money called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between a note and bond is that the latter runs for a longer period of time and requires greater legal formality.

BOND ANTICIPATION NOTES. Short-term, interest-bearing notes issued by a government in anticipation of bonds to be issued at a later date. The notes are retired from proceeds of the bond issue to which they are related.

BOND DISCOUNT. The excess of the face value of a bond over the price for which it is acquired or sold. The price does not include accrued interest at the date of acquisition or sale.

BOND FUND. A fund formerly used to account for the proceeds of general obligation bond issues. Such proceeds are now accounted for in a Capital Projects Fund.

BOND ORDINANCE OR RESOLUTION. An ordinance or resolution authorizing a bond issue.

BOND PREMIUM. The excess of the price at which a bond is acquired or sold over its face value. The price does not include accrued interest at the date of acquisition or sale.

BONDED DEBT. That portion of indebtedness represented by outstanding bonds.

BONDS AUTHORIZED AND UNISSUED. Bonds that have been legally authorized but not issued and which can be issued and sold without further authorization. This term must not be confused with the term "margin of borrowing power" or "legal debt margin," either one of which represents the difference between the legal debt limit of a government and the debt outstanding against it.

BONDS ISSUED. Bonds sold.

CALLABLE BOND. A type of bond that permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

CAPITAL OUTLAY. Expenditures that result in the acquisition of or addition to fixed assets.

CAPITAL PROJECTS FUND. A fund created to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

CASH. An asset account reflecting currency, coin, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits. All cash must be accounted for as a part of the fund to which it belongs. Any restrictions or limitations as to its availability must be indicated in the records and statements. It is not necessary, however, to have a separate bank account for each fund unless required by law.

CASH BASIS. A basis of accounting under which transactions are recognized only when cash changes hands.

CERTIFICATE OF CONFORMANCE IN FINANCIAL REPORTING PROGRAM. A voluntary program administered by GFOA to encourage governments to publish efficiently organized and easily readable CAFRs and to provide peer recognition and technical assistance to the finance officers preparing them.

COMPREHENSIVE ANNUAL FINANCIAL REPORT. (CAFR). The official annual report of a government. It includes five Combined Statements—Overview (the “lifiable” GPFS) and basic financial statements for each individual fund and account group prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section. Every government should prepare and publish a CAFR as a matter of public record.

DEBT SERVICE FUND REQUIREMENTS. The amounts of revenue that must be provided for a debt service fund so that all principal and interest payments can be made in full on schedule.

DEBT SERVICE REQUIREMENT. The amount of money required to pay interest on outstanding debt, serial maturities of principal for serial bonds, and required contributions to accumulate monies for future retirement of term bonds.

DEPRECIATION. (1) Expiration in the service life of fixed assets, other than wasting assets (q.v.) attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a fixed asset other than a wasting asset that is charged as an expense during a particular period. NOTE: In accounting for depreciation, the cost of a fixed asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

DIRECT NET DEBT. Gross direct debt less debt that is self-supporting (revenue bonds) and double-barreled bonds (general obligation bonds secured by earmarked revenues that flow outside the general fund).

ENTERPRISE FUND. A fund established to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Examples of Enterprise Funds are those for water, gas, electric utilities, swimming pools, airports, parking garages, and transit systems.

ENTITY. The basic unit upon which accounting and/or financial reporting activities focus. The basic governmental legal and accounting entity is the individual fund and account group. Under NCGA Statement 1, governmental GAAP reporting entities include (1) Combined Statements—Overview (the “lifiable” GPFS) and (2) financial statements of individual funds (which may be presented as columns on Combining Statements—By Fund Type, on physically separate individual fund statements, or both). The term “entity” is also sometimes used to describe the composition of “the government as a whole” (whether the library is part of the city or a separate government, whether the school system is part of the county or an independent special district, etc.).

EXPENDITURES. Decreases in net financial resources. Expenditures include current operating expenses that require the current or future use of net current assets, debt service, and capital outlays.

EXPENSES. Decreases in net total assets. Expenses represent the total cost of operations during a period regardless of the timing of related expenditures.

FAMILY. A family consists of a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption; all persons who are related to the householder are regarded as members of his or her family. Not all households contain families, because a household may be composed of a group of unrelated persons or one person living alone.

FULL FAITH AND CREDIT. A pledge of the general taxing power for the payment of debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds.

