

Every resident and business in Woodbridge Township that owns property can generally recall the amount they pay every year in property taxes but there are a multitude of factors that go into calculating that amount which are explained in detail herein.

AMOUNT TO BE RAISED BY TAXATION

Woodbridge Township, like every other municipality in New Jersey, is responsible for collecting property taxes for its own municipal budget as well as for the Board of Education, County of Middlesex and each of our nine fire districts.

Each of these entities goes through their own independent budget process and they then inform the Township of the amount they need to be raised from taxation to support their budget. The Township bills that amount and pays 100% of it to those entities even though we rarely collect the full amount from every taxpayer.

Every governmental entity calculates its amount to be raised by taxation by subtracting all miscellaneous revenues (State Aid, licenses, permits, court fees and fines, interest income, etc.) from its total appropriations and the difference comes from property taxes. This calculation is based only on these numbers and the value of property in a municipality has nothing do to with the amount of taxation that is necessary to balance a governmental budget.

The value of property impacts only the tax rates and not the amount of revenue from property taxes.

The following formula shows this calculation.

Amount to be raised by taxation
----- = Tax rate
Assessed value of Township property

For example, if a large warehouse opens up in town and pays \$1 million in property taxes, the Township, school district, County or fire districts do not suddenly have a windfall to spend their share of the tax revenue. All entities calculated their amount to be raised by taxation and they receive it regardless of what happens to the tax base.

An increase in tax ratables such as from the new warehouse will lower the actual tax rate that every entity pays (assuming all other things are equal) which is good news for all taxpayers but it does not impact any governmental entity's budget whatsoever. Likewise a decline in tax ratables from an economic downturn or by the closing of a large business in town does not mean any governmental entity suddenly has less funding to meet its operational needs – it just means the property tax rate will increase to account for the loss of property value.

Simply put, governmental budgets are not at all impacted by the value of property in a municipality. Increases or decreases in the property values in town simply impact the tax rate and not the amount to be raised by taxation.

ASSESSED VALUATION AND TRUE VALUATION

Every property taxpayer (individual or commercial) in a municipality has an assessed value associated with their property. The County also tracks the estimated true value of property from sales prices of homes and commercial buildings when deeds are filed there. The total assessed value of property in a municipality divided by the estimated true value of property produces an Equalized Ratio which varies town by town.

In Woodbridge, our ratio currently stands at 25.35%. By taking your property's assessed value and dividing it by .2535 you will arrive at the estimated true value of your property. For example, if your assessed value is the Township average of \$75,000 then your assumed true value is \$295,858.

TAX APPEALS

All property owners have the ability to appeal their tax assessment annually by April 1 by filing a document with the County of Middlesex. The amount of property taxes paid is not subject to appeal but that figure is based on the assessed value so that is the basis for the appeal.

To be successful in an appeal the property owner will generally have to prove that the real value of their property is at least 15% below what the estimated true value is based on the ratio in their respective municipality.

For example, using the numbers above, if your house has an assumed true value of \$295,858, your threshold is 85% of that number, or \$251,479. If you think your home value is less than that based on recent sales of comparable properties, then you have a possible case to appeal your assessment.

With today's high real estate market, it is much harder to prove a true value low enough to be successful in an appeal unlike prior years when a stagnant or declining market produced many successful tax appeals.

The municipality bears the entire burden in its operating budget for the refunds due to successful tax appeals and the amount is not prorated among the school district, County or fire districts. In prior years the Township paid out millions of dollars in refunds, particularly to commercial taxpayers, and we bore the full burden of that even though our share of those refunds was only 24%. When evaluating tax rates, this phenomenon results in a municipal tax rate that appears higher than it legitimately is while others appear lower.

PROPERTY TAX BILLS

As a fiscal year municipality, the Township bills property taxes twice a year – once in January with payments due February 1 and May 1 and once in July with payments due August 1 and November 1.

The Township and Board of Education operate under a fiscal year ending June 30 while the County and fire districts operate under a calendar year ending December 31. These differing operating years plus different budget timing regulations complicate the billing process.

The Township's annual budget is usually introduced in late July or early August and adopted in late August or September. Since bills go out before the budget is adopted, an estimate is made of the amount to be raised by taxation and it is billed in July and then in January the final amount is known so the balance is then billed.

The Board of Education adopts its budget before its fiscal year ends so the amount to be raised by taxation is known in July and it is then billed in four equal installments.

The County and fire districts work on an opposite cycle from the Township. Their amount to be raised by taxation is typically not known until February or March so the January bill for the first two quarters of the calendar year is an estimate and the July bill for the final two quarters then bills the balance when the budget is known.

