

STATE AID

Or is it?



LET'S START WITH A
LITTLE HISTORY LESSON

Energy Tax History

1884

- Franchise Tax created for entities having line or mains located in, on, or over any street, highway or other public place.
 - Provided for a 2% assessment on gross receipts of telegraph, telephone, cable and express companies

1900

- The Voorhees Tax Act extended the Franchise Tax to all utilities except those subject to the Railroad and Canal Property Tax Act.
 - Provided that **receipts were to be returned to municipalities**

Energy Tax History (continued)

1917

- Franchise Tax rates were increased to 3%

1918

- Franchise Tax rates were increased to 4%

1919

- Franchise Tax rates were increased to 5%
- Gross Receipts Tax was imposed “**in lieu of local taxes** on certain properties of the following utilities – Street railways, traction, sewerage, water, gas and electric, heat and power corporations using or occupying public streets, highways, roads and other public places”

Energy Tax History (continued)

1940

- Unit values were applied to each class and type of utility owned tangible personal property “for the purpose of securing a fair and equitable apportionment” of Franchise and Gross Receipts Taxes among the various utilities.
- The Franchise Tax rate of 2% was applied to each utility’s gross receipts of \$50,000.00, or less, and 5% for gross receipts in excess of that amount.
- After subtracting its administrative expenses, the proceeds from each taxpaying utility was **distributed back to individual municipalities**, based on the value of the facilities and personal property each hosted, as a percentage of the statewide total.

Energy Tax History (continued)

1955

- In 1955, the maximum rate of Gross Receipts Taxes was capped at 7.5%

1956

- In 1956, a minimum of 5% was set.

1960

- In 1960, a firm rate of 7.5% was established.

Energy Tax History (continued)

1980

- In 1980, Chapters 10 and 11 “provided for State collection of the taxes” and redistribution back to the municipalities.
- These reforms capped the distribution to any municipality with a municipal purposes tax rate of \$0.10 or less in each of the three preceding years and capped the distribution to all municipalities at \$700.00, per capita.
- Chapter 12 established the Municipal Purposes Tax Assistance Fund (MPTAF), funded from the amounts NOT distributed, pursuant to the caps.

Energy Tax History (continued)

1997

- Governor Whitman then signed Chapter 167, P.L. 1997, The "Energy Tax Receipts Property Tax Relief Act;" replaces method of distributing certain funds guaranteed to municipalities from the State's taxation of energy and telecommunications.

Energy Tax History (continued)

1998

- Effective January 1, 1998, regulated natural gas and electric energy utilities and telecommunications utilities operating in New Jersey were freed from franchise and gross receipts taxes, which were repealed.
- The Energy Tax Receipts Program was allocated to ensure that municipalities would receive at least the same amount of money they received from the Gross Receipts and Franchise Tax in the past.

Energy Tax History (continued)

1998 (Continued)

- Revenue for the Energy Tax Receipts Property Tax Relief Fund will be raised by applying:
 - Sales and Use Tax to energy or utility services
 - Corporation Business Tax to electric and natural gas utilities that were subject to the Gross Receipts and Franchise Tax prior to January 1, 1998
 - Corporation Business Tax to telecommunications utilities that were subject to the Gross Receipts and Franchise Tax as of April 1, 1997
 - Gross Receipts and Franchise Tax to privately owned sewerage and water corporations as before

Energy Tax History (continued)

1999

- Chapter 168, P.L. 1999, provided that in each year subsequent to State FY 2002, ETR (and CMPTRA) distributions would annually increase at the rate of the **Implicit Price Deflator** – used to measure the impact of inflation on governmental spending.
- The formula used to distribute ETR from FY 1999 through FY 2002 to each municipality was previous year amount plus an increase proportional to the aggregate dollar value increase.

Energy Tax History (continued)

2006

- The Sales Tax was 6%, but since July 15, 2006, it has been 7%.
- That is a 16.7% increase in revenue to the State of New Jersey, not 1%.
- Was supposed to be used for Property Tax Relief

Energy Tax History (continued)

2009

- In State FY 2010 (Calendar 2009), Governor Corzine proposed and the Legislature agreed to a formula change in combined ETR/CMPTRA cuts. The “needs based” formula cuts were taken from each municipalities FY 2009 distribution. A wealth calculation. “The Robin Hood Principle”
- “Total formula aid (CMPTRA and ETR) was reduced by \$32 million. The budget also accounts for this year’s mandatory ETR inflation increase of 6.5 percent, as it has for the past several years, by transferring the 6.5 percent increase from CMPTRA to ETR.

Energy Tax History (continued)

2010

- The similar formula was used to administer FY 2011 (CY 2010) total ETR/CMPTRA cuts of \$272 million. Local Finance Notice 2010-08.
- “Similar to 2009, the calculation placed municipalities into nine groups based on low, medium, and high equalized tax rates and wealth.

Energy Tax History (continued)

- Based upon a State Supreme Court decision in the 1980's, the state found that it can supersede permanent statutes simply by including a provision, to that effect, in the Annual Appropriations Act.

What is State Aid?

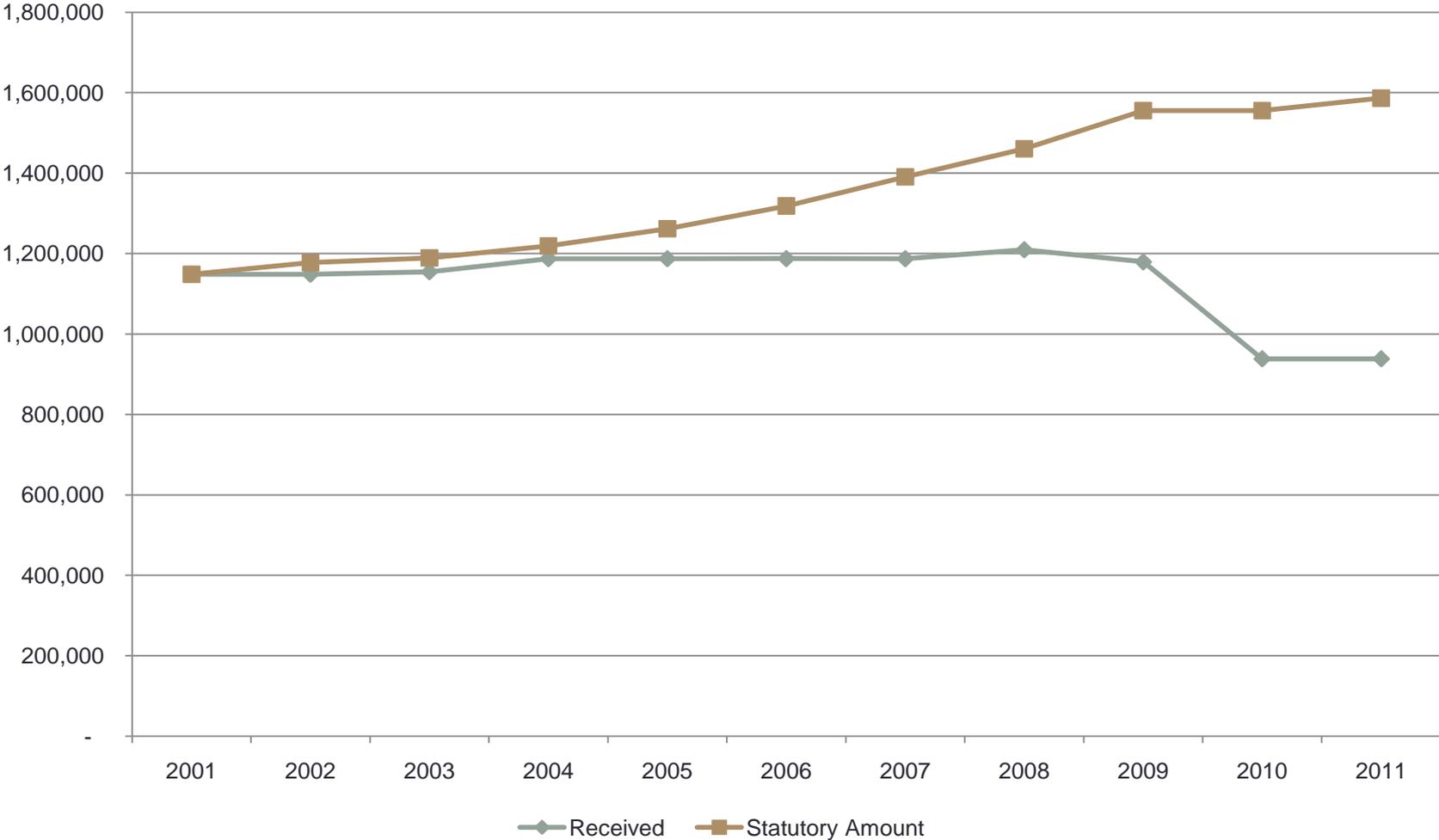
- As we just learned, beginning in the 1980's, the State of New Jersey took control over the collection and distribution of the various energy taxes
- Rebranded the local municipal revenues and now call them "**State Aid**"
- The State is now renegeing on the original intent of the 1997 law to provide property tax relief
- The State is using municipal revenues to balance their own budget while exacerbating the local property tax problem
- The State then blames local government for creating a property tax problem

