

Q Can local governments hold down the costs of public services?

A Yes, and they are doing so. No municipal official wants to raise taxes. In addition to their commitment to their constituents, they are also motivated by an enlightened self-interest (They pay property taxes, too.) and by a desire to remain in the public's service beyond the next election. Local budgets are subject to intense public scrutiny. Inflation alone forces municipalities to spend more, just to maintain current service levels. But aside from inflation, local expenditures are driven by demographics. And service demands related to the aging of the "baby boom" generation will increase on into the future.

Q How can the State provide needed relief to local governments and, more importantly, to property taxpayers?

A Policy makers in Trenton need to recognize the fact that there is a connection between property tax relief funding and property tax relief. New Jersey local governments need significant, dependable, sustainable sources of revenue, other than property taxes. We need to move away from our over-reliance on excessive, regressive property taxes. And only action at the State level can make that a reality.

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STATE GOVERNMENT & YOUR LOCAL PROPERTY TAXES

*What Residents & Businesses
Should Consider*

LOCAL PROPERTY TAXES & NEW JERSEY STATE GOVERNMENT

Many factors determine the level of public services and the amount of property taxes that you pay in your community. And many of those factors are beyond the control of local elected officials. For example, the amount of property tax relief funding that the State redistributes to your municipality directly affects your bill. When your property tax bill goes up and municipal services don't meet your needs, your State Legislators and the Governor can help by making sure that the State is providing your home town with adequate financial aid. Municipal property tax relief funding, as promised by State law, can help to pay for the local services you need and can keep your property taxes from going up—again.

We need to remember that "excessive" spending is not always—or even often—the root cause of rising property taxes. There are numerous mandates, regulations, and other state and federal actions that impact property taxes.

Q Are property taxes a big problem for the people of New Jersey?

A Oh yeah! When we look at the statistics, the scope of the problem can be intimidating.

According to the Census Bureau, in 2009, property taxes in New Jersey totaled over \$23 billion, and represented 45% of all State and local tax revenue. Nationally, property taxes equaled 35% of State and local tax revenue. Sales taxes in our State composed 23% of those revenues; and income taxes equaled 22%. Nationally, sales taxes were 35% of the total; while income taxes were 22%. According to the Tax Foundation, in 2008, New Jersey ranked #1 in property taxes, per capita. New Jersey's rank in property taxes as a percentage of the median value of an owner occupied house was #1. In 2008, the New Jersey per capita property tax bill was \$2,625. And in 2009, according to the Tax Foundation, our median residential property tax was \$6,579—tops in the Nation. In the Census Bureau's 2009 charts, in New Jersey, property taxes account for about 97% of all locally collected revenues. The National average is about 73%.

As the Washington-based Center on Budget and Policy Priorities has noted, "New Jersey does have one of the nation's highest property taxes as a percent of residents' personal income, ranking 3rd highest in 2006-2007... This reflects New Jersey's choice to rely almost exclusively on property taxes to support local services..."

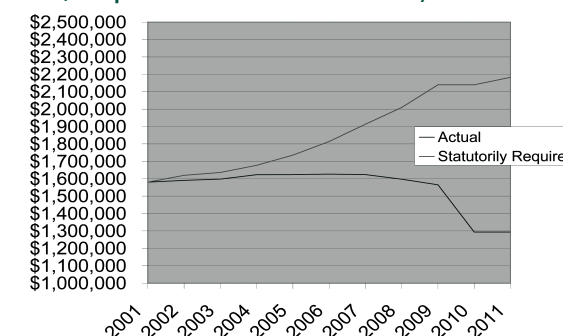
"New Jersey's income tax revenue ranks 20th in the country as a share of residents' personal income, while its sales tax revenue ranks 38th and its excise taxes rank 45th. In addition, New Jersey and its localities impose few fees or charges for services, ranking 48th in the country."

Q But what about all the money that the State gives to municipalities?

A What about the money that the State DOESN'T give to municipalities? Giving municipal property taxpayers all the relief they deserve needs to be a part of "the new normal." For well over 10 years now, however, it has been standard operating procedure to give our State's struggling citizens less.

