was followed by major pension and benefits reforms and by a temporary cap on arbitration awards for public safety personnel. Other cost saving measures may advance.

Since the enactment of the 'toolkit' reforms local property tax increases have been held to 2.4% in 2011 and to 1.4% in 2012. Keeping property tax increases down to such low levels over the past two years would not have been possible without real bi-partisan reforms enacted by the Governor and the Legislature. For things like the 2% cap on arbitration awards and pensions and benefits reforms, the Governor and Legislative leaders deserve our thanks and recognition. It took political courage to advance those reforms. Last year's increase in school aid was also welcome.

Mayors working with local governing bodies all around the State also deserve credit for making the tough decisions in tough times. They have pruned budgets, pursued savings, engaged in tough negotiations, reduced the workforce, shared services, cut spending, applied best practices, emptied reserve accounts, and deferred investments. They did this as property values declined, tax appeals increased, development and economic activity stalled, employment slumped, and property tax relief funding was diverted to the State budget.

Operating under the 2% levy cap municipalities are allowed certain common sense exceptions. Hopefully, many of the 'Sandy' emergency costs will be off-set through FEMA reimbursements. But pension costs, as well as 'inside the cap' costs like insurance premiums, utility bills, reserves for uncollected taxes, funding of tax appeals and motor fuels, continue to rise by much more than 2%. Likewise, the costs of State mandates continue to add up.

In 2013, as in every year, the municipal budget maker has to be concerned with all costs, whether inside the cap or not. So for the vast majority of municipalities that do everything they legally can to control costs there are only three alternatives. They can cut essential services. They can ask the voters, already facing their own family financial concerns, to approve higher property taxes. Or they can be given the Energy Receipts specifically meant for property tax relief.

That would give municipalities more of the resources they need to meet constantly increasing costs, without asking voters to sacrifice either financially or in terms of effective municipal services.

Fair-minded people now recognize that the next advance in property tax relief has to involve ending the State's taking of Energy Tax Receipts and CMPTRA funds that are meant to be distributed to municipalities for property tax relief.

CONCLUSION

These are the key factors that have driven New Jersey property taxes higher. We hope that this analysis will help to answer the question that the paradigmatic New Jersey taxpayer asked in the opening paragraph. "How come my property taxes are so high?" We also hope that it will help our readers to evaluate any proposals designed to provide them with real property tax relief that will be sustainable for years to come.

We want to acknowledge long-serving municipal tax assessor Bernard C. Haney for his work on this brochure. Thank you, Mr. Haney. We could not have done this without you.

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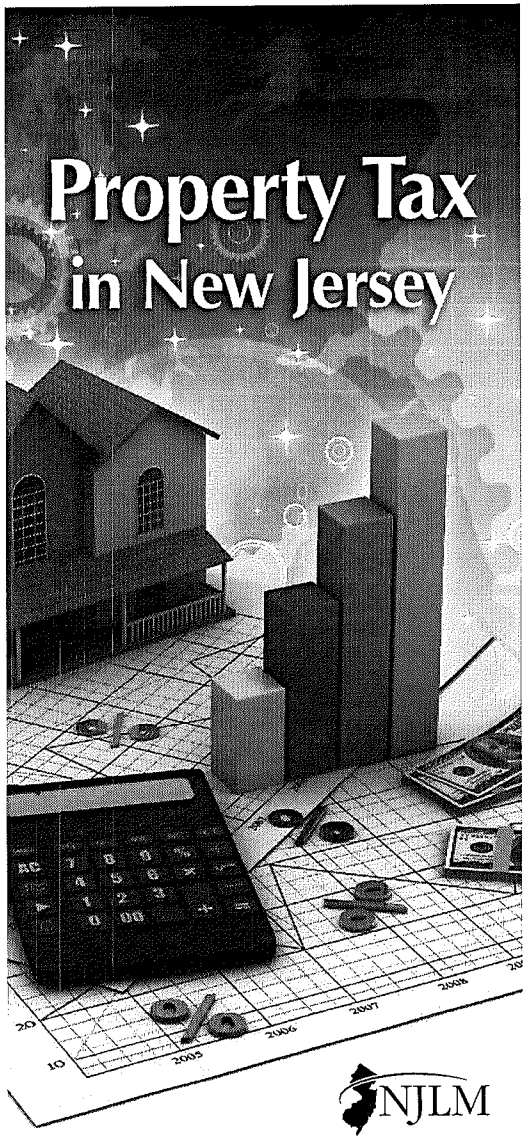


