



Municipal Clerks for Mayors, Elected Officials and Staff



March 19, 2010

RE: I. State Energy Tax/CMPTRA Cuts

Dear Mayor:

We have received numerous inquiries regarding the proposed diversion of CMPTRA funding and the cuts in individual municipal Energy Tax allocations.

The former (diversion from CMPTRA to the Energy Tax) has been going on for some time now. It has allowed the State to meet the letter of the Energy Tax 'poison pill' provision, without increasing local property tax relief funding at all. The 'poison pill' provisions require the State to meet two tests each year. If those tests are not met, the State loses the power to collect the Energy Tax. First, the State must increase the total amount appropriated to all municipalities, through the Energy Tax, by the rate of inflation. Second, no municipality can receive less Energy Tax Property Tax Relief funding than it received in 2002.

For several years, the State has cut CMPTRA by the amount it needed to increase the Energy Tax. This resulted in level funding to each municipality. (What you got in increased Energy Tax, you lost from CMPTRA.) This year, because of the state of the economy, the State did not have to increase total Energy Tax distributions to avoid the poison pill. That allowed the State to use a distribution formula similar to that through which it accomplished previous year's cuts. But, this year, the formula needed to account for deeper cuts. That allowed the State to push individual Energy Tax appropriations down toward the 2002 level. Thus, many municipalities have been advised that they should anticipate Energy Tax cuts.

The Division of Local Government Services explains the

process as follows.

Consolidated Municipal Property Tax Relief Aid and

Energy Tax Receipts

The total of CMPTRA and ETR is reduced by approximately 17 percent, or \$272 million from \$1.565 billion to \$1.293 billion. While the required inflation rate was zero percent, the proposed budget meets the minimum statutory requirements of the ETR program. In part, this is accomplished by a reduction formula (see below), and then prorating and transferring funds from CMPTRA to ETR to ensure the ETR minimum of the 2002 individual municipal appropriations and a total \$1.029 billion ETR appropriation

The reductions to the program follow two steps: the allocation of the \$272 million reduction and CMPTRA transfers to ensure all municipalities receive the minimum required ETR. The reduction reflects the formula used in 2009; the principle that municipalities with higher wealth and lower taxes can absorb more of an aid reduction than a municipality with low wealth and high taxes.

Under this approach, “wealth” is calculated by measuring per capita income and equalized property value per capita. This approach is similar to the way school aid formulas use wealth. Taxes were measured by using the equalized property rate.

Similar to last year, the calculation placed municipalities into nine groups based on low, medium, and high equalized tax rates and wealth. Each municipality’s FY 2010 allocation was reduced by a different percent, based on the wealth/tax burden group; i.e., the highest tax/lowest wealth group received a 14.45 percent reduction, while the highest wealth/lowest tax burden group received a 26.45 percent reduction. The final total was allocated between the two programs by reducing CMPTRA appropriations and ensuring the statutory minimum of ETR is paid.

The League has expressed serious concerns and

reservations regarding these accounting maneuvers to State policy makers. We urge you to do the same. Please contact your State Senators and Assembly Representatives to explain the unfairness of this to you and your property taxpayers.

If you have any questions, contact Jon Moran at 609-695-3481, ext. 121.

Very truly yours,

William G. Dressel, Jr.
Executive Director

Re: II. Update on S-1

Dear Mayor:

Previously, we notified you that S-1, which abolishes COAH and reforms the Fair Housing Act, was to be voted on by the full Senate on Monday.

We are now advised that S-1 will instead be amended on the Senate floor. This means a full vote by the Senate will not occur until May, when the Legislature returns from the budget recess.

Questions on this can be directed to Mike Cerra at mcerra@njslom.com or 609-695-3481 x120.

Very truly yours,

William G. Dressel, Jr.
Executive Director

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