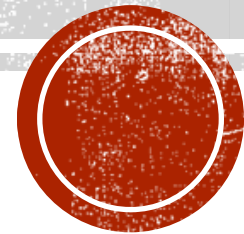
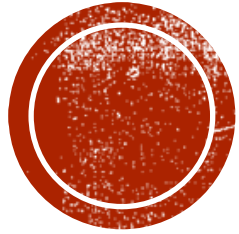


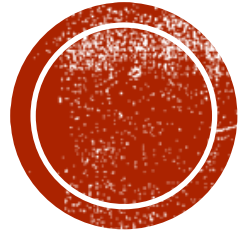
**STATE AID AND OTHER  
ITEMS TO KNOW**





# 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)

2012

- Level Funding

2013

- Level Funding

2014

- Level Funding

2015

- Level Funding

2016

- Level Funding (We Think?????)



# ENERGY TAX HISTORY (CONTINUED)

**So how is it that the State of New Jersey can continue to take our local revenue sources when the legislation and history of these taxes is so clear?**

- Karcher v. Kean, 479 A. 2d 403 - NJ: Supreme Court 1984
- Based upon this State Supreme Court decision, the state found that it can supersede permanent statutes simply by including a provision, to that effect, in the Annual Appropriations Act.

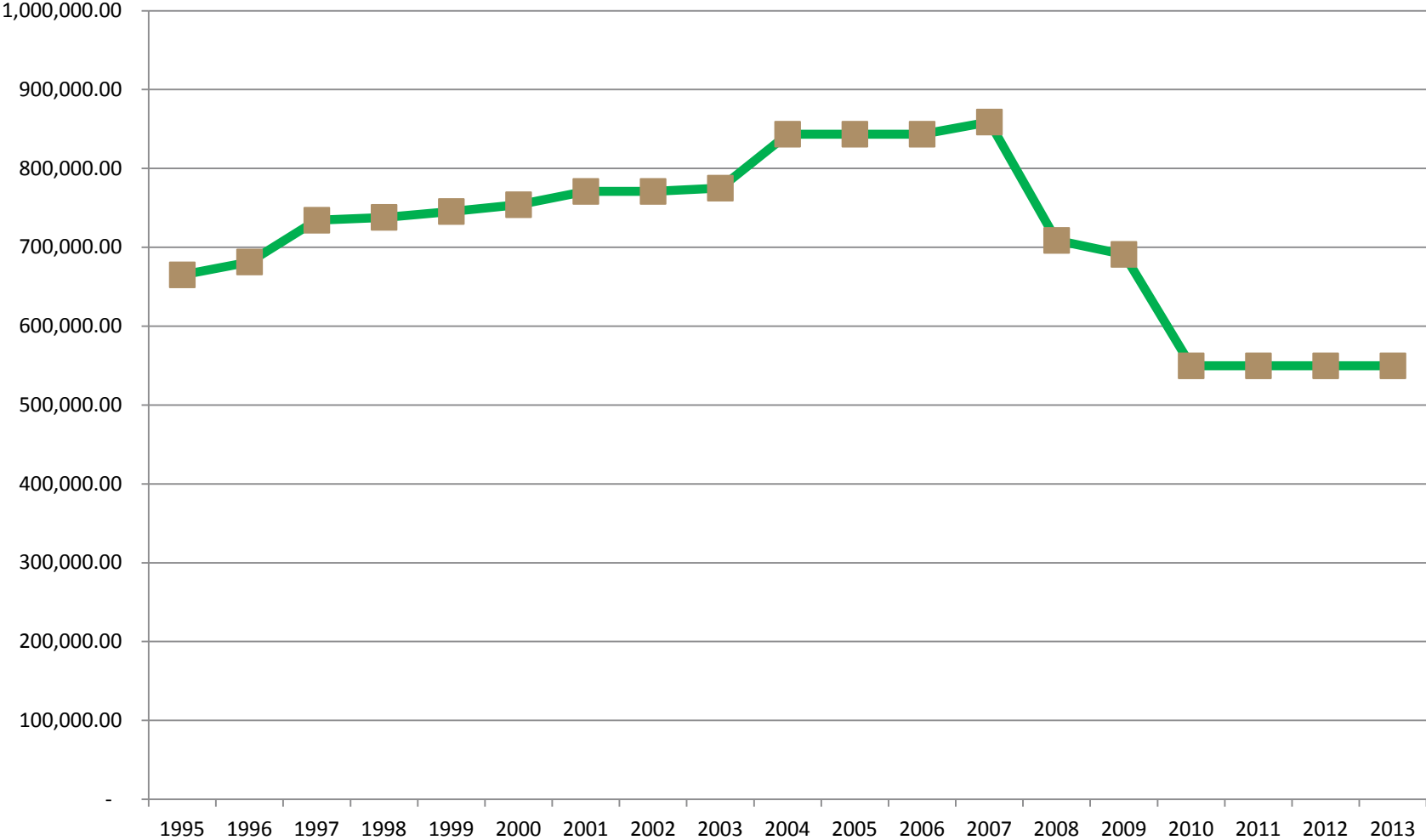


# WHAT IS STATE AID?

- 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



# HISTORIC STATE AID GRAPH (ALL AID)



# CMPTRA & ETR AMOUNTS RESTATED

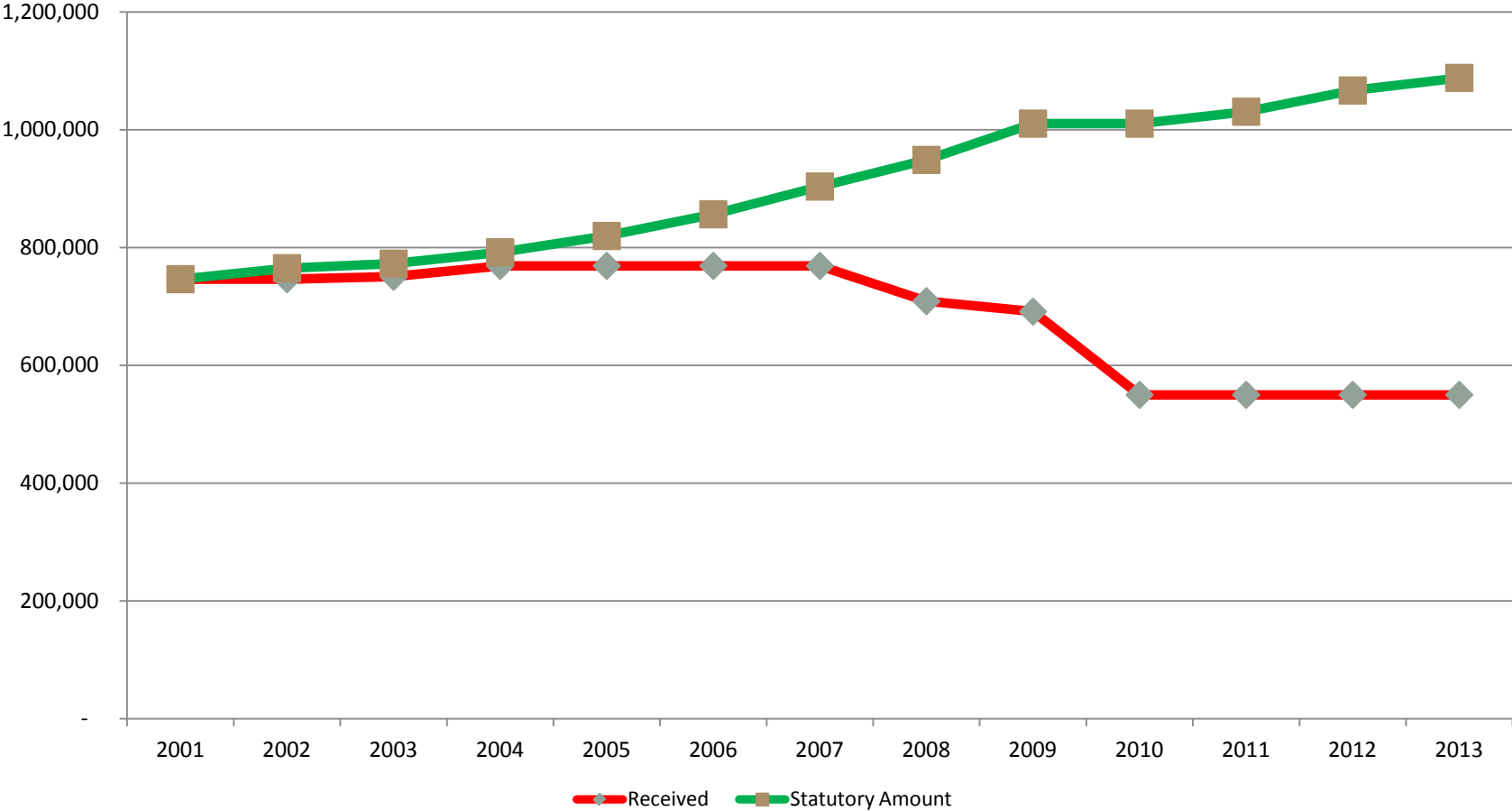
| Year          | Received            | IPD       | Statutory            | Shortage            |
|---------------|---------------------|-----------|----------------------|---------------------|
| 2001          | \$ 746,174          | Base Year |                      |                     |
| 2002          | 746,174             | 2.5%      | \$ 764,828           | \$ 18,654           |
| 2003          | 750,316             | 1.0%      | 772,477              | 22,160              |
| 2004          | 768,716             | 2.5%      | 791,789              | 23,073              |