A SHORT AND SIMPLE GLIMPSE AT THE PROPERTY TAX IN NEW JERSEY

"Look at this bill. How come my property taxes are so high?"

In order to answer that question, you need to consider **all** the factors that go into the computation of your property tax liability and how they can change, from year to year.

Your tax is determined by six basic factors: 1) the market value of the property that you own; 2)the cost of municipal and county programs and services; 3)the costs of your local public schools; 4 the availability of other revenues to cover those costs; 5) the extent of the presence of tax exempt properties in your municipality and; 6) by the total value of all the taxable properties in your municipality.

If your property was to become more valuable due to an event such as structural additions or renovations, and all other properties remained unchanged, your tax liability (bill) gets bigger. Increased value beyond average appreciation means that your property represents a larger portion of the value of the municipality and therefore it is assigned a larger portion of the "amount to be raised through property taxation." If it costs more to deliver local government services and programs and to educate our public school kids or if the State and Federal governments impose new demands on local institutions and/or reduce funding back to local government, all else being equal, your tax bill gets bigger. If your local governments and school districts cannot count on other revenues keeping pace with inflation, all else being equal, your tax bill gets bigger. If the State exempts certain classes of property from local taxation or if previously taxable property is now being used for property tax exempt purposes, all else being equal, your tax bill gets bigger. And, if a large local industrial operation relocates or a big commercial business closes, all else being equal, your tax bill gets bigger.

All else rarely remains equal. In fact, more often than not, the things that we want to stay level, in order to keep property taxes down, go up. And the things we want to go up, stay level. To better understand New Jersey property taxes, consider the following.

Our local property tax goes back to the colonial period. In 1670, a levy of one half penny per acre of land was imposed for the support of the central government. Until the middle of the 19th Century, property taxes were levied on real estate and certain personal property at arbitrary rates within certain limits, referred to as "certainties."

The Public Laws of 1851 brought to New Jersey the goals of uniform assessments based on actual value and a general property tax This meant that all property classes were to be treated the same for the purpose of taxation. In 1875 the concept of uniform assessments was enshrined in the State Constitution. Our Courts held that the amendment, however, permitted the classification of property for tax purpose and the exemption of certain property classes from taxation. A long period of the erosion of the "general property tax" concept followed.

In 1884, a State Board of Assessors was created to assess the value of railroad and canal property. The State, thereby, inserted itself into the local property tax assessment process.

As a local tax, this levy is, generally, locally assessed and collected for the support of municipal and county governments and local school districts. No part of it supports State government, but a large part of it supports functions that the State has imposed on local units. All taxable property is assigned a value—assessed—by a local assessor in each municipality. An assessment is given as "taxable value," except in the case of qualified farmland, which is specially valued. The amount of the tax is annually determined each year, in every municipality, to provide sufficient revenues to meet the budgeted expenditures of municipalities, counties and school districts, minus revenue available from other sources.

Each year school districts, municipal governing bodies, and county governing bodies notify the County Tax Boards of their budgetary requirements through submission of adopted budgets. The various levies are totaled to represent the "amount to be raised by taxation" for each taxing jurisdiction.

The tax levy is divided by the total assessed value of all taxable property within the municipality—or the tax base - to determine the general tax rate. The general tax rate is then applied to the assessed value of each individual parcel of property to determine the property owner's tax liability. Local budgets, assessed value and the availability of other revenues, then, are the prime determinants of each taxpayer's burden. The rate is annually adjusted to account for these factors. Because of this, you will see our property tax referred to as a "residual tax."

