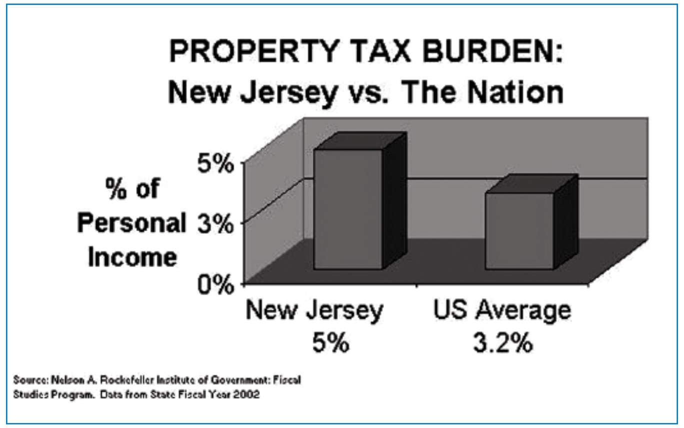
**Q How can the State provide needed relief to local governments and, more importantly, to property taxpayers?**

**A** It is now a year since the Legislature's Special Session for Property Tax Reform presented its final reports. When that Special Session began, we outlined our concerns and our recommendations to the Legislators who served on the four Joint Committees that drafted those reports. Our recommendations remain the same. 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, by either the Legislature or the people who elect State Legislators, can make that a reality.




Source: Nelson A. Rockefeller Institute of Government: Fiscal Studies Program. Data from State Fiscal Year 2002

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# STATE GOVERNMENT & YOUR LOCAL PROPERTY TAXES

*What Residents & Businesses Should Consider*

NJLM New Jersey State League of Municipalities

## LOCAL PROPERTY TAXES AND NEW JERSEY STATE GOVERNMENT

The level of public services in your community and the amount of property taxes that you pay are dependent on many factors. For example, the amount of property tax relief funding that municipalities get from the State directly affects your bill. When your property tax bill goes up and municipal services don't meet your needs, ask your State Legislators and the Governor if the State is providing your home town with adequate financial aid. Municipal property tax relief funding can help to pay for the local services you need and can keep your property taxes from going up—again.

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

**A** Much has been written about New Jersey's chronic over-reliance on property taxes. When we look at the statistics, the scope of the problem can be intimidating.

According to the Census Bureau, in 2005, property taxes in New Jersey totaled $19 billion, and represented 45% of all State and Local own source revenue. Nationally, property taxes equaled 31% of State and local own source revenue. Sales taxes in our State composed 24% of those revenues; and personal income taxes equaled 19%. Nationally, sales taxes were 35% of the total; while personal income taxes were 22%. New Jersey's rank among the fifty states, per capita, was #1 in property taxes, #6 in sales taxes and #16 in personal income taxes. In 2006, the average residential property tax bill was $6,331. According to the national Federation of Tax Administrators, we were second in over-all reliance on property taxes—topped only by New Hampshire, a State that does not levy an income or a sales tax. Among States that collect sales, income and property taxes, only in New Jersey do property tax collections exceed sales and income tax collections, combined. In New Jersey, property taxes account for about 98% of all locally collected revenues. The National average is about 73%. And in our State, those with the least shoulder a disproportionate share of the burden. Households with incomes in the lowest 20 % pay 9.2% of their earnings in property taxes, while the wealthiest 20 % pay 3.6% of their income through this assessment.

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

**A** For the sixth straight year, the New Jersey Legislature has adopted an Appropriations Act that under-funds key municipal property tax relief programs (CMPTRA and Energy Taxes). State statutes require annual inflationary adjustments in those programs. For five years, funding remained flat. Then last year, municipal property tax relief funding finally increased—by 2%. By adopting these budgets, our local property taxpayers have been denied over $283.7 million of relief, over the past years. That money went to fund other State priorities—priorities other than property tax relief. This amounts to a significant 'reverse State aid' program.