Little Ferry CMPTRA & ETR Amounts

Restated

Year	Received	IPD	Statutory	Shortage
2001	\$ 1,148,750	Base Year		
2002	1,148,750	2.5%	\$ 1,177,469	\$ 28,719
2003	1,154,851	1.0%	1,189,243	34,392
2004	1,187,416	2.5%	1,218,975	31,559
2005	1,187,416	3.5%	1,261,639	74,223
2006	1,187,616	4.5%	1,318,412	130,796
2007	1,187,416	5.5%	1,390,925	203,509
2008	1,209,817	5.0%	1,460,471	250,654
2009	1,179,571	6.5%	1,555,402	375,831
2010	938,349	0.0%	1,555,402	617,053
2011	938,349	2.0%	1,586,510	648,161
Totals	\$ 12,468,101		\$ 14,863,198	\$ 2,394,897

Little Ferry CMPTRA & ETR Amounts Restated



PROPERTY TAX DILEMMA REVEALED

Why do we have a Property Tax Dilemma?

- The State took our local energy taxes for their own use
- The State increased Sales Tax 16.7% (Not 1%) under the guise of providing Property Tax Relief. (Never Happened)
- The State took a risk by leveraging Pension Funds in a down market which we all know failed miserably
- The State told local government to take a pension holiday and not pay into the pension system for many years and is charging us 8.5% on those amounts
- The State now wants to blame local government for its years of mismanagement at the State level

Tax Impact in 2011 Alone!

Issue Area	Amount
2011 Proposed “Amount to be raised by Taxation” in budget	\$ 10,096,667
State Aid Shortage in 2011	2,394,897
Difference (the amount <i>less</i> taxes would be if full State Aid amounts)	7,701,770
Percent difference	23.72%

Taxes would be 23.72% lower with proper State Aid

2011 Budget

Borough of Little Ferry

Presented May 17, 2011

Revised & updated July 2011



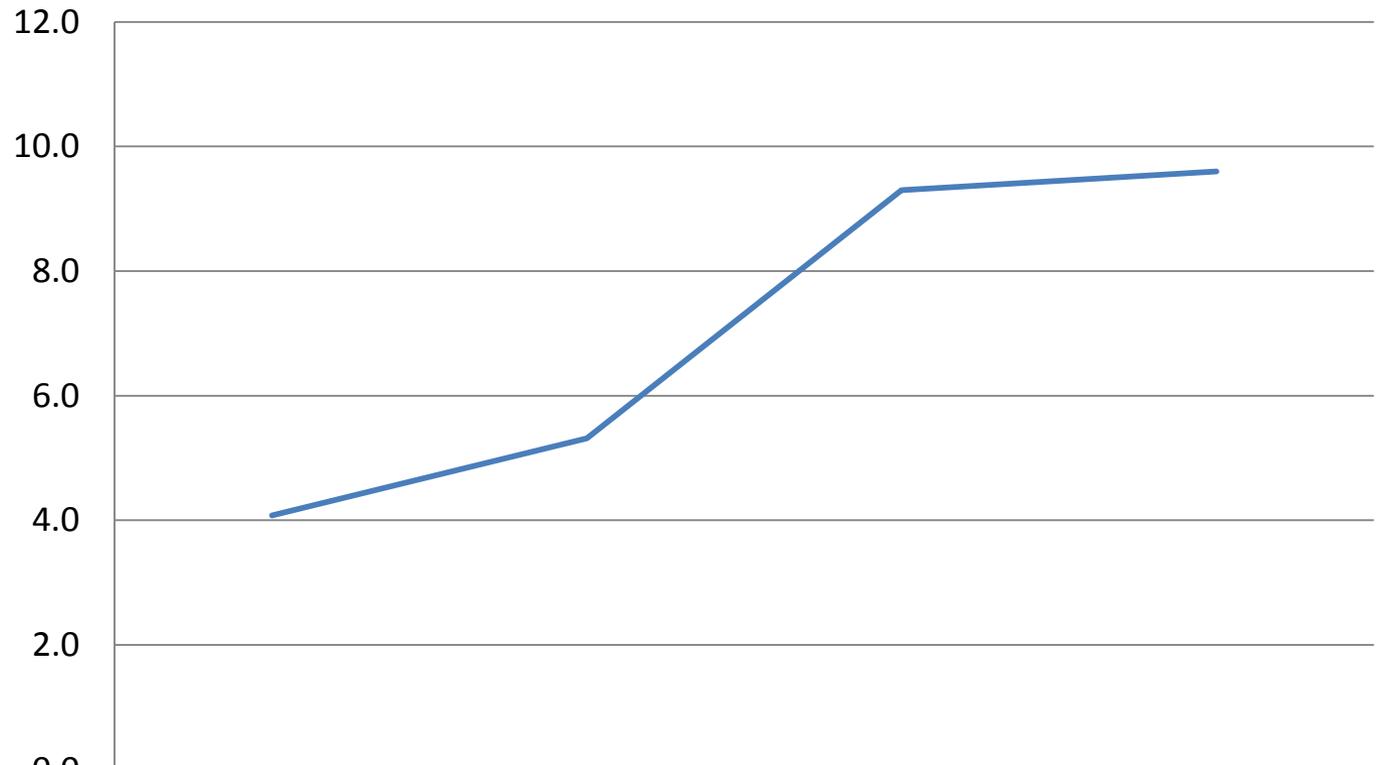
2011 Budget

Borough of Little Ferry
Part 1 –
Community Wide Numbers
Shaping the Borough



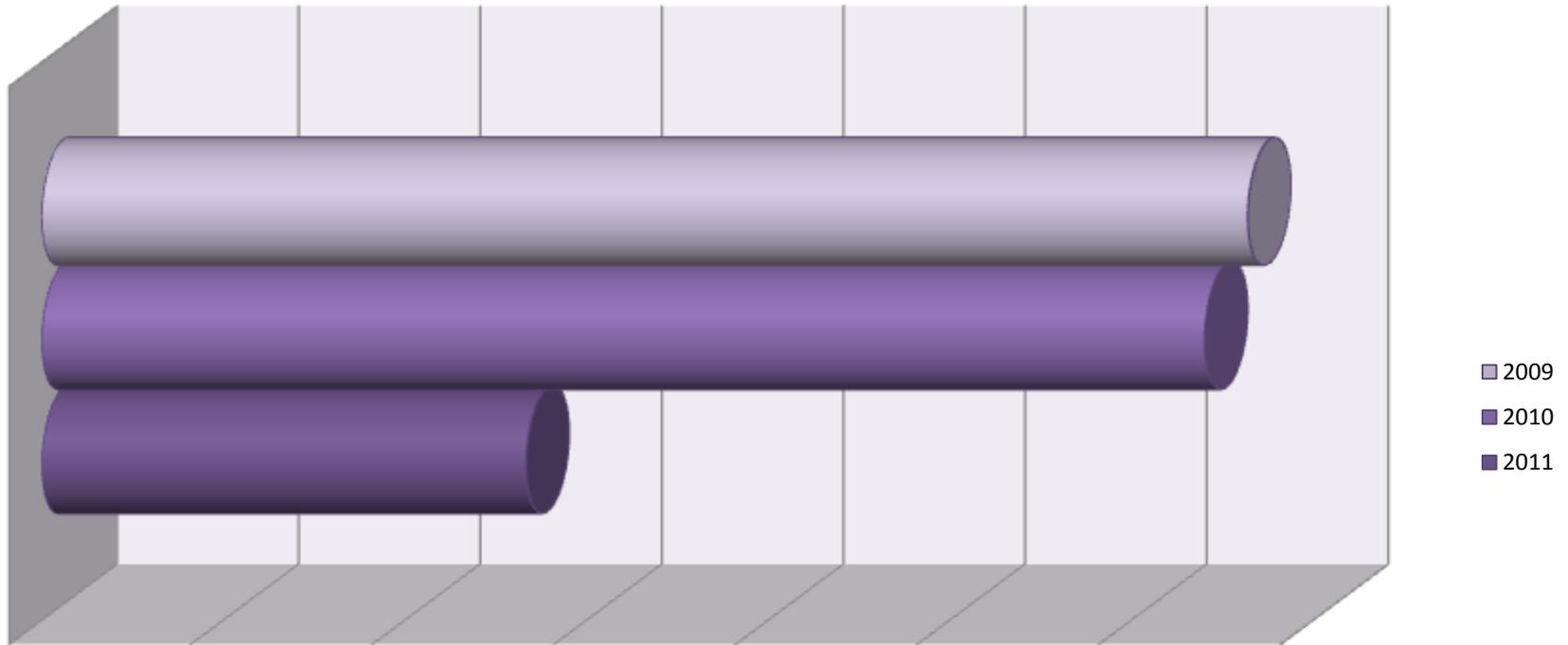
Little Ferry Unemployment Percentage Borough Wide

