

**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

**MANAGEMENT OF TAX EXEMPT PROPERTY BY
SELECTED NEW JERSEY MUNICIPALITIES**

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BACKGROUND, AUDIT OBJECTIVE AND METHODOLOGY

Municipal governments in New Jersey rely, in large part, on property tax revenue to fund their operations. The State Constitution provides that all property in the State is to be assessed and taxed according to the same standard of value, with certain properties granted tax-exempt status. As of January 2011, those exempt properties constituted almost 12 percent of all assessed value in the State.

Property taxes are apportioned according to the assessed value of taxable property. The amount of taxable property in each municipality is known as the ratable base. Providing tax-exempt status to property increases the property tax burden for other taxpayers as there is less available property to be taxed, resulting in a higher tax rate being applied to the ratable base.

New Jersey municipalities generally employ a tax assessor who is responsible for determining if the legal criteria for tax-exempt status have been met. According to the State Constitution and various State statutes, property exempt from taxation includes property used for religious, educational, charitable or cemetery purposes as well as property used by exempt organizations such as volunteer fire companies, veterans' organizations and historic sites. In addition, the residence of a disabled veteran may be exempt from taxation, as are properties owned by the federal or State government and those owned by other government agencies and used for public purposes.

Municipalities may take ownership of property from private owners following a period of non-payment of taxes. This occurs through the tax lien foreclosure process. Properties acquired by municipalities through the tax lien foreclosure process are similarly exempt from taxation.

Municipalities may also grant other exemptions from taxation by entering into tax abatement agreements. Abatement agreements are authorized by the

municipal government and may be entered into to encourage local economic growth or redevelopment.

The objective of our audit was to examine the practices of selected municipalities concerning the granting of tax-exempt status to property owners, as well as the monitoring of such status. Our audit covered the period July 1, 2008 through March 21, 2013.

As part of our audit procedures, we reviewed applicable statutes, regulations, policies and procedures. We also interviewed staff at a sample of municipalities to gain an understanding of the processes through which they grant property tax exemptions and monitor continued eligibility to retain exempt status. We reviewed records related to property tax exemptions, compared the local property tax list to external sources, and visited properties to observe their use and condition.

We sought to select three geographically diverse municipalities for this review. As part of our selection process, we considered the types and number of exempt properties within each of those municipalities. The three municipalities ultimately selected were Paterson, Middletown and Bridgeton:

- The City of Paterson in Passaic County is the third largest municipality in New Jersey with a population of approximately 146,000. Its Fiscal Year 2012 budget totaled \$235 million. In Calendar Year 2011, Paterson's property tax list included 25,337 separate parcels of property, of which 1,762 were tax exempt.
- The Township of Middletown in Monmouth County has a population of approximately 67,000. Its Calendar Year 2011 budget totaled \$62 million. In Calendar Year 2011, Middletown's property tax list included 25,145 parcels of property, of which 965 were tax exempt.

- The City of Bridgeton in Cumberland County has a population of approximately 25,000. Its Fiscal Year 2012 budget totaled \$22 million. In Calendar Year 2011, Bridgeton's property tax list included 6,672 parcels of property, of which 986 were tax exempt.

To accomplish our audit objective, we reviewed property records in each selected municipality and the exemptions granted to disabled veterans as well as those granted to religious, charitable and other institutions. We also reviewed each municipality's fiscal and operating practices as they related to municipally owned property. In addition, we evaluated those properties granted a tax exemption as part of a tax abatement agreement. We also evaluated access controls in the computer systems used by the sampled municipalities to maintain local tax records.

This audit was performed pursuant to the State Comptroller's authority set forth in *N.J.S.A. 52:15C-1 et seq.* We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

SUMMARY OF AUDIT RESULTS

Our audit found weaknesses in the way the selected municipalities monitored tax exempt properties and properties obtained through the tax lien foreclosure process. We concluded that:

- Better monitoring of tax exempt property can help municipalities more appropriately distribute local property tax burdens. We specifically identified 11 parcels in the municipalities we reviewed that were receiving tax exemptions but actually were not eligible for an exemption. As a result of our review, these parcels have been placed back into taxable status.
- The sampled municipalities would benefit from better management of their municipally owned property. For example, Bridgeton, which owns a large amount of property it acquired through tax lien foreclosures, does not effectively market these properties for sale. Similarly, Paterson is failing to properly maintain its vacant properties, which can result in a decrease in the value of property in the area.
- Tax abatement agreements must be better monitored in order to hold the developer receiving the abatement accountable for meeting the terms of the agreement. For example, we reviewed one project that had received a 25-year tax abatement to build residences, a hotel and other commercial facilities. At the end of the abatement period, only the residences, which can be a burden on local property taxes, had been built. The commercial properties that would have added to the municipality's revenue stream were never built, without consequences to the developer or its abatement agreement.