Governor Corzine acknowledges that flat funding in an inflationary environment is, in fact, reduced funding. He said just that in his 2006 Budget Address and in his Speech opening the Legislature's Special Session for Property Tax Reform, later that year.

Further, such under-funding of municipal property tax relief is nothing new to us. It goes back at least as far as the 1980's, when Public Utility Gross Receipts and Franchise Taxes were regularly 'skimmed' to fund other State priorities. The under-funding of municipal programs has been, and continues to be, a major factor contributing to the property tax crisis.

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

**A** 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.

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 at least two programs, into the future.

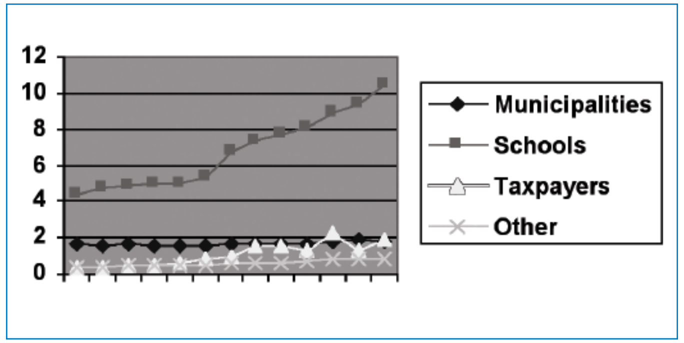
Further, the State Constitution and State Statutes exempt many properties from local property taxes. These include State owned properties. In recognition of the local services provided to these properties, in 1977 the State enacted a "Payment in lieu of taxes' (PILOT) program. The PILOT was never fully 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.

Given the need for effective local programs and services, and given the effects of inflation and population growth, and given the underfunding of property tax relief programs, and given the imposition of unfunded mandates and, finally, given the lack of other options, local officials have been forced into a growing over-reliance on regressive property taxes.

## Q Why do you call it "municipal property tax relief" and not "State aid"?

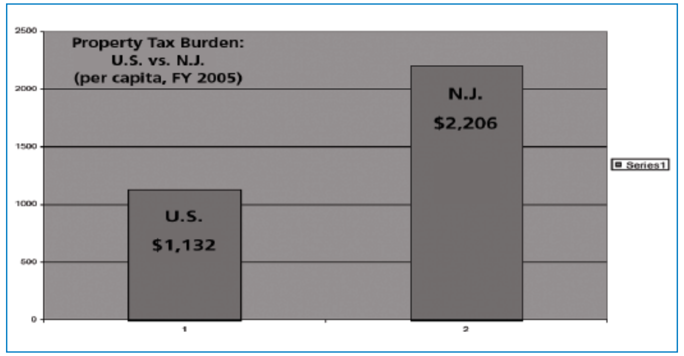
**A** We call it municipal property tax relief funding, and not "State aid," for this reason. The lion's share of the money that municipalities receive from the State is a replacement for funds that were originally direct sources of municipal revenue. From Public Utility Gross Receipts and Franchise 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.




## Q What about user fees?

**A** User fees and other non-tax revenue provide a minimal support to New Jersey local governments and can only be used for certain specified purposes. They cannot, by State law, be used to offset the costs of most services, such as police protection, snow removal, public education or maintenance of public facilities. Furthermore, user fees limit the availability of services for those who cannot afford to pay.




## Q Can cutting local budgets reduce property taxes?

**A** Yes. But there is a limit to what can be reduced. Police salaries and benefits often represent the biggest components of municipal budgets. The 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 2006, the total county levy was $4 billion. The municipal levy was $5.5 billion. And our school districts levied $11.5 billion. Average property taxes for 2006, as calculated by the State's Division of Local Government Services, increased by 7% over the 2005 average. And local government spending increased by 5.1%. 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.

## 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. Public school enrollments are on the rise. And service demands related to the aging of the "baby boom" generation will also increase on into the future.