PROPERTY TAX EXEMPTIONS

Intangible personal property was exempted from the tax base in 1945. Our State's 1947 Constitution contains the famous "uniformity clause," which states that:

> "Property shall be assessed for taxation under general laws and by uniform rules. All real property assessed and taxed locally or by the State for allotment and payment to taxing districts shall be assessed according to the same standard of value, except as otherwise permitted herein, and such property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district."

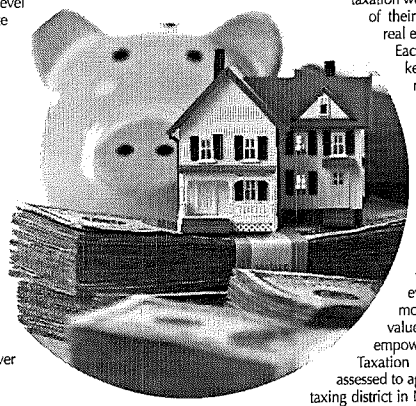
This section was based on an 1875 amendment to New Jersey's 1844 Constitution. And the next paragraph similarly 'grandfathered' all property tax exemptions "validly granted" (under the 1844 Constitution) "and now in existence." But it subjected those exemptions to future legislative amendment or repeal, "except those exempting real and personal property used exclusively for religious, educational, charitable or cemetery purposes...." Further, it granted the legislature the power to enact other exemptions "only by general law." The Constitution also allowed the legislature to permit municipalities to grant exemptions or abatements in areas in need of redevelopment and rehabilitation.

In 1953 the Constitutional property tax deduction for veterans who served in time of war or emergency was extended to widows of those who died on duty. In 1960 an Amendment was approved which allowed a property tax deduction for senior citizens. In 1963 the Constitution was amended to permit the assessment of farmland at its value for agricultural purposes.

In 1966 non-business personal property was exempted by the legislature, along with business inventories and the taxation of other business personal property was circumscribed. The 1966 law also rescinded the Retail Gross Receipts Tax, the Corporation Business Tax, the Business Personal Property Tax and the Unincorporated Business Tax and provided for level State 'hold-harmless' funding to compensate local taxing units for these revenue losses.

In addition to these provisions other exempt properties include those used by governments or public authorities, those used by certain youth associations or veterans' associations or fraternal organizations, parsonages, those occupied by district superintendents of religious organizations, certain historic properties, conservation or recreation land owned by non-profits, property owned by medical service corporations or dental service corporations or the New Jersey School Boards Association and dedicated pet cemeteries.

The total 2012 estimated market value of all exempt property in New Jersey was over $136 Billion. The net value of all taxable land and improvements in that same year was just over $982 Billion.



ASSESSMENTS AND PROPERTY VALUES

The basic duty of an assessor is spelled out in New Jersey statutory law:

> "The assessor shall...after examination and inquiry, determine the full and fair value of each parcel situated in the taxing district (the municipality) at such price as, in his judgment, it would sell for at a fair and bona fide sale by private contract on October 1 next preceding the date on which the assessor shall complete his assessments..." [CITE]

The assessor locates and causes to be mapped every parcel of property within the boundaries of the municipality. The assessor, by virtue of training or with the aid of a state-approved revaluation firm, values all of the property within the municipality at its "market value" as of October 1 of the year prior for the current tax year and assigns tax exempt classification when appropriate.

The NJ assessment system, as with most property tax systems in the United States, is an "ad valorem" system, which requires property to be assessed "according to its market value". Over the years various laws and regulations have been created to deal with the fact that maintenance of individual assessments through annual district-wide reassessments are not cost effective, and are more labor intensive than local governments can afford.

When assessments are made by different persons in different places there is always room for variations in judgment. New Jersey has 21 counties comprised of 565 municipalities. With the exception of Gloucester County's 24 municipalities, each has its own local tax assessor. In Gloucester a pilot program authorizes the County Assessor to conduct all assessments. "Equalization" is the process of insuring that each property carries its fair and legal share of the tax burden in every taxing district. Equalization in property taxation can mean either ensuring a just assessed value is placed on individual properties as compared to other properties within a taxing district or that true values assigned to entire municipalities are fair and just. In other words, equalization seeks to establish equity both within municipal borders and within county borders.