Because of these differences the January bill is typically higher than the July bill. Anyone that wants to calculate their property tax increase therefore has to compare a full calendar year (January bill plus July bill) to the prior calendar year or even a full fiscal year (July bill plus January bill) to the prior fiscal year. Comparing the January bill to the prior July bill and doubling it is not an accurate indicator of the real property tax increase on each property.

CAPS ON PROPERTY TAX REVENUE AND APPROPRIATION INCREASES

All governmental entities in New Jersey have two very important restrictions in their budget process known as CAPs. There is a CAP on the percentage increase in the amount that can be raised by taxation and there is a CAP on the percentage increase in the amount of appropriations in the annual budget. Both CAPs are generally 2% and both have exceptions.

If all appropriations and all non-tax revenues grew at 2% in any budget year, the property tax revenue could go up by the same 2% with no stress on the budget. However, this is rarely the case.

State Aid represents a large portion of the Woodbridge budget at nearly 13% of all revenues. This amount has not increased in a decade. Assuming that appropriations only rise by 2%, other revenues would therefore have to rise by more than 2% just to stay even and make up for the fact that State Aid has not increased.

In Woodbridge our building permit fees increase substantially each year as residents invest in their properties. Other revenues, however, such as interest income, municipal court fines and costs and other permits and licensing fees typically do not grow at the same rate.

Payments in Lieu of Taxes (explained later) are a major source of revenue for the Township and these amounts are not subject to the 2% CAP and we typically see annual increases in double digits which is a real benefit with so many revenues frozen or restricted from increasing more than the CAP rate.

Fortunately, Woodbridge is also very conservative in our budgeting and we typically realize excess revenues over what we budget and we typically have unspent budget appropriations. Once we adopt a budget we then try not to spend it all. These all result in us having large surplus

balances which we then use to balance the succeeding year's budget. Our credit rating from Standard & Poor's is AA+ which is just a notch below AAA and this reflects our sound financial practices.

Keeping appropriation increases to 2% is another enormous task. Salaries make up over half of our operating budget and our staffing is at appropriate levels to achieve the programs and services that we offer to our 102,000 residents and businesses. We generally can keep salary growth to 2% because of frequent retirements of higher salary employees who are replaced with newer employees making less. However, fringe benefits for our employees are another matter.

We have achieved substantial savings in our health insurance costs but they still rise annually by more than 2%. Our pension payments are mandated by the State of New Jersey and are completely out of our control and they typically rise by 6-8% per year. General liability insurance, worker's compensation insurance and utility costs all tend to rise by more than 2% also though we do all we can to control these costs.

PAYMENTS IN LIEU OF TAXES

The Township is aggressive in our economic development efforts and we utilize a law that allows us to incent a company to locate in Woodbridge by offering them a tax discount through a vehicle known as Payment in Lieu of Taxes (PILOT).

PILOTs provide a DISCOUNT on taxes not an exemption from paying taxes. The key word in PILOT is **Payment**. Every entity in town be it a resident or business pays property taxes. The discounts we offer are typically from 10-15% off on the regular property tax bills.

Woodbridge is an attractive location for new business development. Developers will not build, however, unless their financial models can show that a venture will be profitable. Investors won't invest and lenders won't lend without reasonable assurance that their investments will provide a sufficient return on those investments and that their loans will be repaid.

The Township had many areas with sites that were contaminated from prior uses like chemical factories. Quite often the cost of cleaning these sites make development uneconomical and land would often stay fallow and vacant and polluted without government intervention. Vacant land produces very little in revenue to any governmental entity.

By offering these discounts, financial models that were not feasible suddenly "pencil out" and show a profit because of the 30 year long term savings in property taxes granted by the municipality through the PILOT program.

PILOT revenue is not limited by any percentage increase over prior year revenues. The Township's PILOT revenues typically rise by millions annually and are currently at approximately \$18 million annually with growth expected to reach \$30 million within 3-4 years.

These revenues really help us deal with the CAP on property tax increases by offering a unique revenue source that increases by more than 2% every year.

PILOTs are also offered under other extraordinary circumstances like site accessibility or soil conditions and they have the additional benefit of providing hundreds of jobs from the entities that open in or relocate to Woodbridge Township.

Many businesses such as warehouses or power plants can locate anywhere and competition is fierce among municipalities and among States to attract these companies so the attraction of cleaned up sites and job creation makes the decision to offer tax discounts a sound one.

PILOT revenues are collected by the Township just like regular taxes except that the Township keeps 95% of all PILOT payments for our municipal budget and the County of Middlesex receives the remaining 5%. The Board of Education and fire districts do not directly receive any funds from PILOTs.

As noted earlier, new development does not mean new revenues for any governmental entity. New development means an increase in the tax base – or the total assessed value of property in a municipality.

School district, County and fire district property tax revenues all come in to these entities at 100% of the amount they request regardless of what happens to the tax base in their jurisdiction.