FUND. A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). Uniform minimum standards of and guidelines to accounting and reporting. They govern the form and content of the basic financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS). Measures of the quality of the performance of auditing procedures and the objectives to be attained through their use. They are concerned with the auditor's professional qualities and with the judgment exercised in the performance of an audit. Generally accepted auditing standards have been prescribed by (1) American Institute of Certified Public Accountants (AICPA) and (2) U.S. General Accounting Office (GAO) in *Standards for Audit of Governmental Organizations, Programs, Activities, & Functions* (the "yellow" book).

GENERAL OBLIGATION BONDS. Bonds for the payment of which full faith and credit of the issuing government are pledged.

GROSS DIRECT DEBT. The total amount of bonded debt of a government (general obligation bonds plus revenue bonds).

HOUSEHOLD. A household consists of all the persons who occupy a housing unit. A house, an apartment, or other group of rooms, or a single room is regarded as a housing unit, when it is occupied or intended for occupancy as separate living quarters. A household includes the related family members and all the unrelated persons, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated persons sharing a housing unit as partners, is also counted as a household.

INDUSTRIAL REVENUE BONDS. Bonds issued by governments, the proceeds of which are used to construct facilities for a private business enterprise. Lease payments made by the business enterprise to the government are used to service the bonds. Such bonds may be in the form of general obligation bonds, combination bonds, or revenue bonds.

LEVY. (Verb) To impose taxes, special assessments, or service charges for the support of government activities. (Noun) The total amount of taxes, special assessments, or service charges imposed by a government.

LIABILITIES. Debt or other legal obligation arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. This term does not include encumbrances.

MEDIAN INCOME. The median income is the amount that divides the distribution into two equal groups, one having incomes above the median, and the other having incomes below the median.

MODIFIED ACCRUAL BASIS. A basis of accounting under which revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period" and expenditures are recognized when the related fund liability is incurred.

MUNICIPAL IMPROVEMENT CERTIFICATES. Certificates issued in lieu of bonds for the financing of special improvements. As a rule, these certificates are placed in the contractor's hands for collection from the special assessment payers.

NET REVENUES AVAILABLE FOR DEBT SERVICE. Proprietary fund gross operating revenues less operating and maintenance expenses but exclusive of depreciation and bond interest. "Net revenue available for debt service" as thus defined is used to compute "coverage" on revenue bond issues. See Coverage. Under the laws of some states and the provisions of some revenue bond indentures, "net revenues available for debt service" for computation of revenue bond coverage must be computed on a cash basis rather than in conformity with GAAP.

NET INCOME. Proprietary fund excess of operating revenues, non-operating revenues, and operating transfers-in over operating expenses, non-operating expenses, and operating transfers-out.

NON-OPERATING EXPENSES. Proprietary fund expenses that are not directly related to the fund's primary service activities.

NON-OPERATING PROPERTIES. Properties that are owned by an enterprise fund but not used in the provision of the fund's primary service activities.

NON-OPERATING REVENUES. Proprietary fund revenues that are incidental to, or by-products of, the fund's primary service activities.

OFFICIAL STATEMENT. A legal document that summarizes all the salient features of the underlying documents and agreements that support a municipal bond offering. It is considered the disclosure document that presents information that is "material" to the offering. The official statement should contain what a reasonable investor would need to know in making a decision about the issue. Thus this document will usually include a description of the issuer, a description of the security of the bond, a summary of the principal financing documents, any feasibility studies that relate to the security, and any other "key information."

OVERALL NET DEBT. The sum of direct net debt and overlapping debt.

OVERLAPPING DEBT. The proportionate share of the debt of local governments located wholly or in part within the limits of the reporting government that must be borne by property within each government. Except for special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction that will be used wholly or in part to pay off the debt to total assessments receivable which will be used wholly or in part for this purpose.

OPERATING INCOME. The excess of proprietary fund operating revenues over operating expenses.

OPERATING REVENUES. Proprietary fund revenues that are directly related to the fund's primary service activities. They consist primarily of user charges for services.

REVENUE BONDS. Bonds whose principal and interest are payable exclusively from earnings of an Enterprise Fund. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise fund property.

REVENUES. In general terms, money received in exchange for the delivery of goods and services. A more precise definition is the additions to assets, such as cash or accounts receivable, which: (1) do not increase any liability, such as a debt obligation; (2) do not represent a recovery of an expenditure, such as results from a return of defective purchased equipment; (3) do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets, such as forgiveness of a debt; and (4) are not contributions made to fund business-like enterprises.