As early as 1799 all township assessors were directed by law to equalize assessments at an annual meeting in order to fairly spread the cost of county government. Various other administrative devices to achieve the same end were tried during the nineteenth century, but apparently with little success. In 1906 county boards of taxation were established having equalization as one of their principal responsibilities. Nevertheless, real equalization seldom, if ever, was obtained. Each local assessor was under pressure to keep his assessments low, for the lower the rate at which he assessed the lower the proportion of the cost of county government which his taxing district had to pay. This became known as "competitive under assessment". In the twentieth century a further pressure for competitive under-assessment was introduced by the formula used for distributing State financial aid to local school districts. The formula granted a larger amount of State aid to districts with low assessed valuations. Under assessment became even more competitive and assessments, in most cases, dropped far below the legal true value level. In the mid 1950's the Legislature empowered the Director of the Division of Taxation to determine the "ratio of aggregate assessed to aggregate true value" of real estate in every taxing district in New Jersey. Not long after the Director of the Division of Taxation implemented the "assessment-sales ratio program", (which is the study of comparing recent sales-prices to the properties assessment to determine what percentage the assessment is relative to the properties market value) the New Jersey Supreme Court instructed county boards of taxation to take official notice of the Director's aggregate assessed to aggregate true value ratios in their equalization functions.

Equalization as among individual properties within a municipality is an ongoing function. It is an important concern since its aim is to stimulate a continuous striving to ensure each individual parcel of property bears its just share of the property tax burden. Government property assessment professionals exercise this function in many ways, including carefully studying and watching assessment-sales ratios and coefficients of deviation calculated from sales occurring in each municipality, and ordering municipalities to revalue or to reassess based on the results of statistical analysis or lack of records. Where assessments or assessment practices are improper a county board of taxation may cause the assessor to change his assessments (or may, on their own initiative, hold hearings and change assessments) to ensure a more equitable basis. All this is done to promote equalization among individual parcels of taxable property in a municipality.

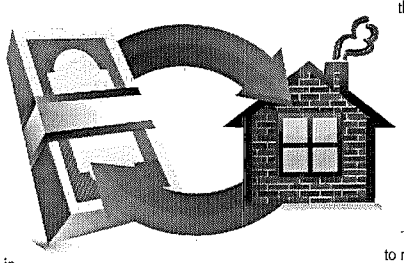
"Equalization in the aggregate" is another way of saying **equalization among municipalities within a county**. At the present time the equalization program is conducted for two major purposes: the distribution of State school aid, and use by the county board of taxation in **apportionment of the costs of county government** and of school districts covering more than one taxing district. The principal part of the work of equalization lies in determining the aggregate true value of all real property in each of the state's 565 taxing districts. The assessment-sales ratio program involves a comparison of the sales prices of parcels of real property which have been sold with the assessed values of these properties. The object of the program is to discover at what ratio of true value real property is being assessed in each municipality within the time frame of a fiscal year, July 1 to June 30. Once this ratio is determined the aggregate taxable value of real property in a municipality may be raised to true value through use of the ratio so determined. The aggregate true value of real property, together with the value of second class railroad property and the assessed value of locally assessed business personal property is known as the "equalized valuation." Equalized valuation is used as a measure of the wealth of the taxing district. As a matter of law, a township's wealth is the sole factor on which its proportionate share of county taxes is determined.

Prior to the 2008 recession the problem had been that certain sectors of the real estate market, such as residential property, were outpacing other sectors at break-neck speed. Another issue is that appreciation experienced in parts of a taxing district, such as the waterfront or the business district, can outpace other parts of the taxing district. Over time the disparity can become legally impermissible. The correction of this disparity within the district by means of a district-wide revaluation often leads to huge shifts in tax dollars. Cynical of the motives of the revaluation process, people often ask "what do you do with all of the EXTRA money?" Factually, there is no EXTRA money. For every dollar that someone pays in additional tax, there is a person within the district paying a dollar less in tax. Through the reassessment of all properties to their market values, the scales become balanced, and tax burdens are accurately reassigned.

