

EFFECTS OF APPEALS / SETTLEMENTS ON THE MUNICIPAL RATABLE BASE DURING A DECLINING MARKET

Municipal Exposure & Financial Impact



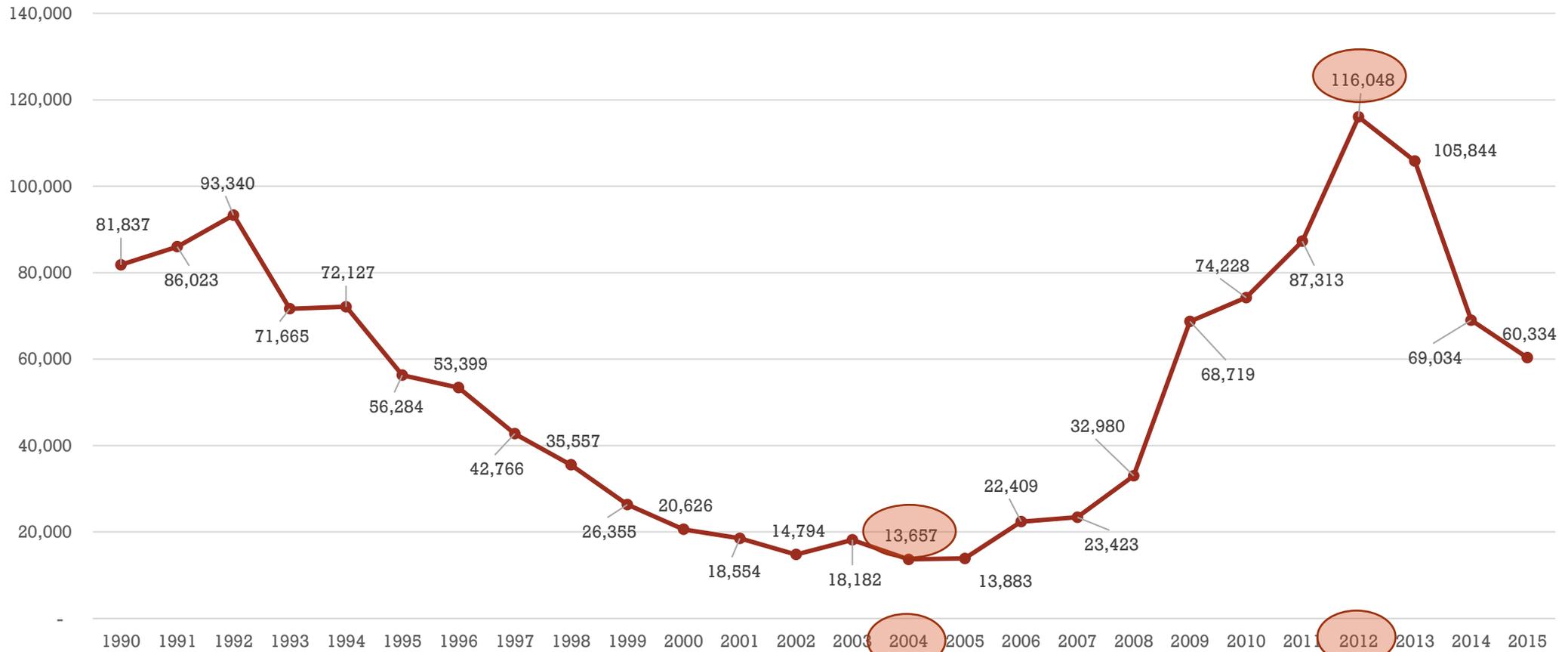
TAX APPEALS

- The unpleasant reality is that tax appeals do happen
- Economic pressures have negatively affected the values of properties throughout the state
- Office vacancy rates, foreclosures, short sales, etc. all impact market values
- Property owners are pursuing tax appeals to lower the assessment on their properties to adjust them to better reflect current market conditions
- We haven't seen the impact of the Pandemic on valuations yet