As a result, no school district or fire district is harmed in any way financially when a municipality enters into a PILOT agreement.

A new development under normal taxation would result in a lower property tax rate across the board for all residents and businesses, but the PILOT tax revenue in the municipal budget balances that out because that revenue lowers the municipal tax rate similarly.

With PILOTs, the combined taxing entities (town, school district, county and fire districts) actually collect more than they would without PILOTs just using regular taxation so the bottom line is that this PILOT program really reduces the burden on all other taxpayers and saves them significant money in the long run.

DEBT SERVICE

The Township has outstanding general obligation bonds that were issued to provide the funds for road reconstruction, building improvements, vehicles, sanitary and storm sewer improvements, new playground equipment and other capital improvements.

Prior to issuing bonds, which typically happens every few years, the Township will issue one year notes that renew annually. Notes are subject to annual interest rate fluctuations upon renewal unlike bonds which have their interest rates locked down for the duration of the bond. Notes also can be paid down at each maturity unlike bonds which cannot be.

Bonds are often thought of as mortgages while notes are more like a credit line.

Debt service, or principal and interest on these bonds, is paid through a budget appropriation that is “outside the CAP”. This means that there is no limit to how much these payments can increase from year to year.

The Township is very aggressive in paying down notes every year and for the last six years we have averaged more than \$12 million annually in these prepayments in addition to what was legally required to be paid. This saves significant interest costs in the long run.

The Township’s percentage of net debt to the true value of property in Woodbridge is 1.418% as of June 30, 2021, the lowest amount in a decade. The State of New Jersey allows municipalities to be at 3.5% of the true value of property and any town higher than that needs special permission from Trenton to issue debt.

With growth in PILOT revenues and aggressive debt reduction the Township can have only minimal amounts of outstanding debt within the next 12 years.

SCHOOL PROJECTS

Despite the fact that the Board of Education is not negatively impacted financially from PILOT agreements, the Township has always felt an obligation to share our revenue windfall with the school district.

With our earliest PILOTs in the late 1990s, the Township made a significant contribution to the school district's computer systems to help them deal with the conversions required by Y2K. There were also donations to the fire districts and other entities in Woodbridge Township through our annual budgets.

The Township became very creative starting in 2007 when we issued a bond for the installation of a turf football/soccer field at Woodbridge High School, a new track and tennis courts and field lights at Colonia High School, tennis courts and lighting at John F. Kennedy High School and many other projects. We are paying off that bond with a share of PILOT revenues from warehouse expansions at FedEx and Wakefern, two projects which received PILOTs in the 1990s and which then built major additions to their facilities.

The Township by law cannot pay for a school district's building infrastructure but we can invest in any facility that is used by the general public on school grounds. We cannot pay for a roof or a boiler but we can pay for a field, track, gymnasium, auditorium, etc.

When it became obvious that Woodbridge would win a statewide competition among 20 municipalities to get one of three power plants while at the same time Prologis committed to building 2.5 million square feet of warehouse space in Port Reading we stepped up our investment in school facilities even more.

We borrowed nearly \$17 million and built eight more turf fields so that each high school had one for football/soccer, baseball and softball. We

added basketball courts, tennis courts, tracks, playground equipment, gymnasium floors, auditorium seating, a new community theater at Woodbridge Middle School, new parking lots and much more.

The debt service on the bonds is less than \$2 million annually and the revenue from the projects is over \$7 million per year so the Township can easily afford to have this work done. These projects, and not general taxpayers, provided and will continue to provide the revenue to pay off the bonds. The balance of PILOT revenues is used for tax stabilization and for other Township related capital improvements such as roads, sewers and parks.

These projects, because of their visibility to the general public, truly helped increase property values throughout the Township. Simply put, our fields were a mess, tracks could not be run on, tennis courts were cracked and the school buildings and grounds were simply not attractive.

The Township's economic development efforts did not stop there. PSEG opened a second power plant in Woodbridge. Arizona Ice Tea committed to a manufacturing facility. More warehouses opened up and many were filled by Amazon operations. Downtown residential projects like Station Village in Avenel were built.

To help attract residents to our downtown luxury apartment complexes the Township decided to use the next batch of PILOT revenues to fully pay for the 2017 school district referendum at \$57 million which passed overwhelmingly in a special election. A brand new Ross Street school with additional capacity of 150 students and a practically brand new Woodbridge Middle School with additional capacity of 100 were started.

School security was improved at every school in the district and technology advancements were made. Full day kindergarten was made possible by the Township's lease of the former St. Cecelia's School site in Iselin which became Oak Tree Road School 29 after the transfer of all elementary students from Kennedy Park School 24 just a few blocks away. School 24 then became the home of full day kindergarten for any schools without sufficient capacity to accommodate kindergarten students.

