

THE MUNICIPAL OPERATIONAL TAX INDEX -

A MUNICIPAL COMPARISON TOOL

A publication of the
Local Unit Alignment, Reorganization and Consolidation Commission

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OVERVIEW

One of the “quests” of LUARCC is to establish an Index that can be used to compare property taxation among municipalities in New Jersey on an “equalized and uniform basis”. The “Municipal Operational Tax Index” serves this purpose: it can be used by local taxpayers to compare their local municipal tax burden with the comparable tax burden of their neighboring municipalities as well as relevant countywide averages.

The Municipal Operational Tax Index is a comparison of the actual, “locally controllable”, municipal property taxes paid per residential lot for each municipality in New Jersey, grouped by county and population.

The Index is an overview. The function of the Index is to indicate when a further analysis may be warranted: when one municipality’s Tax Index is significantly different from the County average or neighboring municipalities. The Index does not provide specific answers as to why one particular local municipal property tax burden is greater or less than another or the county average; however the Index will identify which municipalities, when considered with the other accompanying data contained in this report, should consider cost / service changes or alternate means of providing required services to cause a reduction in municipal tax burden. Further review may also highlight when specialized local services are supported through taxation versus user charges causing some of the Index variation.

THE MUNICIPAL OPERATIONS TAX INDEX – WHAT IS IT?

The "Municipal Operations Property Tax Index" is a comparison of actual municipal only property taxes imposed on each residential property in a municipality. This is a dramatically different standard than the comparison of total taxes paid per lot / household / per capita or the budget per capita / household commonly used elsewhere. The Index focuses only on that portion of the total tax bill which is controllable by municipal officials (as opposed to those taxes controlled by School, County or Other Taxing Districts). The Index focuses on what residents actually pay in property taxes; it is not concerned with non residential property taxes paid in the municipality as well as state aid and other revenues that impact on local budgets. In

this context, "the Municipal Operations Tax" removes from the equation certain uncontrollable (or marginally controllable) requirements on municipalities. The Index sorts through a variety of financial data to focus specifically on the locally controllable municipally required property taxes.

The statistical analysis provides the "Municipal Operations Tax per Residential Lot" for 2007. It then compares this data with similar data from 2006 and 2008 to insure that the 2007 data was not an aberration. This information is presented for each municipality in the State grouped by Counties. The Table #1 is a summary showing the average "Municipal Operational Taxes per Residential Lot" by County grouped by population. This average is one standard to measure the taxes in any one municipality versus the County average.

Table #2 provides the specific "Municipal Operational Tax per Residential Lot" for 2007 for each municipality with comparable data for 2006 and 2008. In addition there is a column showing the average county wide value for the population size that corresponds to each municipality.

The final table is titled "Merged Data" – this contains the information from Table 2 plus other information taken from on-line data sets from various state agencies that provide additional information for each municipality. In Appendix A there is information on each of these data sets and their possible statistical relevance when comparing municipalities.

Appendix B provides additional comments on the various methods to compare municipal finances.

MUNICIPAL OPERATIONAL TAX PER RESIDENTIAL LOT

The "Municipal Operational Tax per Residential Lot" is calculated as follows: the total municipal and local open space property tax levy is obtained from the data on the website of the Division of Local Government Services (New Jersey Dept. of Community Affairs). From this total, the Reserve for Uncollected Taxes (also obtained from the DLGS) is subtracted. The Reserve is not a municipal expenditure; it is a financial reserve estimating that portion of the total property taxes required by all taxing agencies (municipal, schools and county plus any special taxing districts) that are not actually collected in the current fiscal year. In reality the Reserve is a revenue modifier and a method to generate future year surplus. The amount of the Reserve is only partially a decision of the municipality - it responds to the tax requirements of other

agencies (the County and the Schools plus any specialized taxes) and the prior year actual collection experience of the municipality. In some municipalities the collection ratio is underestimated as a method to generate funds to be available as surplus in the following year. Under NJ law, the municipality is required to pay the full amount of taxes owed to other jurisdictions, whether or not the municipality actually collects the tax in the current tax year. In essence the Municipal tax requirement is increased to guarantee these payments to other taxing districts. However municipalities budget these delinquent taxes as a revenue in the subsequent year and normally collect them through direct payments or the sale of tax liens. In sum, the Reserve is excluded from this calculation since the size of the Reserve is only partially under the control of the municipality, varies significantly among municipalities, and in essence the amount is a revenue item in subsequent years.

