June 17, 2015

Re: Impact on Property Taxes When Implementing an Element of Pension and Benefits “Roadmap” Report

Dear Mayor:

As we have previously reported, one of the recommendations of the Governor’s “Roadmap to Resolution” report is to have local boards of education assume the cost of local education retiree health benefits, which is currently a state obligation, as well as the new retirement plan for local(K-12) education employees. In response to that recommendation, the League of Municipalities partnered with New Jersey School Boards Association to assess the impact such a cost transfer would have on both municipal and school district taxpayers. This assessment can help you understand the potential cost to your municipality for assuming part or all current and/or previously unfunded or underfunded employer contributions of the Teachers Annuity Pension Fund (TPAF). A copy of the report is available at http://nj-njslom.civicplus.com/DocumentCenter/View/3203

We employed Raphael J. Caprio, Ph.D., Director of Bloustein Center for Local Government Research, Rutgers University to provide a policy neutral analysis that seeks an informed answer to the potential (and estimated) impact on each municipality for each one percent “employer” contribution that would need to be raised on the local level should local boards of education be asked to fund part, or all, of the employer TPAF contribution.

Using information from the NJ Transparency website Dr. Caprio has provided a report that is broken down by municipality. For each regional or consolidated district, the equalized value for each member municipality in the district was utilized to approximate the proportional responsibility of salaries (and potential pension contributions) for each regional or consolidated district municipality. For each “regional” or “consolidated” district, the actual reported TPAF salary for 2014 was then distributed amongst member communities. These calculations involve the overwhelming percentage of total potential board estimates to municipal conversation.

In sending-receiving districts, however, the number of students will vary considerably depending upon the local and partnership. Further future tuition adjustments associated with any local liability are unknown as the receiving board will be required to assess its own increased cost. So we caution that municipal estimates for sending districts are probably low, while concurrently our estimates for receiving districts are probably high.

Since the potential employer “pension match” is still a hypothetical, the 1% liability is used so you can easily calculate various scenarios or policy proposals. For example, a potential employer liability might be proposed at 13% of the total salaries; knowing the cost of each 1% of total salaries enables a fairly easy calculation of the average impact on each residential property owner by simply multiplying the 1% calculation by 13. Accordingly, a 1% estimate which might be, as an example, $12.50, would be easily determined to be an estimated annual property tax increase of $162.50 per property taxpayer.
It is important to note that this report analyzes the impact of property tax payer assumption of the school district employer’s share of only teacher pension costs. It does not address other recent proposals, such as shifting the employer cost of teachers’ (and other board of education employees’) post-retirement medical benefits from the state to local school districts, nor the hypothetical impact from health benefit proposals that may or may not be available or dedicated to offset some of the estimated cost increases. Reliable numbers for such hypotheticals are not currently available from the Roadmap Commission.

We strongly believe this report will be able to assist you in determining the impact of elements of the “Roadmap to Resolution” report on your municipality.

If you have any questions or need additional information please do not hesitate to contact Lori Buckelew, at lbuckelew@njslom.org or 609-695-3481 ext. 112.

Very truly yours,

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