SERIAL ANNUITY BONDS. Serial bonds in which the annual installments of bond principal are so arranged that the combined payments for principal and interest are approximately the same each year.

SERIAL BONDS. Bonds whose principal is repaid in periodic installments over the life of the issue.

SINKING FUND. A fund established to account for the accumulation of resources for, and the payment of, the principal and interest of general long-term debt.

SPECIAL ASSESSMENT. A compulsory levy made against certain properties to defray part or all of the cost of a specific improvement or service deemed to benefit primarily those properties.

SPECIAL ASSESSMENT BONDS. Bonds payable from the proceeds of special assessments. If the bonds are payable only from the collections of special assessments, they are known as special assessment bonds. If, in addition to the assessments, the full faith and credit of the government are pledged, they are known as general obligation special assessment bonds.

SPECIAL ASSESSMENT FUND. A fund used to account for the financing of public improvements or services deemed to primarily benefit the properties against which special assessments are levied.

SPECIAL DISTRICT. An independent unit of local government organized to perform a single governmental function or a restricted number of related functions. Special districts usually have the power to incur debt and levy taxes; however, certain types of special districts are entirely dependent upon enterprise earnings and cannot impose taxes. Examples of special districts are water districts, drainage districts, flood control districts, hospital districts, fire protection districts, transit authorities, port authorities, and electric power authorities.

TECHNICAL APPENDIX E

Deed Restriction and Lien
(New Construction—Sales Units)

STATE OF NEW JERSEY
COUNCIL ON AFFORDABLE HOUSING
NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS
AFFORDABLE HOUSING AGREEMENT

Prepared by: _____

A DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS

Pursuant to the transfer of ownership of an affordable housing unit for the price of \$_____, this AGREEMENT is entered into on this _____ day of _____, _____ between _____ owner of the properties designated in Section II PROPERTY DESCRIPTION, hereafter "OWNER", and New Jersey Department of Community Affairs hereafter "AUTHORITY", which Authority is an instrumentality of _____ (referred to as the "MUNICIPALITY"), both parties having agreed that the covenants, conditions and restrictions contained herein shall be imposed on the Affordable Housing unit described in Section II PROPERTY DESCRIPTION for a period of at least _____ years beginning on _____ and ending at the first non-exempt transfer of title after _____ unless extended by municipal resolution as described in Section III TERM OF RESTRICTION.

WHEREAS, municipalities within the State of New Jersey are required by the Fair Housing Act (P.L.1985, c. 222) hereinafter "Act", to provide for their fair share of housing that is affordable to households with low or moderate incomes in accordance with provisions of the Act; and

WHEREAS, the Act requires that municipalities ensure that such designated housing remains affordable to low and moderate income households for a minimum period of at least 6 years; and

WHEREAS, the Act establishes the Council on Affordable Housing (hereinafter "Council") to assist municipalities in determining a realistic opportunity for the planning and development of such affordable housing; and

WHEREAS, pursuant to the Act, the housing unit (units) described in Section II PROPERTY DESCRIPTION hereafter and/or an attached Exhibit A of this Agreement has (have) been designated as low and moderate income housing as defined by the Act; and

WHEREAS, the purpose of this Agreement is to ensure that the described housing units (unit) remain(s) affordable to low and moderate income eligible households for that period of time described in Section III TERM OF RESTRICTION.

NOW, THEREFORE, it is the intent of this Agreement to ensure that the affordability controls are contained directly in the property deed for the premises and incorporated into and recorded with the property deed so as to bind the owner of the described premises and notify all future purchasers of the housing unit that the housing unit is encumbered with affordability controls; and by entering into this Agreement, the Owner of the described premises agrees to restrict the sale of the housing unit to low and moderate income eligible households at a maximum resale price determined by the Authority for the specified period of time.

I. DEFINITIONS

For purposes of this Agreement, the following terms shall be defined as follows:

"Affordable Housing" shall mean residential units that have been restricted for occupancy by Households whose total Gross Annual Income is measured at less than 80% of the median income level established by an authorized income guideline for geographic region and family size.

"Agency" shall mean the New Jersey Housing and Mortgage Finance Agency established by L. 1983, c.530 (C. 55:14K-1 et seq.).

"Agreement" shall mean this written Affordable Housing Agreement between the Authority and the owner of an Affordable Housing unit which places restrictions on Affordable Housing units so that they remain affordable to and occupied by Low and Moderate Income-Eligible Households for the period of time specified in this agreement.