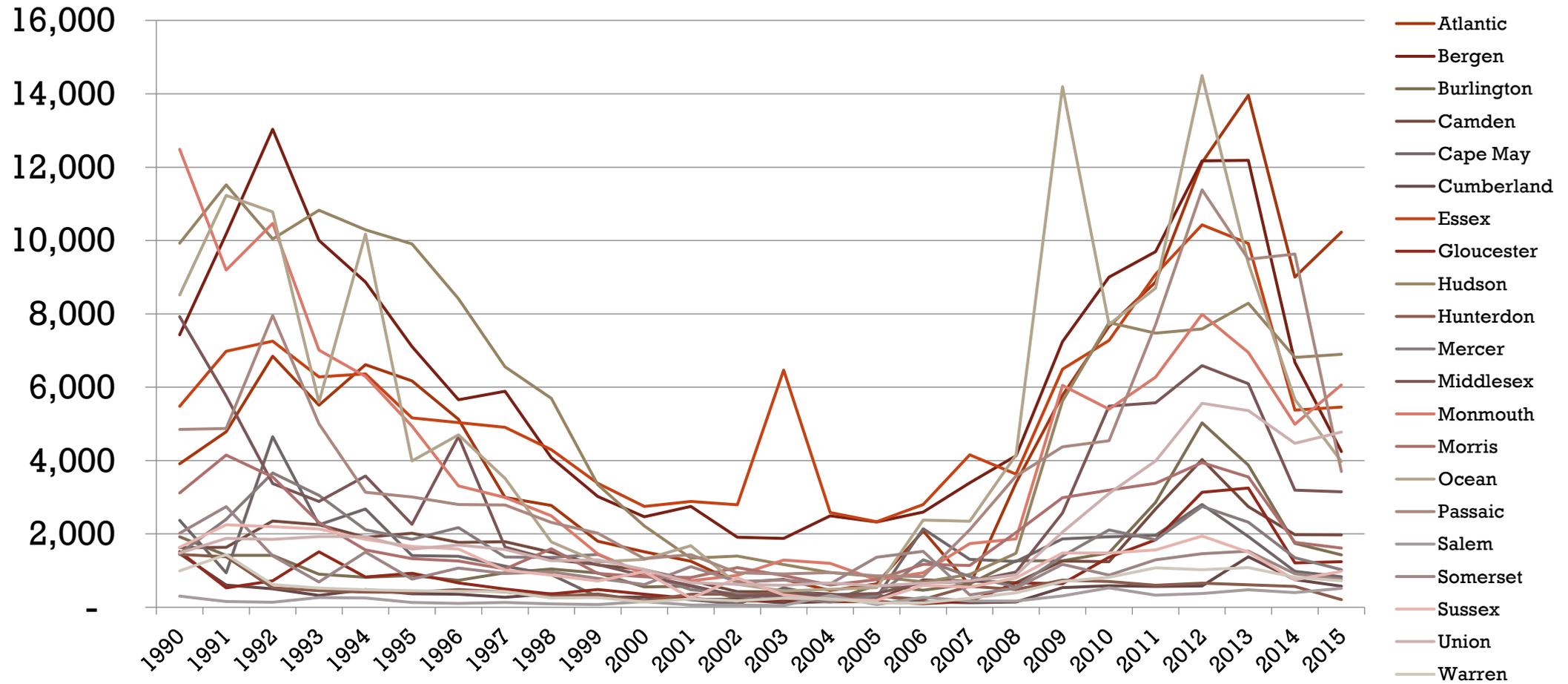


SURPRISE!
WERE YOU READY?

STATEWIDE TAX APPEAL TRENDS (26 YRS)