Once again, the PILOT revenues from these projects paid for the debt service on the referendum and not general Township taxpayers.

Three years later the Township attracted a 1.2 million square foot warehouse to the 54 acre site of the former Woodbridge Developmental Center which we purchased from the State of New Jersey for \$5 million. We then bought a nine acre tract next door from Conrail for \$2 million and sold both to The Morris Companies for \$51 million in cash plus a six acre site on Rahway Avenue that formerly houses Premiere Die Casting Inc.

A 2020 referendum at \$87 million also passed overwhelmingly which provided the funding for a new School 4/5 on the Premiere Die Casting site on Rahway Avenue in Avenel plus major additions to Lafayette Estates School 25 in Fords and Matthew Jago School 28 in Sewaren and the connection of independent pod buildings at Kennedy Park School 24 in Iselin and Lynn Crest School 22 in Colonia. School security was also included in the referendum.

The warehouse project will provide enough funding to pay for the entire referendum costs between the profit from the sale of the land plus the more than \$2 million in annual PILOT payments that will come in from the project. Taxpayers again are not covering the costs of the referendum – one warehouse is providing enough money to do that.

Debt issued for these two referenda is handled by the Board of Education and the Township has an agreement to pay the Board the exact amounts needed to pay the debt as it becomes due. Payments to the Board, like regular debt service, are outside of the CAP.

The Township therefore has created a unique vehicle to use PILOT payments which are unlimited to pay for principal and interest on school bonds that are also unlimited.

The Township's generosity also extends to our fire districts. We have purchased fire engines and other vehicles and we have invested in the firehouses themselves with major building improvements, all using PILOT revenues to benefit our nine fire districts,

The Township's first PILOT agreement was signed in 1999 and there are now nearly 30 such agreements with many more on the horizon. Not once in 22 years has any elected member of the Board of Education or any member of the school district administration or any representative of our nine fire districts ever expressed any dissatisfaction with the Township's policy of entering into PILOT agreements.

Surely these officials know the most about their annual budgets and the operations of their entities and if any thought they were being shortchanged or cheated out of funding in any way there would be a visible public outcry against the Township government. That simply has not happened. Only members of the public who are politically motivated and who do not understand the basic components of how PILOTs and property taxes work appear at Council meetings and post on social media to voice their displeasure about PILOTs.

SUMMARY

Governmental operations are impacted by the annual operating budgets of the Township, Board of Education, County and fire districts. They are not impacted at all by the value of property in a municipality.

The value of property impacts tax rates but it has no impact on how much an entity can raise from taxation or how much they can spend on appropriations.

Because of this, no governmental entity is impacted at all when a municipality enters into a PILOT agreement. In fact, because of the unique way in which Woodbridge aggressively uses PILOT revenues to improve our school district's community facilities in addition to firehouses and equipment, it is easy to see that the residents of Woodbridge Township see a tremendous benefit from Payments in Lieu of Taxes.

FREQUENTLY ASKED QUESTIONS

“Why do I pay more taxes than my next door neighbor when we have the same house?”

While the houses might be built exactly the same, the improvements to the home are likely different. One may have a finished attic or basement or central air conditioning or a built-in pool or any other amenity that causes the true value of the home to rise and therefore the assessed value also rises leading to a higher property tax bill.

“Why do people keep saying that these businesses are getting a tax abatement which sounds like they are paying no taxes at all?”

The answer to that is purely political. Critics clearly use the word abatement to do exactly that – imply that a business is not paying their fair share while residents do. This is not true. The power plant in Keasbey will give us over \$100 million over 30 years compared to less than \$100,000 that we previously collected on vacant, polluted land. Every project in town pays property taxes through the PILOT program and nobody is exempt from that liability.

“Why do we pay down debt in advance instead of lowering taxes?”

Paying down debt in advance is actually property tax relief. The Township avoids all future interest costs with every advance paydown and therefore our taxpayers save that money.

“Why can't the school district pay for their own athletic fields?”

The school district certainly can schedule another referendum and attempt to pass it to provide money for athletic facilities but the primary purpose of the Board of Education is to educate students. By the Township assuming this liability from the Board, the school district has more funding available for curriculum and instruction and for actual

in-class expenditures. They also can afford more teaching staff to keep class sizes low.

“You are telling me that when the Hess building was built the town or school district didn’t get to spend the money that came in from that?”

Exactly. And when the building was sold to the New Jersey Turnpike Authority which is a government-owned building and therefore tax exempt the town or district didn’t suddenly lose the ability to spend money in their budget. The new Hess building helped lower taxes and the sale of it caused a tax increase. There is no impact on local government budgets when the tax base of a municipality goes up or down.