LEGISLATIVE VIEWPOINT

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June 14, 2018

Re: Please Protect Energy Tax Receipts
'Lock Box' Dedication

Dear State Legislator:

As you consider the Governor's budget proposal and discuss the annual Appropriations Act, we urge you to recognize how important it is to protect the Energy Tax Receipts (ETR) 'lock box. History has shown us that what should be directed back to the local governments for direct property tax relief too often gets diverted by the State officials and there are real negative implications which effect the very tax payers that we all represent. We urge you to oppose the funding shift from the ETR from off-budget to on-budget.

The Governor's proposal would shake the foundations of the Energy Tax Receipts Property Tax Relief Fund (ETR), which, for more than twenty years, has delivered reliable and significant property tax relief to municipal home- and business-owners, all around our Garden State. It would open the door for property tax relief funding reductions in future budgets.

Specifically, the Governor's proposal would open the ETR 'lock box,' which has always been funded through taxes (Sales and Corporate) levied on energy suppling utilities. Instead, the upcoming budget would deliver level funding with Income Tax dollars. This change, we have been told, will be effected not by the passage of a new statute, but instead by the insertion of new budgetary language.

We appreciate the fact that the Administration's proposal has, for FY 2019, guaranteed the distribution of funding equal to the amount municipalities would otherwise have received, through the ETR. Likewise, we appreciate Treasurer Muoio's strong public statements on that commitment. But the Governor's plan may jeopardize the most significant and reliable source of municipal revenues, other than the property tax, in future state budgets. We have two main reasons for that concern.

First, history has taught us hard lessons about shifts from General Fund sourced revenues to the Property Tax Relief Fund (PTRF). In 1995, not by the passage of a new statute, but instead by inserting new language in the budget, the State created the Consolidated Municipal Property Tax Relief Aid (CMPTRA) program. It was a new program, but it didn't provide any new money. CMPTRA was an amalgamation of twelve pre-existing municipal property tax relief funding programs. Several of those had previously relied on General Fund sources.

In that first year, CMPTRA was funded at $755 million. In 2001, CMPTRA's best year, the fund provided $818.5 million. By 2010, due to cuts totaling about $320 million and the steady shift of property tax relief dollars from CMPTRA to the ETR, funding was down to $264.7 million. And this year's budget proposal calls for the distribution of $263.3 million through CMPTRA.

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Second, at the League's insistence, Chapter 167 of the Public Laws of 1997 established the ETR 'lock box.' At that time, and at the request of the utilities, Franchise and Gross Receipts Taxes (Public Utility Taxes) were repealed. Those were replaced by sales and corporate taxes, which were placed in the ETR lock box and dedicated for distribution as municipal property tax relief.

For over 100 years, municipalities have been able to count on certain taxes paid by energy producing utilities. These were originally assessed and collected locally, to compensate local citizens for the utilities' use of public rights of way and for local services provided to power suppliers. When the State decided to centralize tax collection in 1980, the statute promised to distribute the proceeds to New Jersey municipalities. That promise wasn't always kept, but when utility taxes were reformed in the 1990s, the new statute set up a dedicated fund – the Energy Tax Receipts Property Tax Relief Fund – and assured annual distribution amounts.

We understand the State's current budget problems. In recent years, Income Tax collections (and the PTRF) have grown more rapidly and more consistently than Sales and Corporate Taxes (and the State's General Fund).

We respect the problems that such an imbalance can cause, as municipal officials have been dealing with imbalances of our own. In a recent NJSpotlight story, Colleen O'Dea noted that, since 2007, the CPI has risen by 22%; while municipal property tax relief funding from these sources has decreased by 17%.

Governor Murphy has called for level funding of combined Energy Tax and CMPTRA funding. This will be the eighth straight year of level funding. And in the three preceding years, as the State struggled to balance its budget during the great recession, the level was lowered by about $320 million. Though we had hoped to see some indication that these dedicated municipal property tax relief funding sources would begin to be restored to their previous levels, we appreciate the Governor's decision not to cut funding any further.

Municipal officials don't ask for any credit for keeping property taxes as low as possible, while continuing to deliver quality services, despite the short-fall. But we cannot support a proposal that could, in the future, makes things a lot worse for taxpayers

Please oppose the funding shift from the ETR to the PTRF. There has to be a better way to address the General Fund short-fall.

Thank you for your consideration. Please contact us if you have any questions.

Very truly yours,

James Cassella
President, New Jersey League of Municipalities
Mayor, East Rutherford

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