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	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Atlantic	3,908	4,784	6,844	5,507	6,614	6,172	5,127	2,990	2,774	1,798	1,509	1,252	669	761	458	634	2,081	595	3,388	5,778	7,663	8,867	12,129	13,956	9,000	10,227
Bergen	7,430	10,176	13,035	10,002	8,866	7,105	5,654	5,886	4,079	3,019	2,466	2,747	1,905	1,877	2,490	2,325	2,594	3,389	4,127	7,242	9,004	9,698	12,176	12,185	6,679	4,242
Burlington	1,921	1,413	1,411	903	817	860	730	936	1,038	929	551	571	240	210	190	601	464	635	1,263	1,267	1,486	2,859	5,029	3,875	1,742	1,429
Camden	1,625	1,635	2,353	2,245	1,908	2,018	1,766	1,785	1,498	1,150	1,022	724	428	420	360	206	745	714	670	1,260	1,238	2,680	4,028	2,743	1,979	1,969
Cape May	2,370	940	4,649	2,250	2,678	1,407	1,388	1,120	888	282	271	207	86	529	286	268	2,136	1,305	1,248	1,865	1,923	1,959	2,801	1,926	979	827
Cumberland	1,458	602	501	320	484	367	351	273	367	273	273	216	212	119	155	329	147	123	142	533	588	563	581	1,373	752	572
Essex	5,477	6,981	7,257	6,278	6,366	5,164	5,036	4,904	4,295	3,378	2,747	2,885	2,792	6,468	2,582	2,329	2,800	4,157	3,631	6,494	7,272	9,077	10,427	9,917	5,377	5,455
Gloucester	1,519	529	723	1,509	824	928	665	493	360	485	351	241	167	200	147	156	99	160	661	643	1,364	1,838	3,134	3,249	1,206	1,240
Hudson	9,925	11,521	10,041	10,824	10,295	9,908	8,414	6,555	5,693	3,337	2,219	1,339	1,393	1,164	948	838	690	895	1,469	5,626	7,763	7,473	7,590	8,289	6,815	6,898
Hunterdon	1,439	1,377	528	451	409	405	481	417	290	361	173	352	351	385	268	306	211	571	484	738	701	597	653	611	567	204
Mercer	1,465	2,395	3,661	3,049	2,116	1,847	2,168	1,370	1,358	1,439	920	473	368	250	142	317	1,294	838	551	1,393	2,104	1,835	2,749	2,316	1,349	1,020
Middlesex	7,921	5,763	3,374	2,881	3,578	2,262	4,656	1,639	1,295	1,164	852	594	309	329	341	373	674	696	958	2,571	5,486	5,575	6,590	6,092	3,191	3,147
Monmouth	12,487	9,194	10,468	7,009	6,290	4,939	3,306	2,993	2,495	1,449	899	723	867	1,288	1,193	744	937	1,736	1,862	6,049	5,398	6,273	7,988	6,948	4,992	6,063
Morris	3,118	4,146	3,554	2,315	1,561	1,326	1,257	1,042	1,593	918	828	813	1,080	861	604	750	1,171	1,136	2,039	2,986	3,190	3,377	3,943	3,551	1,764	1,610
Ocean	8,515	11,233	10,779	5,593	10,175	3,985	4,703	3,516	1,781	1,235	1,303	1,675	625	446	491	534	2,374	2,346	4,151	14,195	7,710	8,698	14,497	9,372	5,666	3,974
Passaic	4,847	4,876	7,957	5,001	3,133	3,004	2,802	2,789	2,312	2,015	1,323	1,430	938	907	943	857	833	2,115	3,576	4,376	4,541	7,703	11,386	9,487	9,630	3,701
Salem	301	157	139	263	250	129	107	128	89	70	158	59	61	48	319	72	268	168	170	312	526	329	372	479	399	516
Somerset	2,014	2,745	1,400	688	1,504	767	1,067	922	963	786	618	1,106	703	742	634	1,364	1,523	333	523	1,169	873	1,289	1,459	1,527	914	767
Sussex	1,632	2,248	2,196	2,133	1,852	1,656	1,589	1,010	872	713	970	247	798	332	208	185	600	550	794	1,476	1,475	1,562	1,939	1,504	744	980
Union	1,476	1,878	1,850	1,926	1,929	1,587	1,698	1,575	1,267	1,291	1,028	671	627	599	664	580	653	717	878	2,047	3,104	3,989	5,558	5,362	4,470	4,776
Warren	989	1,430	620	518	478	448	434	423	250	263	145	229	175	247	234	115	115	244	395	699	819	1,072	1,019	1,082	819	717
	81,837	86,023	93,340	71,665	72,127	56,284	53,399	42,766	35,557	26,355	20,626	18,554	14,794	18,182	13,657	13,883	22,409	23,423	32,980	68,719	74,228	87,313	116,048	105,844	69,034	60,334

TAX APPEALS

- Are you listening to your Tax Assessor?
- Is your Tax Assessor listening to you?
- Do your Assessor and your Expert communicate?