Unemployment Rate – 2010 Estimated



	2007	2008	2009	2010
— Unemployment Rate	4.1	5.3	9.3	9.6

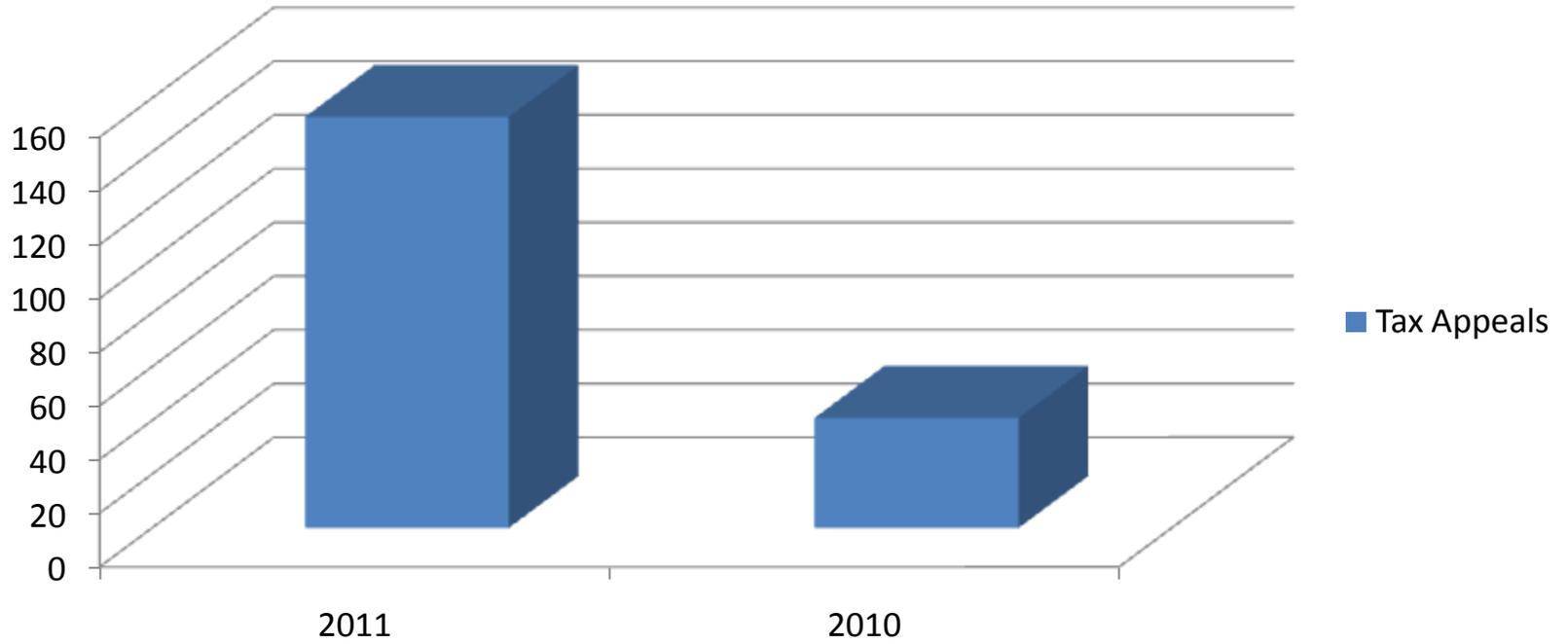
2009 – 2011 Borough Net Valuation (value of all properties)



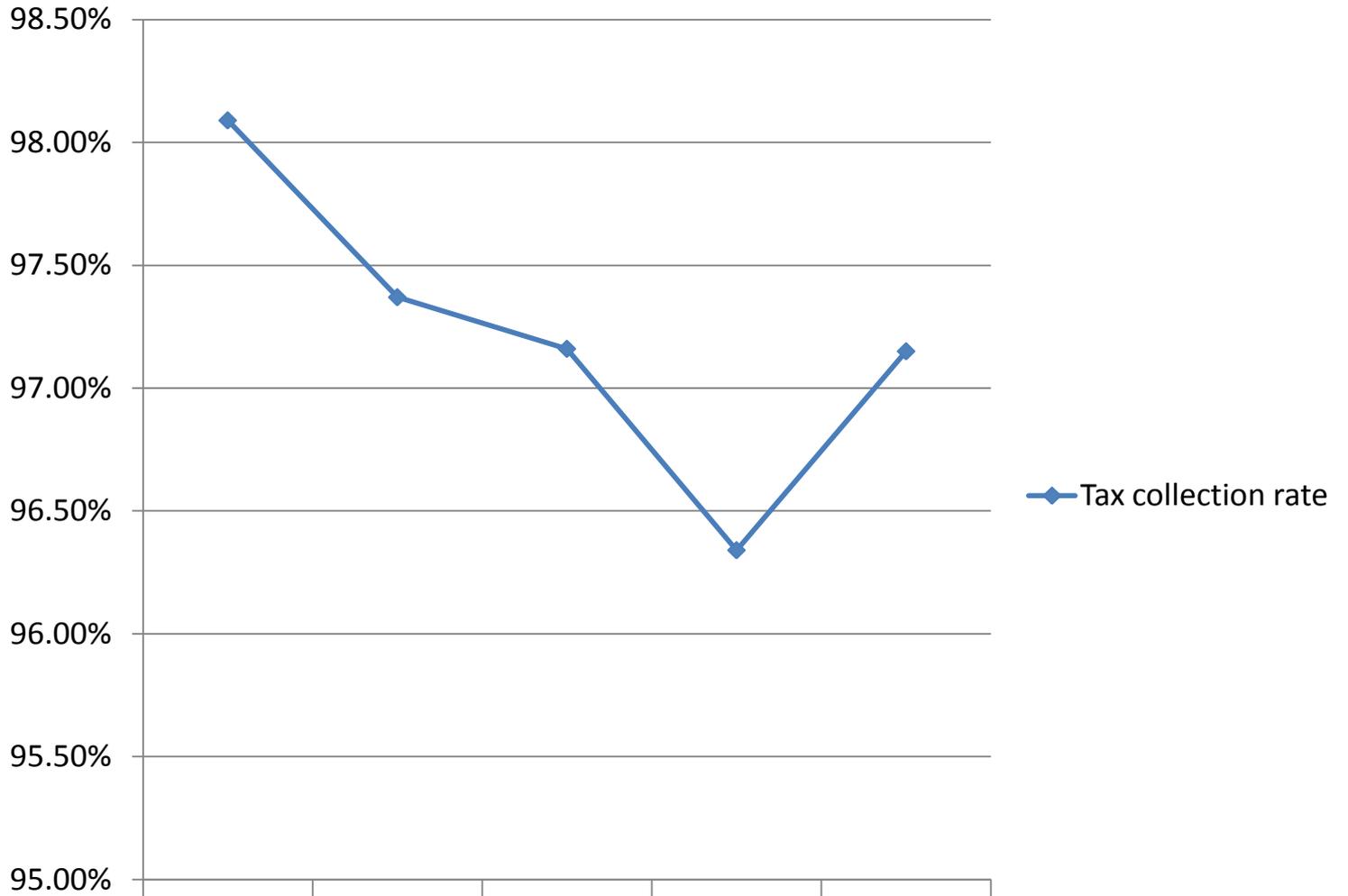
	NVT
2009	\$1,221,281,687
2010	\$1,220,807,253
2011	\$1,213,333,972