We make 15 recommendations to address the weaknesses we identified.

AUDIT FINDINGS AND RECOMMENDATIONS

Municipally Owned Property

Municipally owned properties should be more aggressively managed and marketed.

In New Jersey, property owned by federal, State or local government entities is generally tax exempt. Such properties are used for a variety of purposes, ranging from the preservation of open space to serving as the location for government buildings. Municipalities also periodically take ownership of property from private owners following non-payment of taxes. The number of municipally owned parcels in Calendar Year 2011 in the three municipalities we reviewed was as follows:

Municipality	Number of Municipally Owned Properties
Paterson	220
Middletown	353
Bridgeton	634

From each municipality's property list, we judgmentally selected a subset of these properties and determined the nature and extent of their use.

In Paterson, we sampled 17 properties for review. Several of the properties were vacant land, and others contained idle industrial structures or were being used by other organizations such as the county college. Other properties were very small or otherwise difficult to use for development. One property recently had been purchased for future use as a city parking lot.

We observed the following:

- Two vacant properties owned by the city were improperly being used by private parties to park vehicles. The city should either prevent such misuse of the properties or seek compensation for the private use. After being notified of our observations, Paterson informed us that it is reviewing this matter.
- On one property, listed as a tax lien foreclosure, there was a private billboard carrying a commercial advertisement. Paterson officials were unaware that the billboard was on the property and therefore had not collected any rent or fee from the billboard company. Paterson estimated that the city could have been collecting approximately \$100 per month in rent. Tax records indicate that Paterson has owned the property since at least 2009. A publicly available State report of outdoor advertising permits shows that the billboard permit was first awarded in 1978. In response to our audit findings, Paterson informed us that it is taking steps to obtain the appropriate payments.

We also observed that Paterson is not properly maintaining some of its municipal property. Specifically, we observed that some of its vacant land was covered with litter and other property was painted with graffiti. Maintaining the city's property would not only enhance the property itself but can help stabilize surrounding neighborhoods and potentially increase the value of property in the area.

We separately note that we had to contact a series of Paterson officials to obtain basic information about the municipal properties we selected for our review. Paterson is seeking to hire a Director of Redevelopment to centralize the management of its properties. An accurate inventory and centralized management of municipal property is important to the city's efforts to implement a sound property management program.

In Middletown, we selected for review 36 properties owned by the township, 26 of which were listed as vacant land and 4 of which were listed as tax lien

foreclosures. The remaining 6 properties were listed as either recreational, residential, a transportation shelter, a detention basin or a utility building. Upon review, we noted that several of these properties were very small strips of land abutting other properties, while other properties were in flood zones or otherwise undesirable for development. We did, however, identify 4 of the 36 properties that appear to be marketable. When we inquired with Middletown about these properties, we were told that three of the four were being considered for auction in the current year and that the fourth property was being considered for future auction.

The City of Bridgeton owns a large number of properties, 80 percent of which were obtained through tax lien foreclosures. In 2007, Bridgeton authorized the sale of approximately 613 city-owned properties. As of January 2012, the city was still listed as the owner of 557 of those properties, with approximately 56 having been sold and, as applicable, placed back on the tax rolls. Bridgeton also sold an additional 15 properties that were not on the initial sale list.

We selected for review 41 of the properties still owned by Bridgeton. We visited these properties and noted that many were vacant lots, many of which were of insufficient size for building purposes. One other property was undergoing environmental remediation. When we reviewed the efforts to sell the properties, we found that Bridgeton is not availing itself of all means to advertise its available properties. Though its list of property for sale is available in city offices, it does not appear to have been published externally. Similarly, the list is not posted on its website. We also note that the New Jersey Business Action Center maintains a database to help communicate property availability to businesses seeking development parcels in New Jersey. Bridgeton has not been communicating with the Business Action Center to ensure that these parcels are included in the database. These low-cost efforts might assist Bridgeton in reaching additional potential buyers. While some of the Bridgeton properties may be too small to satisfy local zoning requirements for development, the

combination of several contiguous lots and rezoning efforts could yield property of sufficient dimensions for these purposes.

During the course of our review, Bridgeton separately disclosed that its current mayor is personally involved in a municipal redevelopment project as the president of a non-profit company that purchased land from the city. Bridgeton's City Council passed a resolution transferring land to that company. The mayor signed the resolution in his capacity as mayor. The mayor also signed for the city a memorandum of understanding between the company and the city memorializing the terms and conditions of the agreement between those parties. The mayor's dual allegiances appear to create a conflict of interest. While the Council later authorized the business administrator to sign any transfer documents on behalf of the city, a conflict arguably arises from the mayor's failure to recuse himself from this transaction. We are referring this matter to the Local Finance Board so that it may investigate and adjudicate any violation of the Local Government Ethics Law.