MUNICIPAL PLANNING FOR TAX APPEALS

- Establishing appropriate reserve levels
- Consider a revaluation or reassessment
 - When is the right time to engage in a revaluation or reassessment?
- Anticipating what may happen and planning appropriately for the inevitable
- Failure to plan will put the municipality at risk

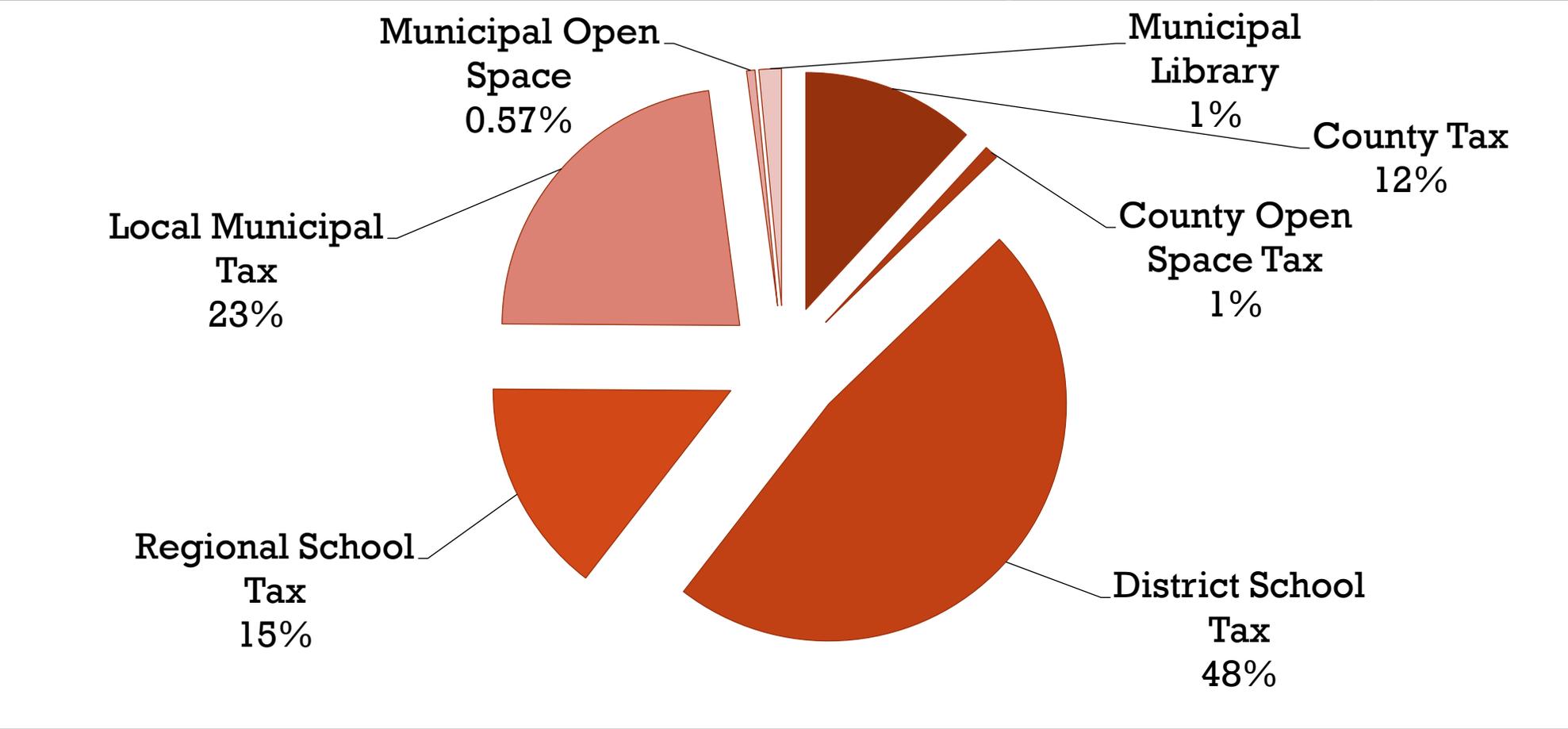
BOND RATING PROCESS

- How can excessive tax appeals impact the bond rating process for a municipality?
- One of the components of a bond rating is the review of reserves available and pending litigation or open obligations