Line	Difference from 2010 to 2011	2011	2010	Difference from 2009 to 2010	2009
Vacant land Net Taxable Value	\$209,600	\$10,479,000	\$10,269,400	\$1,156,300	\$9,113,100
Residential Net Taxable Value	-\$1,092,000	\$799,879,000	\$800,971,000	\$664,000	\$800,307,000
Commercial parcels Net Taxable Value	-\$1,723,000	\$150,137,400	\$151,860,400	\$167,500	\$151,692,900
Industrial parcels Net Taxable Value	-\$4,026,800	\$136,241,200	\$140,268,000	-\$2,421,400	\$142,689,400
Apartment Net Taxable Value	\$0	\$110,009,100	\$110,009,100	\$0	\$110,009,100
Telephone parcels Net Taxable Value	-\$841,081	\$6,588,272	\$7,429,353	-\$40,834	\$7,470,187

Tax Appeals



Tax collection rate



	2006	2007	2008	2009	2010
Tax collection rate	98.09%	97.37%	97.16%	96.34%	97.15%

Borough wide summary

- Unemployment rate (estimated) 0.3% increase
- Lost \$7,473,281 in Valuation
- Tax collection rate still not at 2006 levels
- Tax appeals increase 160% from 41 in 2010 to 153 in 2011

Tax Appeals & Revaluation

- There has been more and more newspaper articles discussion tax appeals and revaluation.
- Is a Revaluation right for the Borough?

Revaluation continued

- Last Revaluation was court ordered in 2005
- Definition of a Revaluation:

A revaluation program seeks to spread the tax burden equitably within a taxing district by appraising each property according to its true value and assessing it based on such value. This is accomplished by the mass appraisal of all real property in the taxing district by an outside professional appraisal or revaluation firm. The need for revaluation may be demonstrated by any evidence which indicates that properties within the taxing district are not assessed at the same rate of true value

Revaluation continued

- So how do we know that Little Ferry doesn't need a Revaluation?
- To start, one must apply "the Average Ratio Assessed To True Value"
- What does this mean?
- A low ratio, means that properties are under-assessed (100% means everyone is even).
- But this doesn't mean the tax burden is unevenly distributed, it often means that every property is are under-assessed at the same level. This means that all properties (residential, commercial, etc) are still treated equally.

Revaluation continued

- So what do the numbers say?
- In 2005, the Borough's ratio was 58.96 (this mean that not all properties were equal)
- In 2011, the Borough's ratio is 91.31 (this means all properties are assessed fairly)
- Let's look at other Bergen municipalities:
- Allendale Borough – ratio 75.36 (moving towards a revaluation)
- Fair Lawn – 100.9 (everyone is equal)
- Bergen County (average among all municipalities) – 90.87
- **There is no need for a Revaluation at this time as values are “off” by 10% and not 41% from six years ago**

Library – a new line in your tax bill

- The Library is funded through municipal tax dollars at 1/3 mill (one-third mill) – this is set by State law
- One-third mill is the equalized valuation times .000333333
- For 2011, for the first time, this amount will be a separate line in the tax bill

Making tax dollars work – leveraging other funds & projects

- At the County, State and Federal level, due to budget cuts, grants and other programs have been reduced - if not cut entirely
- Leveraging funds does not necessarily mean “applying for a grant and complying with the dollar for dollar match”
- It is also how the Borough uses its staff and equipment
- How has the Borough been doing with acquiring grants, partnering with projects?

Project Name	Estimated Project Cost	Primary Funding Source	Estimated local money
Solar Panel Project	\$7,500,000	Free PPA Agreement	\$0
Washington/Liberty Traffic Light	\$750,000	County	\$135,000
Lakeview - Green Acres - various improvements	\$325,000	State Grant	\$0
Senior Center/First Aid roof	\$250,000	Local	\$205,000
Energy Efficiency & Conservation Block Grant	\$160,000	Federal/State Grant	\$0
Lakeview - DOT grant	\$150,000	State Grant	\$0
Franklin Street Repaving	\$140,000	State Grant	\$0
Road Program	\$140,000	Local	\$140,000
Willow Lake Phase II	\$72,000	County Grant	\$5,000
DPW truck washing/interceptor	\$60,000	Local	\$60,000
Hockey Rink	\$55,000	County Grant	\$5,000
Lakeview - retaining wall	\$50,000	County Grant	\$5,000
School sidewalk	\$30,000	County Grant	\$0
Security Upgrades	\$30,000	County Grant	\$0
Williams Street Pump Station rehab	\$20,000	Local	\$20,000
Willow Lake Phase I	\$18,000	County Grant	\$2,000
Total	\$9,750,000		\$577,000

Success of leveraging

- As you can see in the previous slide, the Borough spent \$577,000 (or \$54 per person) and received \$9,750,000 (or \$918 per person) in return.

