

Taxpayers group wants panel to examine budget process

By JACK FICHTER

Cape May Star and Wave

CAPE MAY — The Taxpayers Association of Cape May is recommending City Council create a Municipal Taxation and Revenue Study Committee to conduct a comprehensive examination of current budgeting practices and the community it serves.

The association is recommending the committee consult with any and all sources of expertise, conduct public hearings, identify models of revenue sources and resource allocation and make a recommendation to council for a "fair and equitable revenue plan for Cape May."

Taxpayers Association member Dennis Crowley gave a PowerPoint presentation to council at its Dec. 3 work session. He said the organization wants to bring to council's attention the effect of the city budgeting process on the taxpayer.

Crowley said the association looked at census data to determine "what kind of town Cape May is because

it determines what kind of services you provide and also determines who pays for the services."

He said the data was depressing in regards to Cape May being a family-oriented community. Of the persons who own property and pay taxes in Cape May, 29 percent live in zip code 08204; 24 percent live elsewhere in New Jersey and 31 percent live in Pennsylvania, Crowley said.

"There is not a residential population in Cape May to a large degree," he said.

He said property owners from other states represent the lion's share of all kinds of properties in Cape May, with the exception of commercial properties. Crowley said Cape May essentially is a second-home, vacation destination and "very expensive."

According to 2017 American Factfinder U.S. Census Bureau data, in 2000, there were no residential properties valued at \$1 million or more. In 2017, Cape May had 186 home valued at \$1 million or more.

In 2000, the city had 47

homes valued from \$500,000 to \$999,999. In 2017, Cape May had 329 homes values \$500,000 to \$999,999.

"The increase in property values is one of the things that is working against encouraging people to move to Cape May on a full-time, family basis," Crowley said. "The population trends are equally depressing, if we're looking at the kind of Cape May we all want."

Population is in a downward trend with the exception of those between the ages of 60 and 80, he said, with the population of young people in decline.

"It looks like there is a lot of us old folks are moving into town," Crowley said.

Cape May has 4,297 housing units with 68 percent vacant, 21 percent owner-occupied and 9.7 percent rented, according to Census Bureau data. Crowley said of the owner-occupied units, many residents leave for the winter.

"Of the real population of Cape May, we're not quite sure," he said.

Crowley said the Taxpayers Association looked at the last 20 years of Cape May's budgets. He said the largest single source of property tax in Cape May is not the Lower Cape May Regional School District but the city government, which makes up 38 percent of the property tax bill. The regional school represents 26 percent of the tax bill.

"That trend has actually gotten worse over the last 20 years in terms of the size of municipal spending versus every other tax recipient," Crowley said.

The smallest source of property tax escalation from 2001 to 2018 was Cape May City Elementary School. City

government spending has gone from about \$4 million in 2001 to nearly \$10 million in 2019, he said.

"Progression is steady and it increases at a more rapid rate than any of the other tax entities," Crowley said.

Since 2001, the city government's chunk of property taxes has risen 140 percent, he said. Crowley said the ratable base comparing 2011 to 2019 has remained the same with 82 percent being residential properties.

He said Cape May's taxation is based on a ratable base of \$3.3 billion. Crowley said 78 percent of revenue comes from residential properties with 15 percent from commercial properties.

The city's average residential tax bill is \$6,453 with the median tax at \$5,300, Crowley said. The average commercial property tax bill is \$16,972, due to many being huge properties, he said.

The median commercial property tax is \$7,981. The municipal budget in nine years has increased from \$23 million to \$30 million, Crowley said.

He said 64 percent of the budget goes to municipal services. Crowley said the city has created utilities such as the beach utility and tourism utility on the assumption there are certain services that should be paid for by users.

Revenue for city services comes from self-sustaining utilities or general revenues, of which the lion's share is miscellaneous revenues and property taxes, he said. In 2008, of all revenue generated in the general miscellaneous revenue category, 48 percent came from property taxes.

In 2019, 52 percent of general miscellaneous revenue

came from property tax, he said.

"Revenue growth is taking place clearly within the property tax section," Crowley said.

He said Cape May and other coastal towns are seen as having "deep pockets." Crowley used the word "stagnation" to describe revenue from 2008 to 2019.

In that 10-year period, there was virtually no change in the actual dollar revenue generated by local revenue including licenses, fees, permits, parking meters, room tax and leases, he said.

"At the same time, property taxes were going up regularly to compensate for increased spending," Crowley said.

Crowley said there was no way to change the revenue patterns without finding other sources of revenue to avoid the "deep pockets" concept. He said alcoholic beverage licenses have generated the same amount of revenue for 10 years from fees to operate bars and restaurants.

On a graph, Crowley depicted how the lines for miscellaneous local revenue have not moved in nine years but the line for property tax increased. The gap between the spending and the property tax has remained about the same for nine years, he said.

"Which means the other forms of revenue are not helping at all," he said.

He said since 2009, general revenues are up 34.4 percent, property tax up 44.8 percent and general revenue, other than property tax, was up 24.7 percent. Creating utilities such as the beach and tourism utilities is referred to as cost-centered budgeting, Crowley said.

"It means that you identify all of the costs related to a certain function and all of the costs, and then you decide how you are going to generate revenue to support those costs," he said.

The beach utility has done a very good job by identifying costs necessary to operate the beach and has created a funding mechanism that the users of the beach pay, Crowley said. He said the Taxpayers Association believes cost-centered budgeting should be applied to all city services.

Crowley said the city

should look at who benefits from particular municipal services. He said essential stakeholders are property owners and taxpayers, permanent residents and local commercial interests. He said beneficiaries of city services are visitors, guests, customers and other commercial interests.

The police and fire departments and emergency services represent the largest share of Cape May's budget, Crowley said. He said in his analysis, it costs the city about \$8 million to provide police, fire and emergency medical services. Public safety receives \$1.2 million from the beach utility and interlocal agreements with neighboring towns.

"The rest of the \$8 million aggregate falls on property tax," he said.

Crowley said the property tax levy is \$10.3 million with \$6.7 million, or 65 percent, for public safety coming from property tax. The same type of cost analysis could be undertaken for public works, general government functions, recreation, utilities and tourist industry services, he said.

"A taxing entity and a spending entity that doesn't do this is shortchanging the people who put the money in," Crowley said.

The Taxpayers Association found the scope of municipal services is largely structured to support the tourism industry but the cost of those services is largely borne by Cape May's 3,800 taxpayers.

According to American Factfinder/Census Bureau data, retail, rentals and real estate and accommodations and food services in Cape May generated about \$222 million in 2012. Crowley said he examined the city's 2012 municipal budget showing revenue that supported the services to the tourism industry, which totaled \$4.1 million. About 20 percent of property taxes, or \$1.5 million, funded tourism-related items with rest coming from licenses, fees, parking meters and room tax.

He said it was unknown how much of the \$4.1 million revenue is driven back to support municipal services.

In 2011, the city's tourism utility was created to maintain Convention Hall, he said.

"It was also in the ordinance that was passed and in statements by the then council, they indicated costs such as debt service should be borne by a tourism utility, if that's possible," Crowley said.

He said each year revenues from the tourism utility exceed the expenditures, with a growing surplus fund. Crowley said money is being diverted from the general fund and from the surpluses to the tourism utility. Since 2012, \$3.5 million has been diverted from the general fund to pay the operating cost of Convention Hall with no debt service dollars reimbursed from the tourism utility surplus.

Crowley said the future is troubling with pending new expenditures for a public safety building, a library in the Franklin Street School, water system repairs, beach improvements, Convention Hall and Promenade improvements and purchase of new ambulances.

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