- If the reserves have been depleted or are insufficient to cover the pending appeals, the rating agency will look at this negatively
- The cost of issuing debt will increase in the event that there is a negative bond rating change

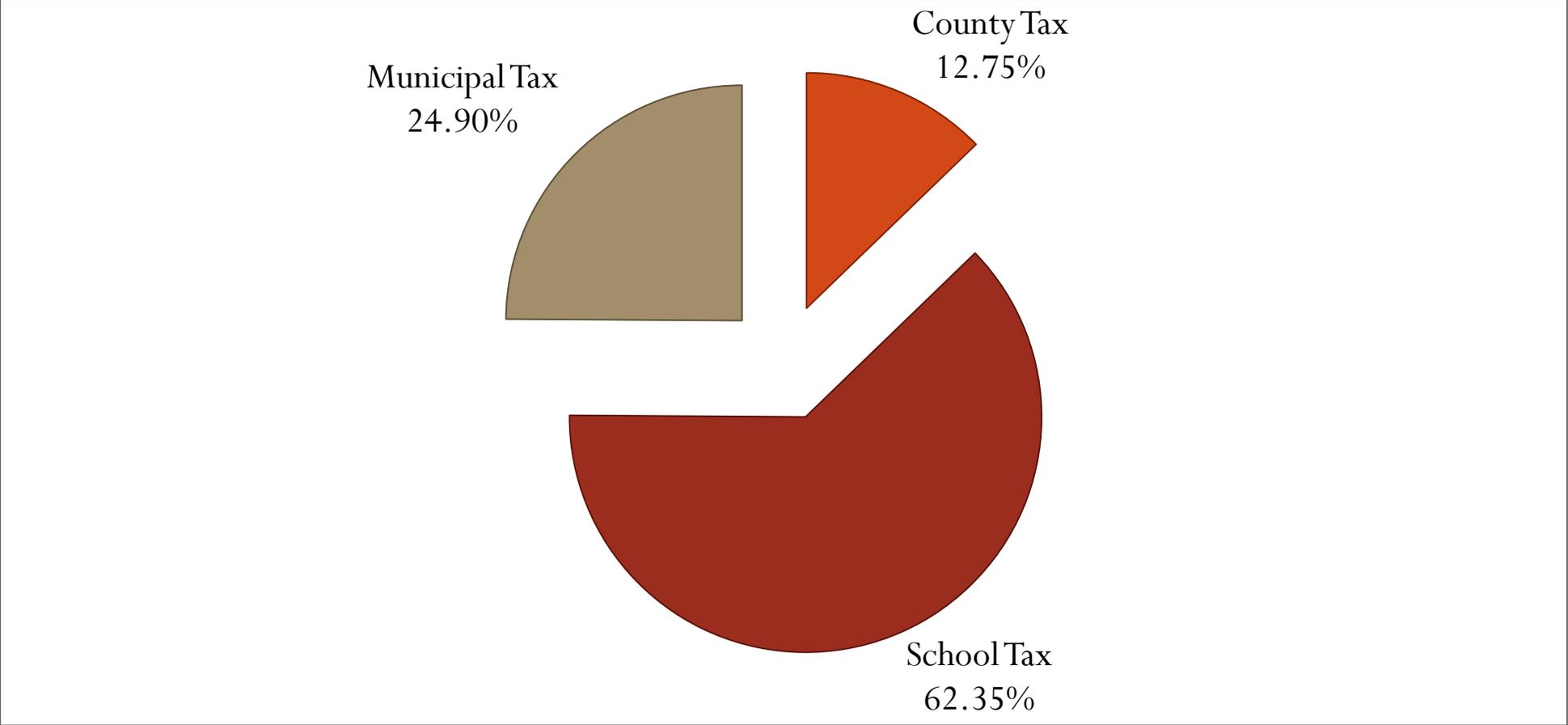
TAX APPEAL REFUNDS

- The **municipality** is burdened with returning monies that were collected for other taxing entities
- The other taxing entities do not have to return their portion
- The **municipality** has to come up with all of the money from its own funds
- In most cases, a **municipality** is one of the smallest components of the overall tax bill