Over the past ten years, in fact, the State has denied local property taxpayers, statewide, over \$3.4 billion of relief (see below).

Comparison of Actual State PTR/CMPTRA Distributions with Distributions Required by Statute
(P.L. 1999, Chapter 168 – N.J.S.A. 52:27D-439)



New Jersey's two main formula-driven general municipal property tax relief programs are the Energy Tax Receipts Property Tax Relief program (Energy Tax) and the Consolidated Municipal Property Tax Relief Act program (CMPTRA). Though often referred to as "State Aid" programs, both are actually revenue replacement programs, intended to replace property tax relief funding that was, formerly, generated through taxes assessed and collected, specifically, to fund municipal programs and services.

Chapter 168, P.L. 1999, provided that in each year subsequent to State FY 2002, Energy Tax and CMPTRA distributions would annually increase at the rate of the Implicit Price Deflator—used to measure the impact of inflation on governmental spending. A 1984 State Supreme Court decision, however, allows the State to ignore permanent statutes simply by including a provision, to that effect, in the Annual Appropriations Act (the State Budget). For the past ten years, that is exactly what has happened.

If the State had complied with those statutory funding requirements, the \$1,580,292,000 which municipalities shared in 2001 would have grown to \$2,182,502,000 in 2011. Instead, only \$1,293,794,000 was distributed. In last year alone, therefore, the State budget was balanced by \$888,708,000 that should have been returned to municipalities for property tax relief.

And by the way, according to figures compiled by the Division of Local Government Services in the State’s Department of Community Affairs, at the beginning of those ten years, the total municipal property tax levy was \$4,079,640,875. In 2010, the municipal property tax total was \$7,246,644,751. So while the State denied local property taxpayers \$3.4 billion in relief (to which they were entitled by State law), municipal property tax collections increased by \$3.1 billion—\$300 million LESS than the State diverted.

So the property taxes needed to support local programs and services increased by \$3.1 billion, over those 10 years. The State should have distributed \$3.4 billion more than it did. If it had complied with the statute and distributed \$3.4 billion, it would have covered the \$3.1 extra property tax burden, with \$300 million left over to reduce property tax bills, below what was levied in 2002.

That could have been an actual reduction in the municipal portion of property tax bills. Isn’t that better than a cap on increases?

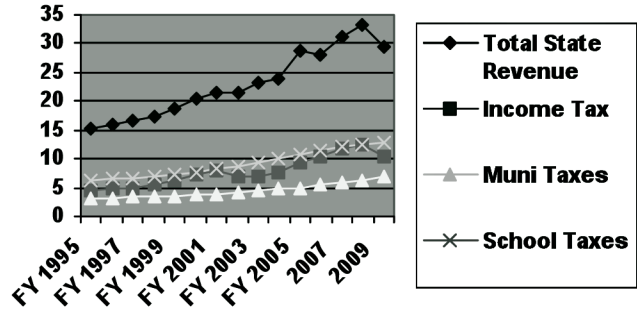
Why do New Jersey local governments need funding from the State?

Because the State establishes tax policy for all levels of government in New Jersey, and because the State has made itself the collection agent for many taxes that used to be locally assessed and collected. Municipalities, counties and school districts need enough money to pay for the many essential

services that they provide. Paying for and providing many of these services (including, for example, public safety, education, transportation and environmental protection) is a joint responsibility of state government and local governments. But New Jersey local governments are not only responsible for delivering most of these services; they also bear the primary responsibility for financing them. In the area of education, for example, local property taxpayers pay most of the costs, even though the State has a Constitutional obligation to ensure a thorough and efficient education for all of our children. Historically, the State’s share of K-12 public school expenditures is around 40%. State law limits how local governments can raise money. Other than State and Federal funding, New Jersey local governments have only property taxes and limited user fees (charges imposed upon residents and businesses that use or receive a specific service).

Furthermore, over the last century, many taxes that had been collected by local governments were either abolished or became State taxes. In most cases, when these changes were made the State promised to reimburse municipalities either the amount they had been collecting or the amount that the State would collect. But that commitment has not always been scrupulously honored.