The resultant, entitled the “Municipal Operations Tax” in this Report, is the net municipal property taxes to be paid – taxes that reflect the local municipal operation. This sum is then reduced by the percentage that the residential property assessed value is to the total assessed valuation of the municipality resulting in the total property taxes to be paid by residential property owners for locally controlled municipal activities. Obviously the value of commercial and industrial properties (including apartments) in any municipality is important and directly impacts on the required tax payments of a residential property owner. However to provide a direct comparison of the property taxes paid by residential property owners, these other properties must be removed from the equation. This makes the comparison amongst municipalities more viable.

The next step is to determine what portion of this residential Municipal Operations Tax is to be paid by each residential property tax payer. This residential Municipal Operations Tax is then divided by the total number of residential line items as shown in the Property Tax Duplicate or master listing for each municipality. The resultant number is the property tax per residential property for each municipality.

A further discussion of this methodology is contained in Appendix B of this Report.

TABLE 1 - AVERAGE MUNICIPAL TAX INDICES PER COUNTY.

In Table #1 the Municipal Operational Tax per Residential Lot calculation for 2007 is summarized by population classes for each County. The population groupings are 0 to 5,000; 5,000 to 10,000; 10,000 to 15,000; 15,000 to 50,000; and over 50,000. The 0 to 5,000 grouping was further split into two subclasses, 0 to 2,000 and 2,000 to 5,000.

The top line in each County grouping represents the number of municipalities in that County.

The second line in certain County groupings identifies those municipalities which have a negative Operations Tax. As cited elsewhere in this Report, in some of the smaller municipalities the Reserve for Uncollected Taxes requires all of the municipal tax levy. In essence there is no property tax for municipal purposes. For these municipalities the detailed data as shown in Table 2 indicates a negative value for the Operations Tax. As noted in the footnote to Table 1, due to the unusual and unique property tax requirements in these municipalities, the inclusion of this negative value obviates any meaningful comparison among the other County municipalities. For this reason, it is excluded from the County average calculations. In addition, in these 25 municipalities, police services are provided by the State Police, which further eschews the average data (see next paragraph).

The next line in some County groupings indicates the number of municipalities receiving "free" police protection from the NJ State Police. Again as noted in a footnote to Table 1, the impact on a municipal budget of locally financed police protection is significant. Due to this impact, you cannot have a valid comparison of the Municipal Operations Tax between a municipality receiving these "free" services versus one providing for its own police services . Consequently the data from these municipalities receiving this "free" service is not included in the calculation of the County wide averages.

The last line in each county grouping is the average "Municipal Operations Tax" grouped by population bands.

CONCLUSIONS

When reviewing the average Municipal Operation Tax per Residential Lot for each County as shown in Table #1, several issues must be recognized:

1. The impact of the Reserve for Uncollected Taxes on the tax requirements of many municipalities but especially in many smaller municipalities, normally located in the rural sectors of the State, where the amount required in the Reserve exceeds the value of the municipal operations tax. In the data tables, for a number of municipalities, the Operations Tax (i.e., municipal taxes without the Reserve) is a negative value.
2. The impact of the "vacation homes" that exist in many shore municipalities upon Index values. In municipalities with a high number of second homes, there are a greater number of residential lines items than required by the year round population. Consequently the value of the Municipal Property Tax index is not comparable to other municipalities which have constant year round populations. The cost of services in these municipalities can be

significantly different given the dramatic population changes for several months of the year. When comparing municipalities one must make sure that the service requirements are comparable among the selected municipalities. In reviewing the detailed data, the impact of these "vacation homes" can be ascertained by examining column AD in the Merged data table showing the occupancy rate in the specific municipality in the 2000 census (Dr. Ernest Reock, the former Director of the Center for Government Services of the Rutgers University, New Brunswick, in a presentation to LUARCC in 2008 alerted LUARCC to this phenomena and provided information on the impact of these vacation homes in comparability studies).

3. The absence of a local police force with the municipality being serviced by the NJ State Police. The primary cost driver in many municipality is the cost of providing police services. There are several data sets in Merged Data Table highlighting these costs. Also in Merged Data Table in column AW there is a list of those municipalities receiving "free police service" from the State Police as compared to the data in adjacent columns of the size and cost of municipal police departments. In many of the Counties with rural / low population density municipalities, the County average Municipal Tax Index data would be eschewed downward by this transfer of law enforcement cost to the State. In Table 1 providing the County averages, there is specific data showing the municipalities receiving this free service. When comparing two municipalities in these Counties, it is critical to verify that the provision of law enforcement is comparable.