2011 Budget

Borough of Little Ferry
Municipal Budget Information

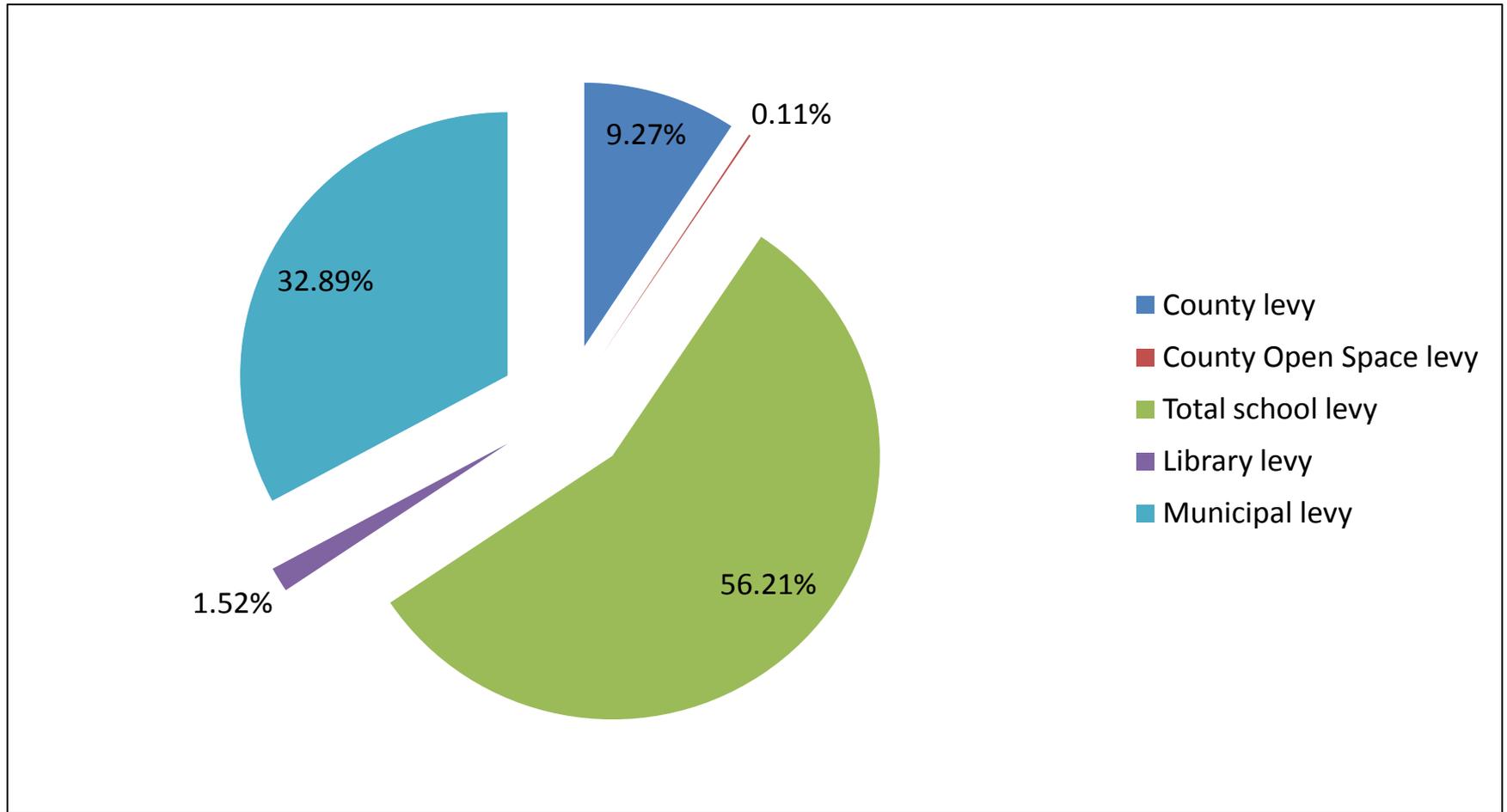


Borough of Little Ferry – all taxing districts

Breakdown of taxes - 2011

Taxing district	Amount to be raised by taxation	Percent of your tax bill
County levy	\$2,715,604.29	9.27%
County Open Space levy	\$33,325.23	0.11%
Total school levy	\$16,471,164.00	56.21%
Library levy	\$445,428.00	1.52%
Municipal levy	\$9,636,249.00	32.89%
Total levy	\$29,301,770.52	100.00%

Percentage breakdown of where tax dollars go



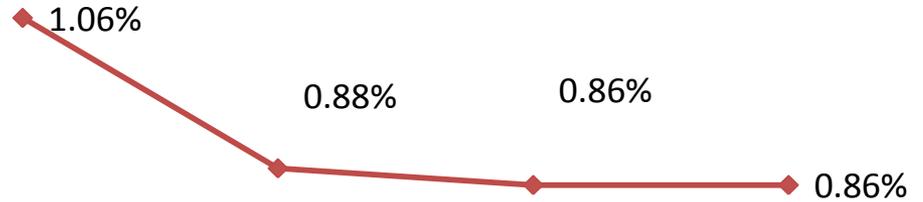
2% Tax Levy Cap – starting the municipal budget process

- Imposed in June of 2010
- Not to be confused with the Appropriations Cap
- Yes, there are two ‘caps’ imposed on local governments!
- See previous slides on how the State has kept money legally allocated to local governments
- Limits increases on each taxing jurisdiction
- Not a flat 2% increase on the property tax bill and there are exemptions
- In part, exemptions include: health insurance, pension, debt service and emergencies declared by the Governor
- Utilities are not exempt (BCUA, water & electric companies)
- Full Tax Levy Cap calculation can be found in Borough’s State Budget document
- Quick example: A municipality raises \$100,000 in taxes. This municipality can raise their taxes \$2,000 (outside of the exemptions) in their next budget. The next year, the 2% Tax Levy Cap applies to the \$102,000.

NET DEBT

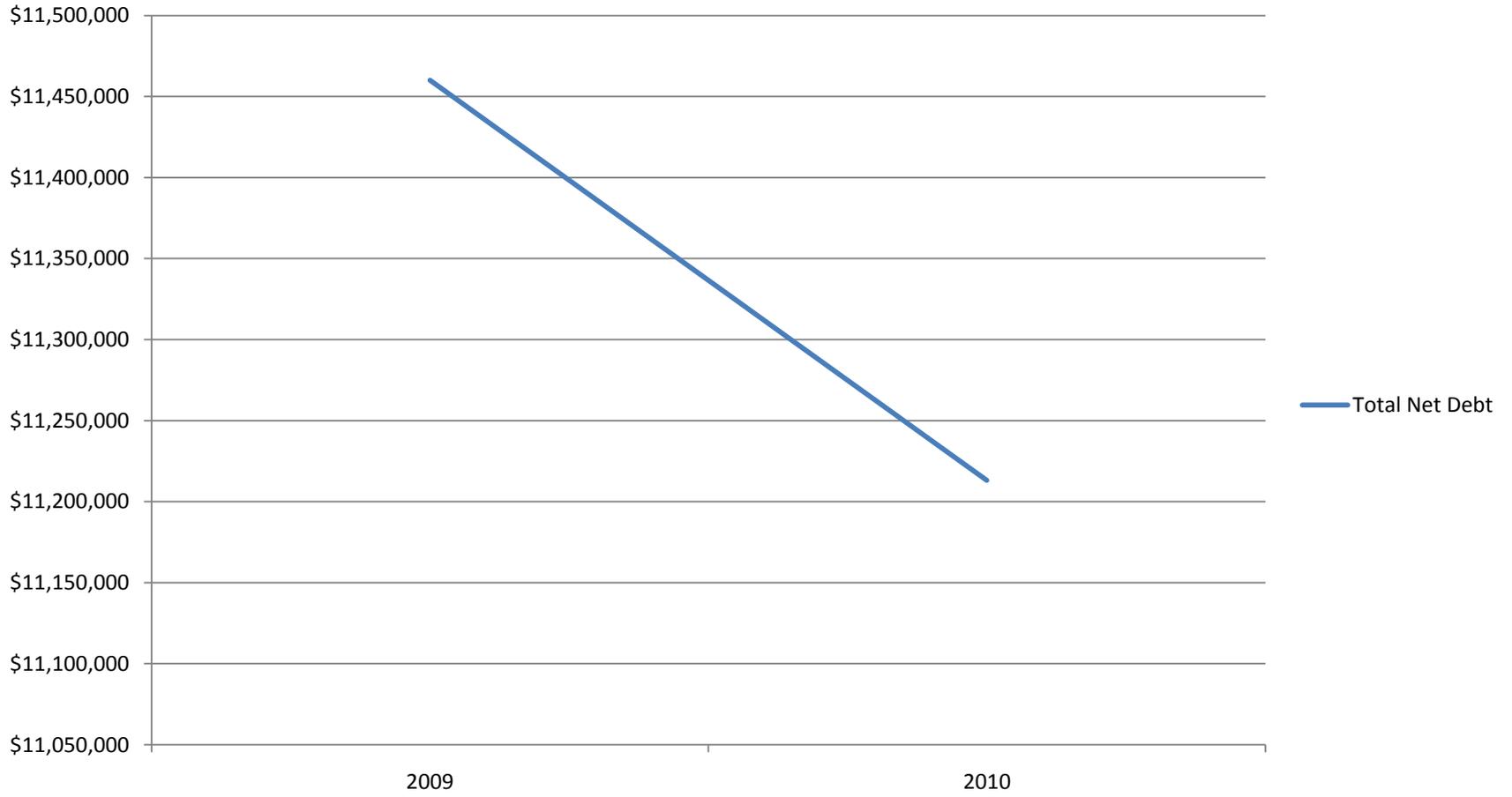
- Set by State Law as 3.5% of Equalized Valuation over 3 year period
- When Equalized Valuation goes down (see previous slide), it is expected that NET DEBT percentage would increase.
- Conversely, if Equalized Valuation goes down and percentage of NET DEBT stays the same percentage or decreases, that signifies that there is less outstanding debt – or – debt is being paid off.
- In 2010, the Borough saw its Equalized Valuation DECREASE which should mean an increase in NET DEBT. The Borough NET DEBT was static which demonstrated more pay-down of principal and allows to get out of debt quicker