TAX LEVY BREAKDOWN (DETAILED)



TAX LEVY BREAKDOWN (SUMMARIZED)



LONG TERM IMPACT OF TAX APPEALS

- Indicator of a declining ratable base
- Shifting of the tax burden to other taxpayers
- Shift from Commercial to Residential or vice versa

GROUP APPEALS

- We have seen an increase in the number of group appeals
- An attorney will send a blanket of letters to a neighborhood, townhouse association, or condo association encouraging a group filing of an appeal
- Once there is one successful appeal you are likely to see a snowball effect

PAYING FOR TAX APPEALS

- Impact on Current Year collections and the impact on Fund Balance
- Fund Balance (Surplus) levels are already at historic lows
- The forced return of appeals puts a municipality at risk of running deficits in Fund Balance (Surplus)
- So how does a Municipality pay for Tax Appeals?

CAP LAWS & RESTRICTIONS IMPOSED

- Municipalities are subject to a Levy CAP of 2%
- There are a couple of exceptions
 - Health Benefit Increases over the 2% but not in excess of SHBP increases
 - Pension Costs
 - **Debt Service** and Capital Improvements
 - Extraordinary costs incurred directly related to a declared emergency approved by the Governor

IMPACT OF TAX APPEALS ON THE TAX BASE

- What happens to the tax rate?
- Who covers those appeals?
- Redistribution of the tax effort

IMPACT OF A TAX APPEAL ON TAX RATE

Prior to Tax Appeal

Tax Levy	\$50,000	Tax Levy	\$50,000
Tax Rate	\$5.00/\$100 AV	Tax Rate	5.56/\$100 AV
Total Ratable Base	\$1,000,000	Total Ratable Base	\$900,000

- The example above assumes that there was a successful tax appeal which reduced the assessed value by **\$100,000**
- Notice that the tax effort does not change but simply impacts the tax rate itself

RESERVE FOR TAX APPEALS

- How to set it up
 - Budget Appropriation
 - A reduction to the amount realized for the Current Year Levy
- Funding Goals
 - What is an appropriate level to fund?
 - What was the worst tax appeal year ever experienced by the municipality? That would be a good starting point
- How do you get there?
 - Time and Money
 - Establishing and maintaining an appropriate tax appeal reserve may take several years of planning, commitment and patience

TAX APPEAL SETTLEMENTS

- In an ideal world, tax appeal settlements would involve future value reductions rather than reductions in the current year
- This eliminates the need to come up with the funding to return the tax money
- The tactic of a prospective tax assessment settlement allows the tax burden to be redistributed in subsequent year(s)
- Is a less controversial way of dealing with value inequities
- A good working relationship with your commercial property owners will help to facilitate this

STATE TAX APPEALS

- In the event that a municipality experiences a large number of State Tax appeals
- A refunding ordinance may be adopted, but requires approval of the Local Finance Board
- Allows the costs of the appeals to be spread over a number of years (Usually limited to 3-5 but may be more depending upon the circumstances)
- The refunding ordinance may only be used for settled appeals

CONCLUSION

- What we have learned is that there is a great need for **planning, planning and more planning**
- Without a good long range plan the municipality is at risk of financial pressures in excess of their financial means
- Planning includes not only how to pay for the appeals but also for how to mitigate the inevitable occurrence of appeals
- Planning should not occur in the bad years, it should be something that is accomplished during good times so that the municipality has the ability to endure the bad
- The planning process should take into consideration “Murphy”. What can go wrong will go wrong!

QUESTIONS