4. There is a vast difference between the cost structures amongst the various Counties for similar population groups, data that is not as obvious in the state wide information previously provided. Again for the purpose of this Municipal Operations Tax Index the variation between Counties is not as significant as the variation between municipalities within the same or neighboring Counties. However the County variations provide some insight to the difficulty of developing state wide impact studies.

5. In many of the smaller and rural municipalities, the Municipal Operations Tax Impact on the residential property owner is fairly small. This is significant in terms of attempting to reorganize local activities to provide reduced property tax payments. All savings are important; the issue here is the ability to affect meaningful change.

6. As a general premise, the data indicates that when the impact of the free State Police coverage is removed, the value of the Municipal Operations Tax tends to decrease as the size of the municipality increases until you reach larger sized municipalities and/or municipalities with a urbanized, high population density, where a different level of services are required. This data strongly implies that, contrary to widely held beliefs, "smaller is not inherently cheaper",

and the Index reinforces the concept of "economies of scale" as this concept impacts on locally controllable taxes.

7. Although some researchers may question the validity of the Municipal Operations Tax concept due to the data selected or omitted, it is a viable measurement of financial variations among municipalities. In many respects the key is to develop one uniform measure that is statistically available and to test the impact of individual municipalities against this measure. The goal of the Index is not to provide a definitive answer, but to provide an indicator of those municipalities where further detailed analysis is appropriate.

OTHER COMMENTS ON DATA IN TABLE 1

In population group 0 to 5,000, the Municipal Tax Index is higher than in the 5,000 to 10,000 and 10,000 to 15,000 population groups in most Counties where there is sufficient data for comparison. In many Counties, the same correlation exists in the 10,000 to 15,000 population groups. In higher population groups, the correlation is less significant probably due to the variation in population densities impacting on municipal service requirements. Specific comments on Counties which do not appear to follow the "norm" are as follows:

Atlantic County - the 0 to 5,000 data may be a reflection of second or vacation homes plus the number of municipalities included in the average is small.

Cape May County - the 0 to 5,000 data may be a reflection of second or vacation homes; for the other population groups, the number of municipalities included in the averages are too few for statistical comparison

Cumberland County - the number of municipalities included in the averages are too few for statistical comparison

Gloucester County - the unusual number is the average in the 5,000 to 10,000 range - a review of the detailed municipal information shows several municipalities in this population range with very low Operations Taxes causing the depression of the overall average.

Hudson County - the absence of municipalities in the lower population ranges negates any statistical significance in the "averages"

Hunterdon County - the absence of municipalities in the mid population ranges negates any statistical significance in the "averages"

Ocean County - a review of the detailed data indicates one municipality in the 5,000 to 10,000 population grouping with a very small Operations Tax causing the unusual "low average"

Salem County - the absence of municipalities in the lower population ranges negates any statistical significance in the "averages". Plus one very low Municipal Index significantly impacts on the County averages.

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APPENDIX A – Merged Data Table

The Appendix has detailed information on the data sets used in the analysis. All of the information was obtained from official state records. The only significant difficulty experienced was in merging the various data bases into one since many state agencies use different listings of municipal groupings. Table #2 uses the DCA and Treasury information sets as the master index and converted the other data to this index.

Column	Topic	Relevance
A	Municipal Code	State identifier
B	Municipality name	
C	County	
D	Operations Tax 2006	any significant variation over the three year period could indicate the availability of a one shot influx of funds offsetting tax requirements for one or more years.
E	Operations Tax 2007	the key year used for the analysis
F	Operations Tax 2008	
H	County average tax	
J	% Residential	a key to understanding the possible tax variation between municipalities. The greater the % residential, the less tax income from non residential properties available to possible offset service costs
K	State Equalized value	indicates the total value of property in the municipality
L	Municipal Purpose tax	
M	Open Space Tax	
N	Total taxes on a house	
O	Municipal Only Taxes	this number will differ from the Operations Tax cited in the Report since it includes the Reserve for Uncollected Taxes
Q,R,S	Average Equalized valuations	these columns indicate the variation between municipalities in the aggregate, residential and non residential properties.