The assessor is responsible for tracking the ownership and use of each individual parcel, and for providing that information to the rest of the municipal structure. As such, the assessor's records provide the foundation for all other municipal functions. All municipal functions including building permits, planning/zoning board applications, code enforcement, engineering, are driven by the block and lot parcel identifiers established and maintained by the local assessor.

OTHER REVENUES

There once was a time when municipalities had direct access to a number of revenue sources aside from the general property tax. In 1966, the State became the collection agent for property taxes on Class II Railroad properties and agreed to hold municipalities harmless, by annual appropriation. Until 1968, when the State became the collection agency, municipalities also collected the Business Personal Property Tax. When it assumed collection, the State pledged to return the revenues to local government. In 1970, the Financial Business Tax, which had formerly been equally divided between the host municipality and the host county, was doubled, and the new revenue distribution was 50% for the State, 25% for the host county and 25% for the host municipality. In 1980, major changes in Public Utility Gross Receipts and Franchise Taxes were enacted, but the State promised, once again, to return the revenues to the host municipalities.



That promise was soon forgotten. In 1982, the Governor then in office used the line item veto of the State's Annual Appropriations Act (for FY 1983) to skim $32 million of Public Utility Gross Receipts and Franchise Tax funding from the appropriation intended for municipalities, and to use that money for other State priorities—priorities other than property tax relief. The then-Assembly Speaker and the then-Senate President went to bat for our property taxpayers. This skim was challenged in Court. But, in the case of Karcher v. Kean, the State Supreme Court sanctioned this practice. Throughout the '80's and into the '90's, every State Budget featured an annual diversion of some of the funding dedicated by permanent statutes to municipal property tax relief, and the use of that funding for different State purposes

So the lion's share of the monies that municipalities receive from the State as Energy Tax Receipts Property Tax Relief and as Consolidated Municipal Property Tax Relief Aid are only a partial replacement for funds that were originally direct sources of municipal revenue. Municipalities originally collected, for example, Public Utility Gross Receipts and Franchise Taxes, Business Personal Property Taxes, Financial Business Taxes and Class II Railroad Property Taxes. 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.

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 most significant of these programs into the future.

For the past decade, however, the Legislature has decided that it could not honor its statutory commitment to full municipal property tax relief funding. With the passage of this past year's budget, over those ten years the State has denied local property taxpayers, statewide, over $3.4 billion of relief.

LOCAL GOVERNMENT COSTS

The Division of Local Government Services in the State's Department of Community Affairs uses a nationally recognized standard to gauge the increasing costs of local government programs and services. This Implicit Price Deflator measures the impact of inflation on local budgets, just as the Cost of Living Index measures its impact on family budgets.

From September, 2000 to September, 2012, the costs of local government increased 44.3%. For several years during the last decade the State provided municipalities with 'level funding' of major property tax relief programs. In 2008, 2009 and 2010, because of State budget problems, the appropriation was significantly reduced. What had been a distribution of $1.58 Billion in 2001, became only $1.294 Billion in 2011. This under-funding has forced municipalities to rely almost exclusively on the property tax to adjust to the cost increases.

Governor Christie's 2010 "Special Session" was the third major attempt at property tax reform in the last decade. In 2004 Governor McGreevey's "FAIR" (Fair And Immediate Relief) plan included relief for our hardest hit taxpayers; stricter spending caps; and a plan to advance towards a Citizens' Convention for Property Tax Reform Convention bill.. Today, all that remains of that plan is the caps. In 2006 Governor Corzine's Special Session for Property Tax Reform produced property tax credits that have been reduced, and property tax caps that have been tightened.

The centerpiece of Governor Christie's "toolkit" reforms has been the new 2% levy cap. The cap does nothing to enforce discipline on State budget makers and reduce State reliance on local funding. But the new levy cap