Little Ferry Net Debt Percentage



2007 Net Debt 2008 Net Debt 2009 Net Debt 2010 Net Debt

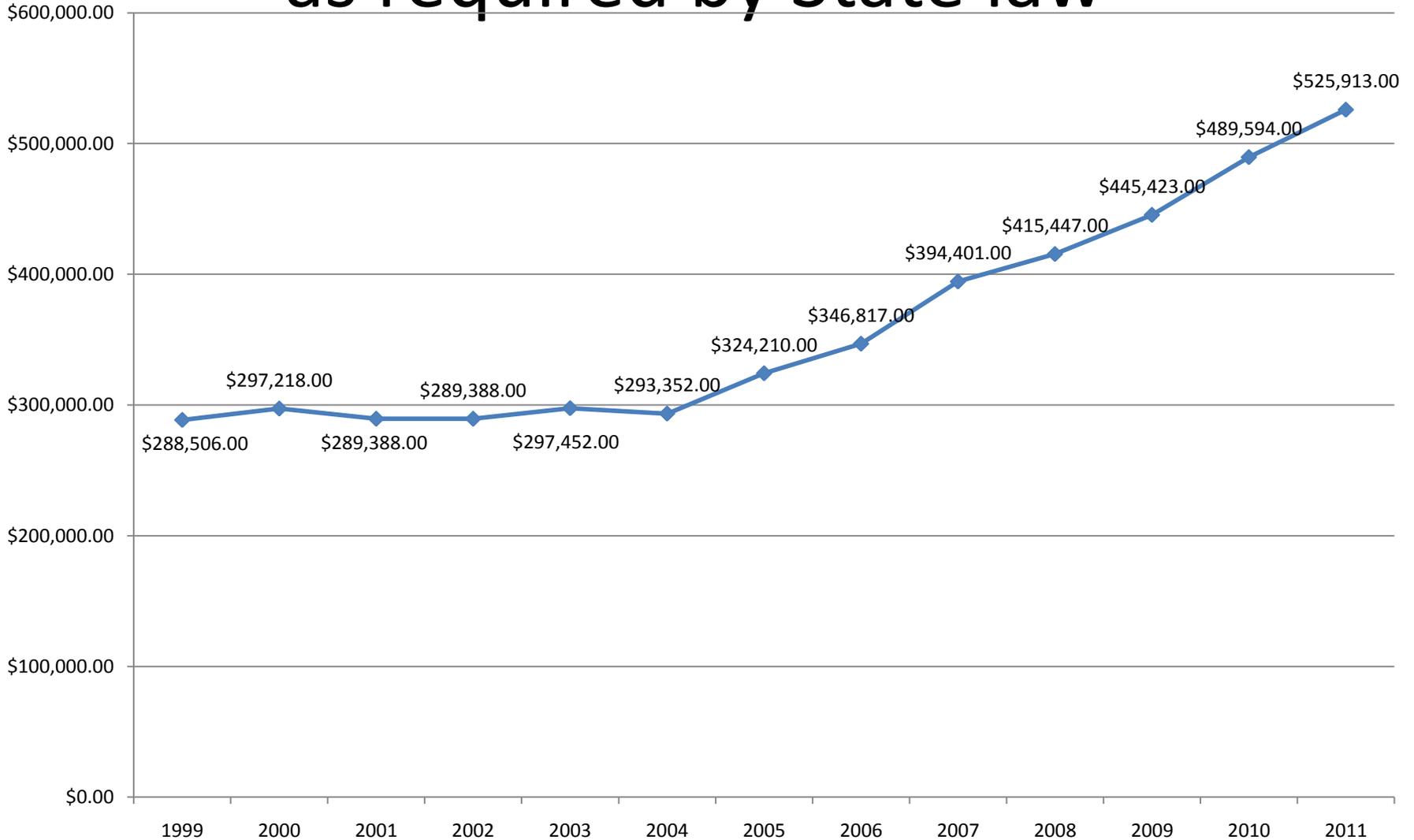
Total Net Debt



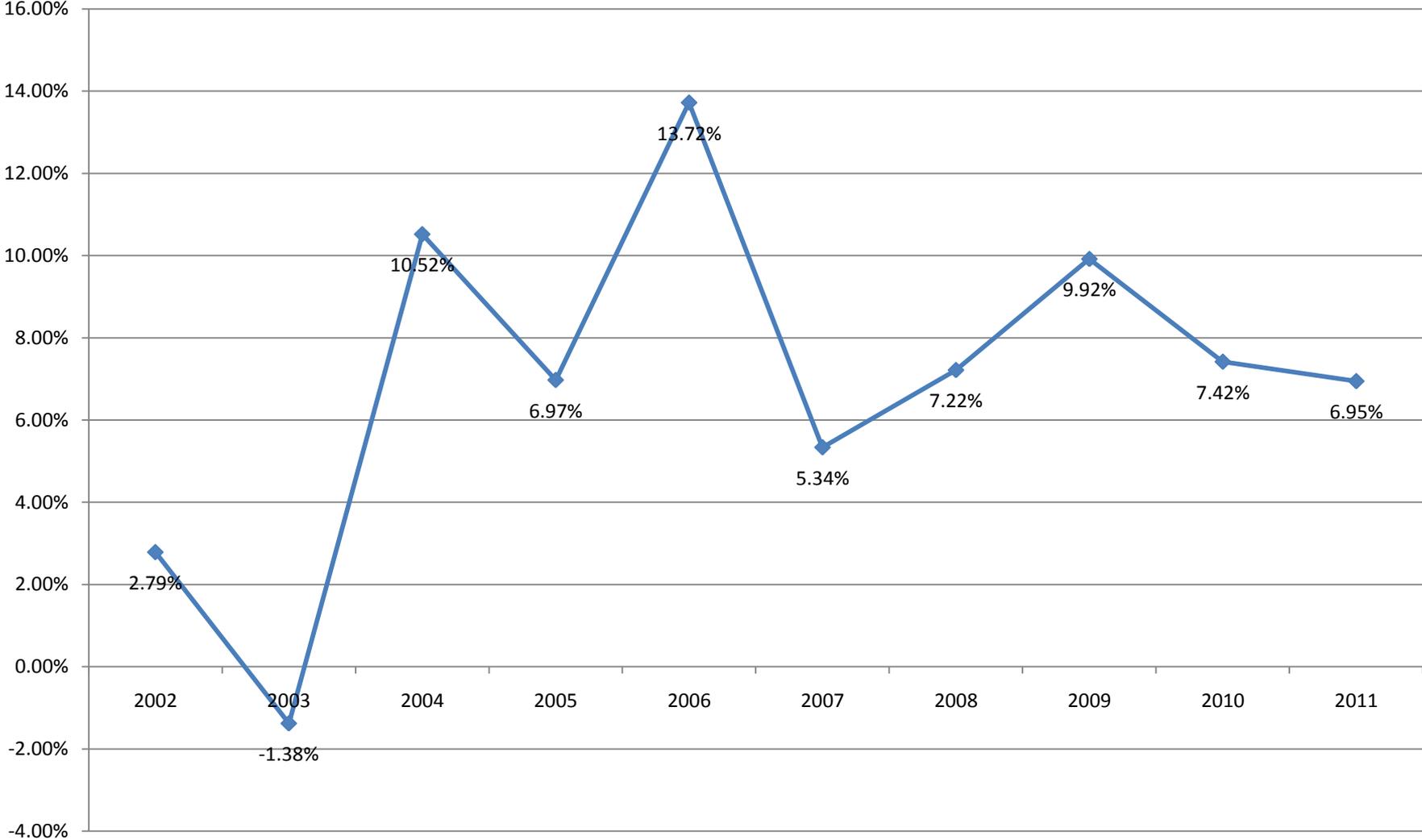
Bond rating – 2010 & 2011

- While a majority of municipalities saw their rating decrease, Little Ferry's increased
- Higher rating means lower interest rate
- Moody increased to: AA3 (very low credit risk)
- S&P increased to: AA- (stable)
- Demonstrates solid long term planning