State Revenues, Municipal and School District Property Taxes (In Billions)



In the 1990’s, Legislators in both parties and in both Houses recognized the fact that increases in population, prices, wages and employee benefits—increases over which mayors and governing bodies have little, if any, control—erode the ability of local officials to keep a lid on property taxes with “level funding.” Appreciating that fact, they put laws on the books that were supposed to preserve the property tax relief benefits of the Energy Tax and CMPTRA programs, into the future.

Further, the State Constitution and State Statutes exempt many properties from local property taxes. These include State owned properties. In recognition of the local services provided to these properties, in 1977 the State enacted a "Payment in lieu of taxes' (PILOT) program. The PILOT was never fully funded, with most municipalities receiving, at best, 30% of their entitlement. In 1994, PILOT was folded, with numerous other revenue replacement programs, into the Consolidated Municipal Property Tax Relief Act (CMPTRA) program, which has rarely kept pace with inflation.

For many reasons, local officials have been forced into a growing over-reliance on regressive property taxes. The causes include:

- need for effective local programs and services;
- effects of population growth and inflation;
- State underfunding of property tax relief programs; and
- State and Federal imposition of unfunded mandates.

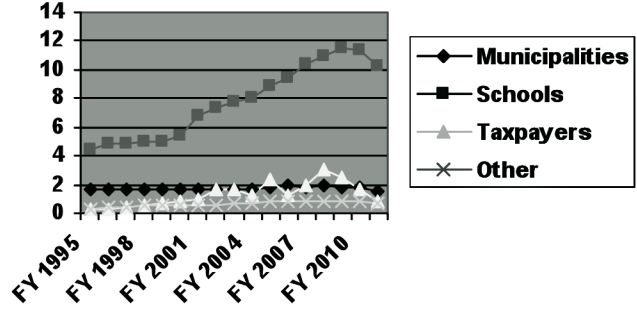
Why do you call it “municipal property tax relief” and not “State aid”?

As demonstrated above, the lion’s share of the money that municipalities receive from the State is a replacement for funds that were originally direct sources of municipal revenue. From Public Utility Gross Receipts and Franchise Taxes, now distributed as Energy Tax funding, to Business Personal Property Taxes, Financial Business Taxes and Class II Railroad Property Taxes, all of which have been folded into CMPTRA, these revenues were intended for municipal use from their beginnings. When the State, at the request and for the convenience of the taxpaying businesses, became the collection agent for these taxes, it pledged to redistribute the funds back to local governments. So, from our perspective, these do not constitute new “aid” from the Treasurer of New Jersey. Instead, we see them as local revenues, temporarily displaced.

And, when the people of New Jersey approved the Income Tax amendment to our State Constitution in 1976, they also approved a provision that dedicates “the entire net receipts” to property tax relief and that requires the Legislature to appropriate the

proceeds to “the several counties, municipalities and school districts of this State.” So, while the Legislature can establish the formulas by which these moneys are apportioned, they have no choice but to make certain that they all get back to New Jersey property taxpayers and local governments.

Property tax relief funding, FY’95-’11 (Billions)



Can cutting local budgets reduce property taxes?

Yes. But there is a limit to what can be reduced. Police salaries and benefits often represent the biggest components of municipal budgets. These salaries are often set by arbitrators, pursuant to State Law. And the post-retirement benefits are also often mandated by the State. Education costs make up the largest portion of the average property tax bill. And much of that is spent for compliance with State laws and regulations. New Jersey local officials make difficult choices to keep the lid on property taxes every year. In 2009, the total county levy was \$4.5 billion. The municipal levy was \$6.8 billion. And all of our school districts levied \$12.7 billion. Average property taxes for 2009, as calculated by the State’s Division of Local Government Services, increased by 3.3%, over the 2008 average. A large percentage of municipal, school district and county spending is mandated by State law (e.g., education programs, environmental programs, health services, binding arbitration, work rules and benefit levels for public employees, prevailing wage requirements for public construction, etc.). Much of this is largely removed from local control.

The underlying demand for local public services continues to increase, and the costs continue to rise with inflation and population growth. Without commensurate increases in relief funding, increases in property taxes are inevitable.