| 2005          | 768,716             | 3.5%      | 819,501              | 50,785              |
| 2006          | 768,716             | 4.5%      | 856,379              | 87,663              |
| 2007          | 768,716             | 5.5%      | 903,480              | 134,764             |
| 2008          | 708,743             | 5.0%      | 948,654              | 239,911             |
| 2009          | 691,025             | 6.5%      | 1,010,316            | 319,291             |
| 2010          | 549,711             | 0.0%      | 1,010,316            | 460,605             |
| 2011          | 549,711             | 2.0%      | 1,030,522            | 480,811             |
| 2012          | 549,711             | 3.5%      | 1,066,591            | 516,880             |
| 2013          | 549,711             | 2.0%      | 1,087,922            | 538,211             |
| <b>Totals</b> | <b>\$ 8,916,140</b> |           | <b>\$ 11,808,948</b> | <b>\$ 2,892,807</b> |

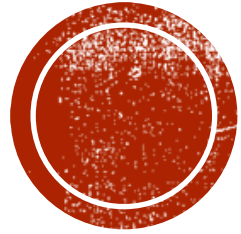




# CMPTRA & ETR AMOUNTS RESTATED

Calculation of State Energy Tax Obligation





# 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 2013 ALONE!

| Issue Area                                      | Amount            |
|---|-------------------|
| PFRS Contribution Rates go from 8.0% to 25.14%  | \$ 355,465        |
| PERS Contribution Rates go from 3.65% to 11.21% | 72,139            |
| State Aid Shortage in 2013                      | 538,211           |
| <b>Total Municipal Impact</b>                   | <b>\$ 965,815</b> |

**Taxes would be 26% Lower without State mishaps**