NJMC Tax Sharing Payments – as required by State law



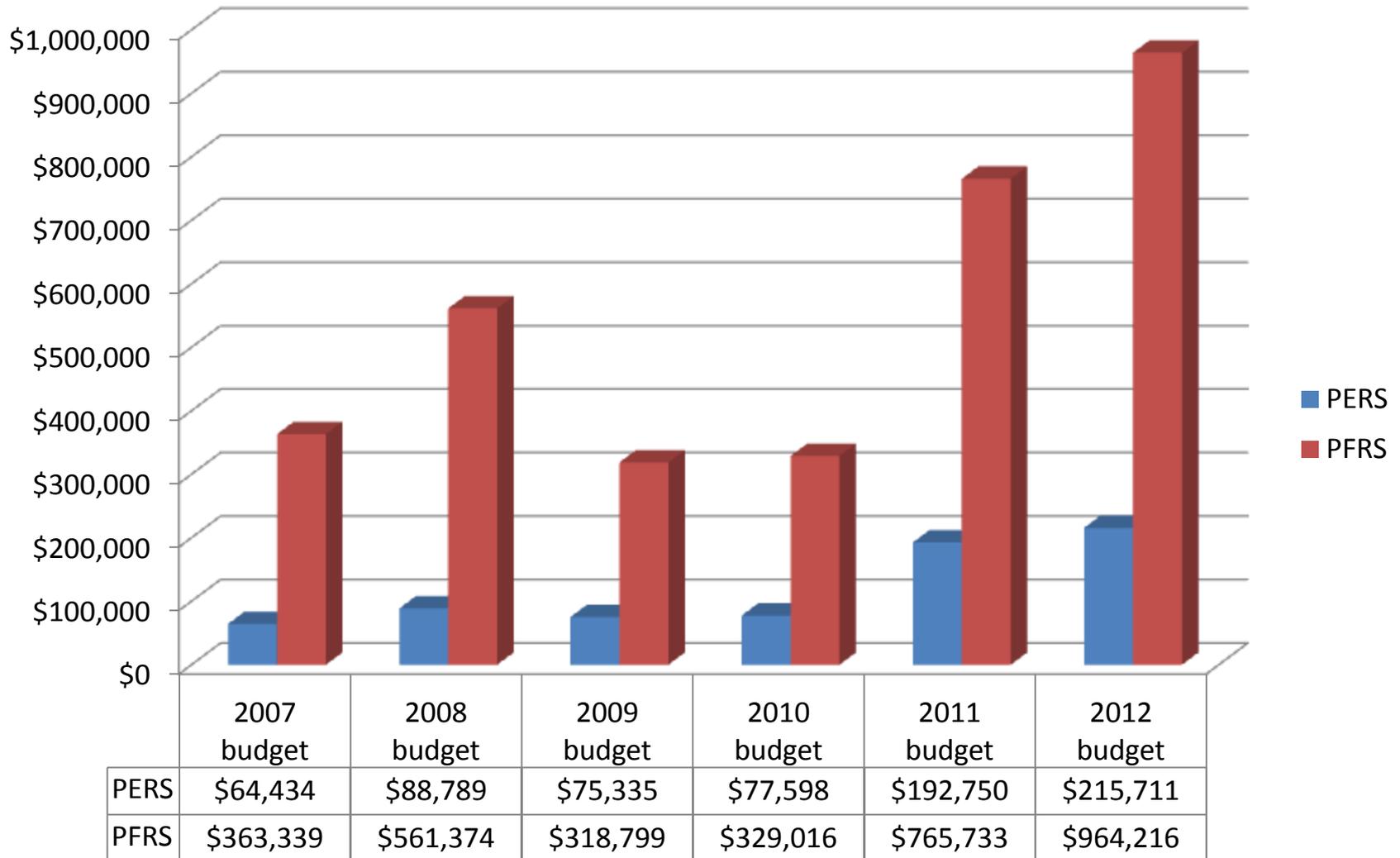
NJMC Tax Sharing Percent Increase 2002 – 2011



Meadowlands Tax Sharing and the State Budget

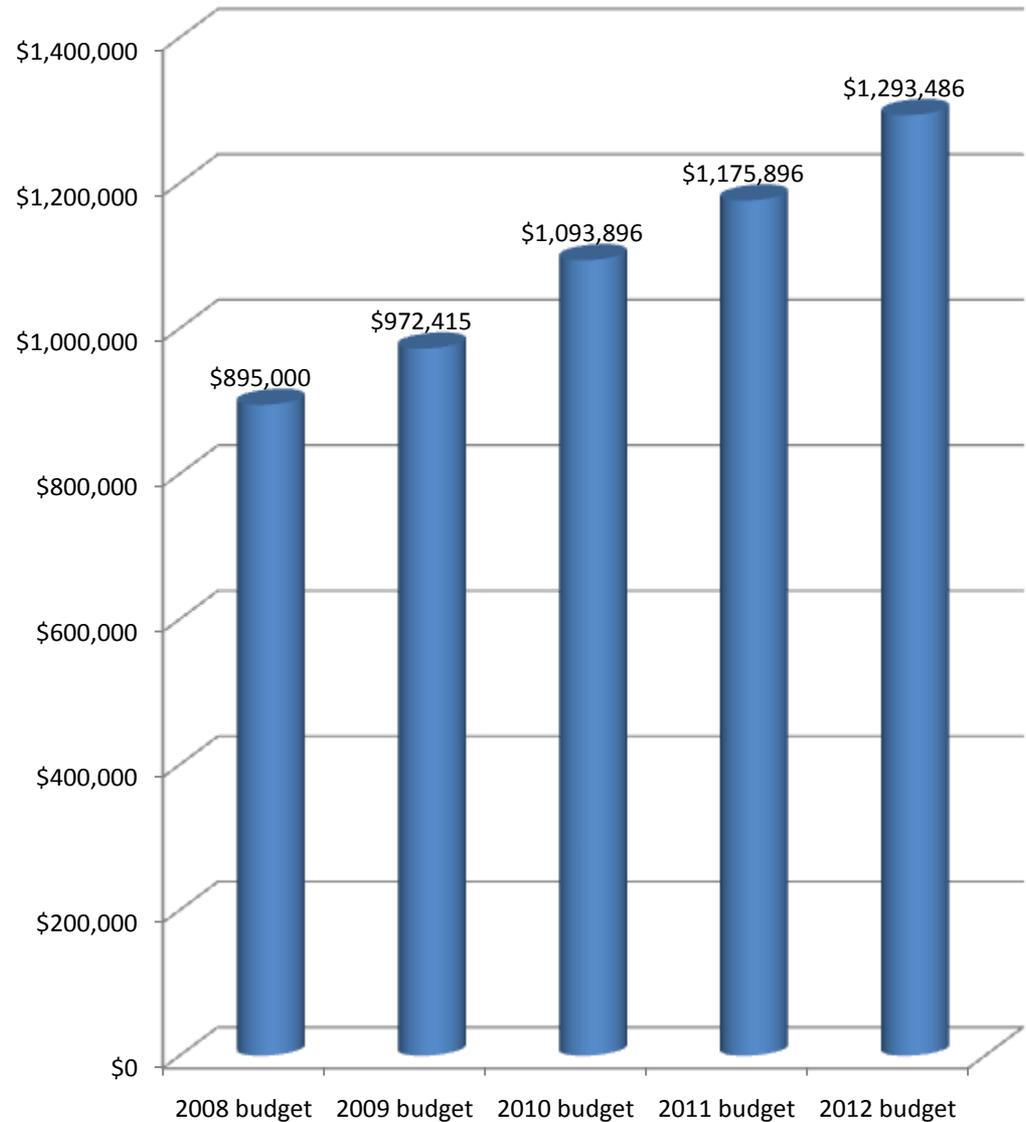
- In the State budget, there was a line item to pay one-third of the required Tax Sharing payment. This would have saved the Borough \$175,000 in this budget.
- The Governor vetoed this line item taking away direct property tax relief from our residents

PERS & PFRS (pensions)



