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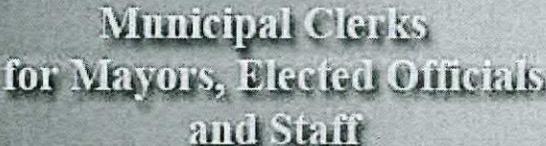
Masser, Michelle

From: Lashway, Lisa
Sent: Thursday, February 23, 2012 3:50 PM
To: Masser, Michelle; Canning, Sean
Subject: FW: State Budget Goes to Legislature

Lisa Lashway
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Township of Mount Olive
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From: NJLM to Municipal Officials [mailto:njlm-clerks@cityconnections.com]
Sent: Thursday, February 23, 2012 3:51 PM
To: Lashway, Lisa
Subject: State Budget Goes to Legislature

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February 23, 2012

RE: State Budget Goes to Legislature

Dear Mayor:

The Governor's Tuesday speech to the Legislature (See our letter at <http://www.njslom.org/letters/2012-0221-state2013budget.html>.) marks the beginning, not the end, of deliberations on the State's next spending plan. Public hearings will soon be scheduled by both the Senate and Assembly Budget Committees.

While we appreciate the proposed leveling of municipal property tax relief, we are disappointed with the State's continued budgetary reliance on municipal revenues. For over ten years, regardless of political affiliation, no Administration has proposed a budget that honors the promise made to our property taxpayers, that Energy Tax and CMTRA funding would be annually adjusted to account for inflation in municipal costs. These revenue replacement programs were created to provide reliable municipal property tax relief to our residents and businesses.

In 2002, the State distributed \$816.6 million through the CMPTRA revenue replacement formula and \$781.4 million through the Energy Tax revenue replacement formula, for a total of \$1,598 million. Following years of funding shifts, last year's CMPTRA distribution was listed as \$244 million; while \$1,050 million was attributed to Energy Tax funding. In 2011, \$1,294 was distributed, through the two programs, to municipalities. If the commitment to funding adjustments had been honored, municipalities all around the State would, this year, be dividing \$1,029 million in CMPTRA funding, plus \$984 million in Energy Tax funding, for a property tax relief total of \$2,013 million. Instead, it appears that \$1,342 million will be provided, unless the Legislature can be convinced to to now begin to wean the State off of these local revenues.

We are pleased to report that some State Legislators have recognized the need and have introduced bills meant to provide solutions. We support these efforts and commend the sponsors.

Senator Linda Greenstein has introduced S-348. Assemblymen Daniel Benson and Wayne DeAngelo sponsor the identical companion bill, A-1597, in the Assembly. This initiative is meant to provide each municipality with a

minimum level of Energy Tax Receipts (ETR) Property Tax Relief Aid for Fiscal Year 2012. The minimum amount of ETR Aid would be equal to the amount of ETR Aid distributed to each municipality in State Fiscal Year 2010. If the appropriation and distributions are not made by the State, the State will forfeit the collection of corporation business tax liabilities from all corporate taxpayers that are not public utilities for that tax year.

Pursuant to this legislation, in every year, the minimum total distribution of Energy Tax funds would be \$1.029 billion.

As the sponsors note, in 1997 the State created the "Energy Tax Receipts Property Tax Receipts Property Tax Relief Fund" as a dedicated fund to replace the Gross Receipts and Franchise Tax. Certain revenues generated by the Corporation Business Tax and the Sales and Use Tax are supposed to be deposited into the fund and distributed to municipalities as a means of reducing the municipal property tax levy. ETR is provided to municipalities as a replacement for property tax revenues that they are no longer authorized to collect.

While we support this bill and commend the sponsors, it is not a final solution. As noted above, for years now, the State's budget has shifted funding from CMPTRA to meet Energy Tax funding requirements. Passage of this bill would not end that practice. That said, passage of this bill would demonstrate the current Legislature's recognition of the problem and intention to distribute municipal property tax relief funding to municipalities.

Senator Chris Connors, along with Assemblyman Brian Rumpf and Assemblywoman Dianne Gove, have introduced legislation (S-1059/A-656) that would, among other reforms, limit the amount of the State-use portion of total annual State energy tax revenues. This is the portion of total energy sector-related State tax revenue that the State uses as general revenue to support the annual State budget. The State budget would be limited to retaining the amount "skimmed" in fiscal year 1998, the first year under the 1997 energy tax reform law. In 1998 the State retained \$403 million from energy taxes and distributed \$740 million to municipalities. In 2010, the State retained \$860 million, while distributing \$789 million.

The bill also changes the crediting of these tax revenues to the "Energy Tax Receipts Property Tax Relief Fund," and requires a larger annual appropriation and distribution of tax revenues to municipalities to support local property tax relief. As the sponsors note, with the price of energy and natural gas rising substantially over the last ten years, along with a steady growth in energy consumption, the related growth in energy-related State revenue has mostly accrued to the support of the growth in State budget spending. This is demonstrated by the over 100% growth in the amount of the annual State retention of this revenue. With the capping of this retention at the 1998 level of \$403 million, and assuming only current levels of revenue, municipal aid from this source would grow by nearly \$500 million. Future revenue growth, almost assuredly attributable to increased energy consumption and widely anticipated increases in energy pricing, would be distributed for municipal aid to each municipality in proportion to each municipality's prior year property tax relief distributed from this source.

With these bills, the sponsors demonstrate an understanding of the property tax relief funding issues caused by the State's dependence on municipal resources, and their commitment to providing municipal funding in a predictable and sustainable manner and protecting property taxpayers.

Just as the Governor's speech marked the beginning of the State's budget process, the introduction of these bills could mark the beginning of the end of the misuse of property tax relief monies. The dialogue has begun. It will now go to the Assembly and Senate Budget Committees, where the voices of local leaders need to be heard. Please contact your State Legislators and tell them how important this issue is to the people you represent.

If you agree that State compliance with the laws regarding Energy Tax and CMPTRA funding is important to you and your taxpayers, please see our earlier letter, which outlines actions you can take to advance this cause. (<http://www.njslom.org/letters/2012-0217-property-tax.html>)

And please, closely follow our reports on State budget deliberations. If you have any questions or comments, contact Jon Moran at 609-695-3481, ext. 121.

Very truly yours,

William G. Dressel, Jr.
Executive Director

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