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T&U Equalized value per capita although per capita information is a questionable comparison, these columns show the equalized value per capita for residential and nonresidential properties

W 2007 Municipal Budget

X&Y per capita budget and tax levy information although per capital information is a questionable comparison; the budget and tax levy is provided in this format

AA % tax exempt one of the variables to be examined in any comparison is the amount of tax exempt properties in one municipality versus another. However when doing this one must verify that the tax exempt property is not making other types of tax payments.

AC & AD Housing units these two columns show housing units according to Census data and the % occupied as of April 1. Column AB is an indicator of municipalities with large seasonal population fluctuations. Normally “vacation homes” are unoccupied on April 1, Census Day.

AF Per capita income for comparison purposes only, the income taxable wealth of a municipality. Please note, this number can easily be eschewed up or down by the present of a few very wealthy individuals or conversely the existence of a number of people whose incomes are below the reporting thresholds.

AG Poverty again for comparison, the Census reported poverty levels

AI – AW – Police Data taken from the 2007 report of the Attorney General, information on crimes and police coverage.

AY Health services the agency providing health services for a municipality

BA Library Costs as reported by the State library for 2007

BC Refuse Service as reported by DEP, how refuse service is provided

BC Civil Service indicates whether the municipality is governed by State Civil service or not

BG Non uniform payroll taken from the Division of Pensions, the value of non uniform police and fire payrolls – this gives an indication on the size of each municipal work force

BH & BI	Uniform Employees	again from the Division of Pensions, number and salaries of police and fire personnel – this gives an indication on the size of each municipal uniform force.
BK	Fire service	an indication of how fire protection is provided in each municipality.
BM	Schools	a listing of the agency providing educational services
BN	School classification	the demographic / financial classification of each school system – a good indication of the comparability of any selected municipality for comparison.

APPENDIX B - WHY THE “OPERATIONS TAX” ?

In several previous analyses provided to LUARCC, particularly the studies by Dr. Ernest Reock of the Rutgers Center for Government Services, municipalities have been compared based upon budget and tax impact either per capita or per household. This is a common statistical measure. However this report attempts to focus on the actual taxes paid by property owners so that these property owners can identify with the results. In reality municipal taxation is a function of property value with taxes paid per lot or parcel of land, and not people or households served. A residential house containing 2 people could pay the same amount as one containing 5 people – the issue is not the number of people but what is actually paid.

In addition to the issue of the variation in residential occupancies, when comparing municipalities, it is not possible to compare the budget structure / tax structure per capita or per household due to the significant difference between the taxes paid by apartment dwellers versus single family residents (including those in condominiums, duplexes, etc. which are taxed as stand alone units). Apartment properties are commercial operations and the value per apartment is more a function of capitalization value (income generation) than it is of inherent market value, such as a single family home. If one were to look at the tax income generated by a single apartment dwelling unit versus a single family dwelling unit one would quickly determine that the two values cannot be mixed in the same equation.

Another problem with using per capita or per dwelling unit data is that the "property tax payer" has a hard time relating to the data since his/her frame of reference is the property tax bill they pay quarterly.

This analysis is focused on tax impact rather than budget impact since an analysis of Somerset County municipalities presented to LUARCC indicated wide variation in municipal budgets partially due to fee based programming and special grants received. Significant use of User Fee charges can dramatically increase the budget but in reality do not impact on the taxpayer unless he/she is a participant in the specific specialized activity. Consequently in this analysis municipal tax information is compared based upon the "per residential line item" as shown in the Tax Duplicate.

Another issue was whether to use the number of residential parcels or the number of residential parcels plus farm homesteads in the Index. Residential parcels only were selected since the incidence of farm homesteads is not universal to the state and they tend to pervert data from those suburban / rural municipalities which have them.

As noted above, the Municipal Operations Tax does not address the issue of the variation caused by the incidence of seasonal housing in some municipalities other than encouraging those doing analyses that they must consider this impact when selecting comparables.

An additional issue raised in Dr Reock's analyses is the differential between municipalities due to the variation in commercial / industrial ratables. The Municipal Operations Tax per residential lot removes the impact of non residential property from the Index; however when attempting to determine why there may be a significant variation between the residential taxes paid by any two municipalities, one key component to review is the amount of taxable non residential property in each municipality. This information is presented in Table #2 in summary format. When including non residential properties in a state wide index it is difficult to ascertain what services, if any, are provided to the non residential properties and therefore what is the actual impact of these non residential properties on the overall cost / benefit analysis of any residential tax payer. Again the goal of the Municipal Index is to identify where additional analysis may be productive from the standpoint of the individual taxpayer.