

LEGISLATIVE FISCAL ESTIMATE

[First Reprint]

SENATE, No. 29

STATE OF NEW JERSEY 214th LEGISLATURE

DATED: JULY 14, 2010

SUMMARY

- Synopsis:** Reduces school district, county, and municipal property tax levy cap from 4 percent to 2.0 percent and permits unused school district, county, and municipal increases to be banked for three succeeding years.
- Type of Impact:** Possible decrease in local property tax levy rate of increase. Indeterminate potential increase in costs incurred by the State and certain local units.
- Agencies Affected:** Departments of Education and Community Affairs, counties, municipalities, local school districts, and special taxing districts.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost	Indeterminate Potential Increase – See comments below		
Local Cost	Indeterminate Potential Increase – See comments below		
Local Property Tax Levies	Indeterminate Potential Restraint of Growth Rates – See comments below		

- The Office of Legislative Services (OLS) estimates that the new property tax growth limit may result in lower local property tax levies than would otherwise occur under existing law, by indeterminate amounts. Local budgetary decisions that determine annual changes in local property tax levies are affected by multiple factors. Accordingly, it is reasonable to conclude that a reduction in the amount that the tax levy is permitted to increase from year-to-year will comprise greater restraints on annual property tax increases than under the current 4 percent limit.
- Local units and school districts may incur additional costs if they decide to submit a public question to the voters to exceed the allowable tax levy. However, the costs of conducting an election vary depending on a variety of factors, including the size of the voting area (i.e., municipality) and the number of election districts.

- The State may incur additional costs to the extent that it is required to reimburse a county governing body for any costs incurred due to the implementation of P.L.2001, c.245, which increased the required compensation to be paid to district board members who serve at an election and extended the hours polling places are open.

BILL DESCRIPTION

Senate Bill No. 29 (1R) of 2010 reduces the tax levy cap for school districts, counties, municipalities, fire districts, and solid waste collection districts from the currently permitted 4 percent annual increase to a 2.0 percent permitted annual increase. The bill also establishes the tax levy cap as the permanent mechanism for the calculation of the maximum allowable increase in property taxes that may occur between budget years. Under existing law, the 2007 tax levy cap is scheduled to expire June 30, 2012. Senate Bill No. 29 (1R) requires local units and school districts to submit a public question to the voters if the local unit or school district seeks to exceed the allowable tax levy cap. The public question must be approved by more than 50 percent of the people voting on the question.

The bill eliminates the ability of certain local units to apply to the Local Finance Board for any waiver to authorize exceeding the tax levy cap and the ability of school districts to request levy waivers from the Commissioner of Education. The bill also deletes language in current law in order to eliminate a tax levy cap penalty that occurs when a county or municipality acts responsibly to reduce its debt servicing expenditures.

As amended, the bill narrows the exclusions that may be added to the calculation of the adjusted tax levy to the following: capital expenditures, including debt service, (for local units); increases in pension contributions and accrued liability for pension contributions in excess of 2.0 percent; certain increases in health care costs greater than 2.0 percent; and extraordinary costs incurred by a local unit directly related to a declared emergency as defined by regulation. In the case of school districts, the bill narrows the adjustments that may be applied to a school district's tax levy by the elimination of the allowable adjustment for a reduction in State aid. A school district's tax levy may continue to be adjusted to reflect increases in enrollment, and may also be adjusted to reflect increases in health care costs and certain pension contributions greater than 2 percent. As under current law, tax levy raised for school district debt service payments is not included in the calculation of a school district's adjusted tax levy.

The bill would also permit levy cap "banking" of any portion of the permitted 2.0 percent increase under the property tax levy cap that is not used by a county or municipality in any budget year. In the case of a school district, it would allow cap banking of any portion of the permitted 2.0 percent increase plus applicable adjustments not used by the school district in a budget year. This concept is similar to cap banking under the municipal and county appropriations cap law (N.J.S.A.40A:4-45.1 et seq.). Cap banking was also authorized under the statutes which establish the formula for the calculation of a school district's spending growth limitation, which was last operative in the 2006-2007 school year, and which is being repealed under this bill as the tax levy growth limitation becomes the permanent mechanism to calculate school district tax levy increases.

The reduction in the property tax levy cap would be applicable to the local budget year next following the enactment of the bill, and the opportunity to bank any unused portion of the allowable increase would commence in that local budget year so that any unused portion of the current 4 percent levy cap would not be available to be banked.

FISCAL ANALYSIS***EXECUTIVE BRANCH***

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the new local property tax cap may result in lower property tax levy increases, than would otherwise occur under existing law, by indeterminate amounts. The OLS notes that local budgetary decisions that determine annual changes in local property tax levies are affected by multiple factors, such as the provisions of labor contracts, costs of goods and services, levels of local non-property tax revenues, debt service requirements, and the number of pupils required to be educated by local school districts. It is reasonable to conclude that a reduction in the amount that the tax levy is permitted to increase from year-to-year may comprise greater restraints on annual property levy tax increases than the restraints under current law, but it is not feasible to estimate the degree to which this is the case, or to quantify the amount by which future property levies would be lowered by the effect of the lower caps and the provisions permitting the use of “cap banking.”

The OLS notes that those school districts and local units that decide to submit a public question to the voters requesting their permission to increase the amount to be raised by taxation beyond the 2.0 percent cap will incur additional costs associated with conducting an additional election. Election expenses vary depending on the size and number of election districts in the voting area. For example, according to the Division of Elections in the Department of State, in 2009 a municipal election in the Borough of Island Heights, which has 2 election districts, cost \$4,000 while a municipal election in the Township of Stafford, which has 20 election districts cost \$40,000. Other factors that influence election costs include the printing and transmitting of sample ballots, absentee ballots and ballots for voting machines; transporting election machines to polling stations; payments to election workers; and, where necessary, security for voting machines.

The State may incur additional costs to the extent that it is required to expend funds in addition to those appropriated by the Fiscal Year 2011 Appropriations Act to reimburse a county governing body for any costs incurred due to the implementation of P.L.2001, c.245. This statute increased the required compensation to be paid to district board members who serve at an election from \$75 to \$200 and extended the hours polling places are open from 7:00 A.M.-8:00 P.M. to 6:00 A.M.-8:00 P.M. The State is required to reimburse counties for the \$125 difference between the old pay rate and the current pay rate. The Fiscal Year 2011 budget appropriates \$7.030 million for extended polling place hours.

Section: Local Government

Analyst: Scott A. Brodsky
Associate Fiscal Analyst

Approved: David J. Rosen
Legislative Budget and Finance Officer

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).