BCUA

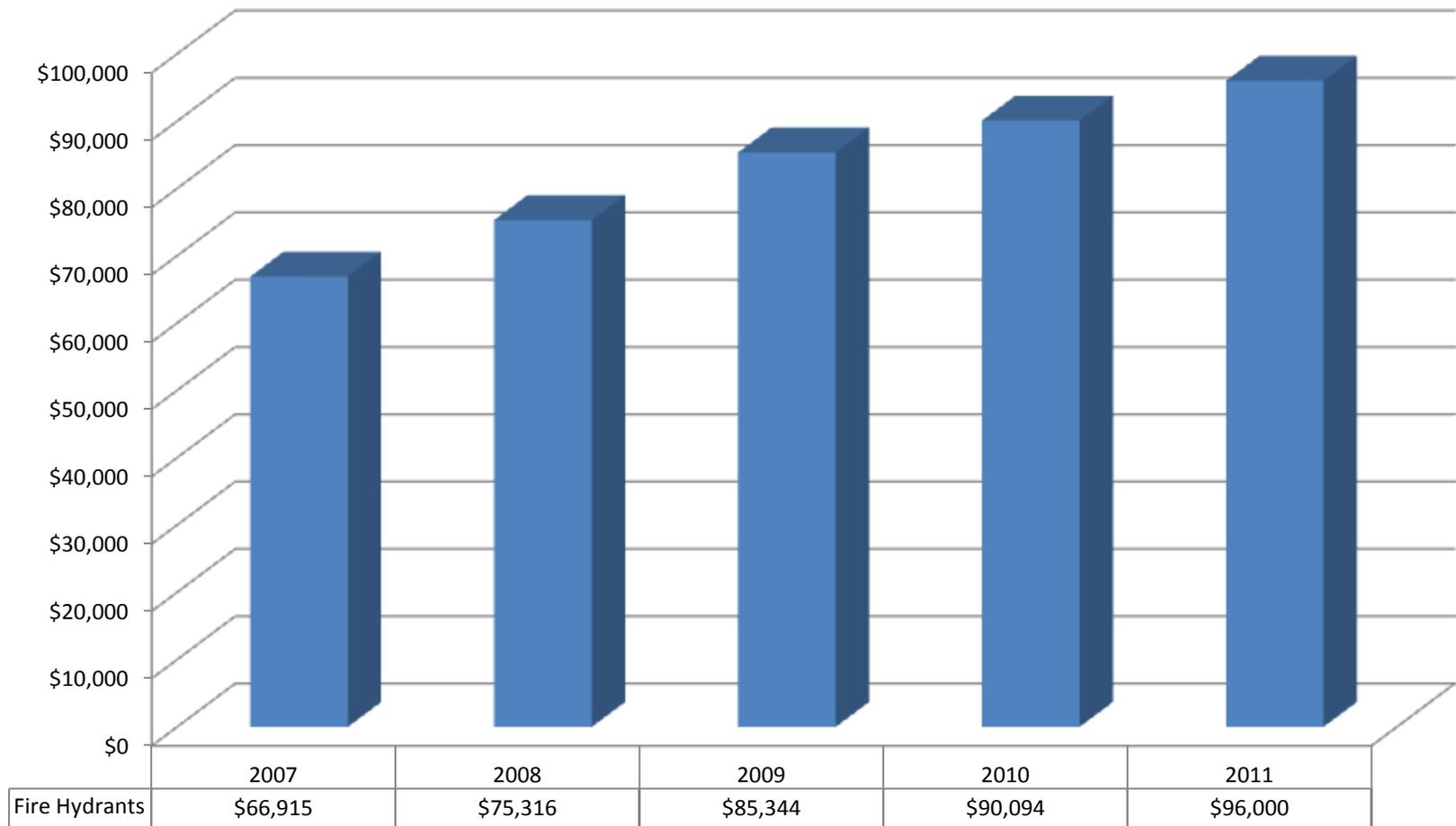
- Sewer bill
- Approximately \$82,000 increase from 2010 to 2011
- Average increase from 2008 to 2010 is 9.5%
- Based on past increases, and utilities are not exempt from 2% TAX LEVY CAP, estimated increase is \$110,000 for 2012



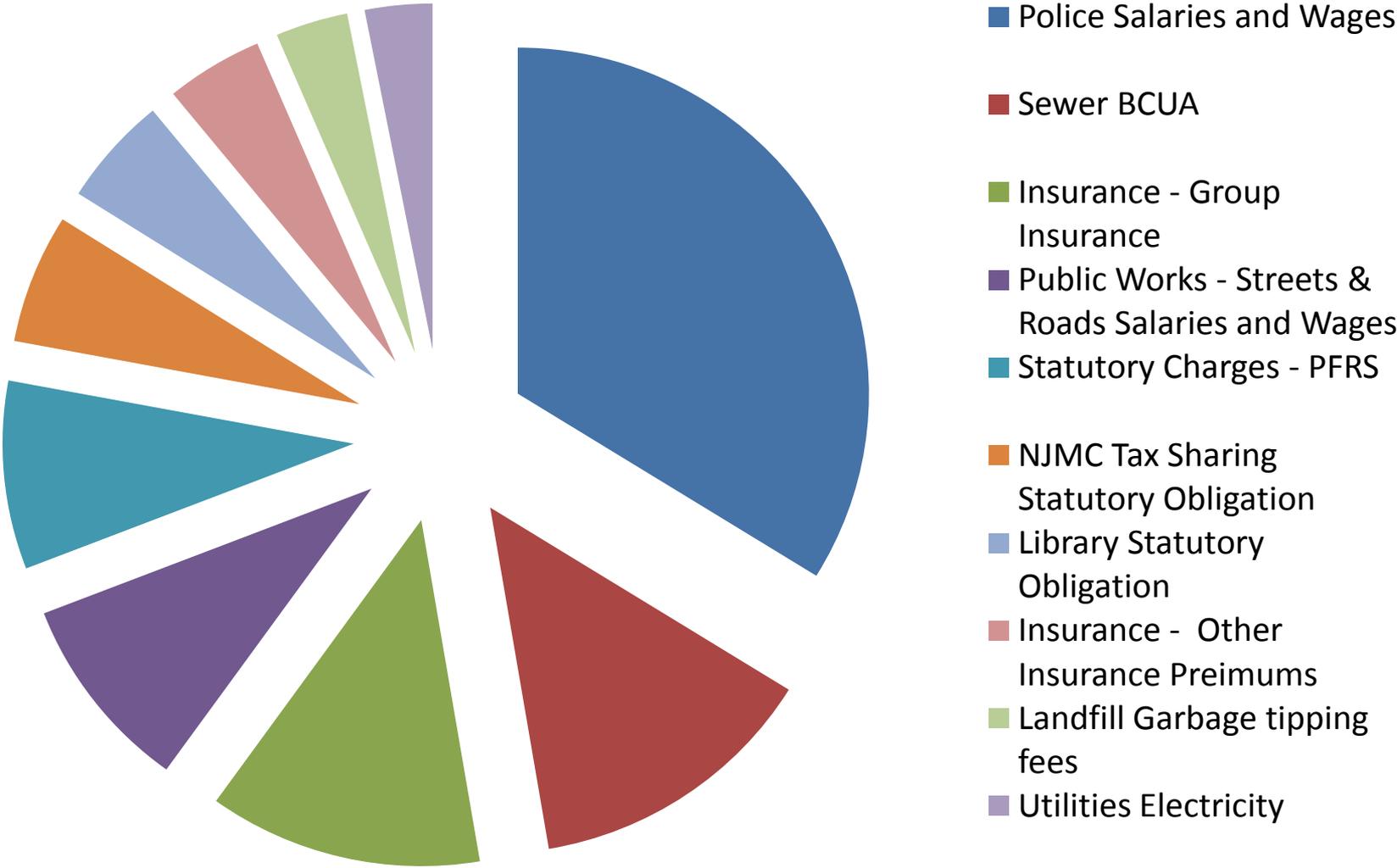
Fire Hydrants – Guess the annual cost?

(Hint: 4 year average increase is 9%)

Fire Hydrant Costs



Top Ten Department Appropriations by Percentage



Health Benefits

- Flat for 2011 as State Law forbid two public sectors employees from having two insurances covered by State Health Benefit Plan – these employees left the Borough plan saved enough money for no increase in 2011
- Mayor & Council no longer entitled to benefits even though permitted by State law. Can receive benefits if reimburse 100% of cost

Staffing review – 2010 & 2011

- Administration reduced by 1.5 FTE
- DPW reduced by 1 FTE
- Police, through attrition, down 4 FTE (NOTE: there has been no decrease in the number of officers on the street)
- Rent Leveling Board Attorney, Rent Leveling Board Secretary, Little Ferry Express & Animal Control Officer both done internally
- Mayor & Council stipend cuts for both years; no staff raises for three
- Conference & training – Borough only pays for registration; no longer pays for lodging, food, etc.
- Unions – PBA paid into health insurance before had to & reduced overtime dollar amount via comp time; DPW gave up raise in 2011
- New pension and health benefit reform savings yet to be determined
- No cuts in service

2012 Budget

Borough of Little Ferry
A glimpse into the future



2012 Budget Numbers – Looking towards the future

Solid 2012 estimates

- PERS \$25,000
- PFRS \$200,000
- NJMC Tax Sharing \$40,000
- Tax appeal lost revenue \$120,000
- Garbage Tipping \$35,000

The Unknowns

- Health Benefits
- Insurance
- Teterboro Police Contract
- Loss of State Aid
- Reduced interest on investments & cash due to low interest rates

2011 Budget

Borough of Little Ferry
Summary



2011 Municipal Tax Rate

- Average home value: \$350,000
- \$73 increase
- Increase in percent: 1.85%
- Salaries & Wages decrease \$205,716 (-4.21%)
- O&E increase \$264,247 (4.50%)
- Deferred & Statutory Expenditures increase of \$187,964 (18.03%)
- Debt Service decrease of \$37,035 (-4.01%)