Recommendations

1. Paterson should ensure that its municipally owned property is properly monitored and used appropriately, and that all available revenue is collected.
2. Paterson should designate a single location within its government for the monitoring of city-owned property.
3. Bridgeton should consider advertising property for sale more aggressively, such as by placing a list of such property on its website and providing a list of properties that may be viable for business use in the New Jersey Business Action Center's real estate database.

Religious, Charitable and Other Exemptions

Municipalities should ensure that only eligible properties are deemed exempt from property taxes.

Use of Exempt Property

Under State law, property used for religious, charitable and various other purposes is exempt from property taxes. Such properties include, for example, churches, schools and fire stations. To qualify for an exemption, the property must be owned by a tax-exempt organization, be reasonably necessary for the fulfillment of the organization's purpose, and be used for an exempt purpose and not in advancement of a for-profit motive.

Pursuant to *N.J.S.A. 54:4-4.4*, when the owner of property used for an exempt purpose believes that the property may qualify for a property tax exemption, the owner is to submit to the local tax assessor an application known as the "initial statement." The assessor reviews the initial statement to evaluate the owning organization's purpose, the property's use and other information provided by the organization. If the exemption is granted, the initial application provides a record to indicate that the organization and the property were evaluated by the local assessor. The Department of the Treasury's Division of Revenue and Enterprise Services (DORES) (formerly the Division of Archives and Records Management) requires that the initial application be maintained during the term of the exemption and for one year following the termination of the exemption. Maintenance of this document is important in order to ensure that the property has met and continues to meet the legal qualifications for a tax exemption.

Every third year after the tax exemption is granted, the property owner must submit to the local assessor a short follow-up document known as the "further statement." The purpose of the further statement is simply to confirm the property's continuing tax-exempt status and use. DORES requires that the most

recent further statement be maintained by the local assessor and replaced as updated every third year by the property owner.

We reviewed a judgmental sample of initial and further statements in the three municipalities we audited. In Paterson, we selected 52 initial statements for review. Paterson was able to provide 47 of these documents. It could not locate the other five. We also found that Paterson had not obtained any further statements since its last property tax reevaluation began in 2005. The absence of an initial statement makes it difficult to assess the propriety of the initial granting of the exemption. Not obtaining further statements prevents the local assessor from properly reviewing the status of a tax exempt property on a periodic basis. We also note that although State law requires that the county tax board receive copies of all further statements, the Passaic County Tax Board did not have any on file from Paterson since 2004.

Of 28 initial statements selected for review in Middletown, the township could provide only 11 of those statements. Of the 28 further statements sought, 27 had been properly filed within the previous three years. In its response to a draft of this report, Middletown noted as to the initial statements that the current State record retention rules were not put into place until long after some of the subject properties already had received exempt status.

Bridgeton provided all 28 of the requested initial statements. Similarly, we found that all 28 of the further statements we requested had been filed within the required time frame.

Ineligible Properties

We compared the list of exempt properties in each of the selected municipalities to a list of entities whose non-profit status had been revoked by the Internal Revenue Service. We also compared property lists from the municipalities to a list of registered entities from New Jersey's business recording system to determine if a for-profit entity was conducting business at a tax exempt

property. We also reviewed property descriptions in the local property record, searching for indications that tax-exempt status was provided improperly. Based on this review, we identified a series of properties that we believed may no longer qualify as tax exempt. We visited these properties to assess their use. We then discussed our observations with the local tax assessors and asked them to determine the status of the properties. As a result of that review:

- Paterson placed seven properties back on the tax rolls. These properties were vacant, unused or no longer being used for their stated exempt purpose. Based on their 2011 assessed value and the applicable tax rate, these properties had a total net value of \$1,603,600 and would have generated \$40,330 in tax revenue that year, which instead was apportioned to other taxpayers in the municipality.
- Middletown is placing four properties back on the tax rolls. Three of these properties are unused, vacant land. The fourth property was owned by a non-profit entity, but the services being provided on the parcel were being performed by a for-profit company that had leased the property. These properties had a total net value of \$499,700 and would have generated \$10,429 in tax revenue in 2011, which instead was apportioned to other taxpayers in the municipality.

Property Tax Exemption for Disabled Veterans

Under State law, New Jersey residents who are war veterans and have either certain service-related disabilities or who have been declared 100 percent disabled by the U.S. Veterans' Administration are granted a full property tax exemption on their primary residence. The exemption also is available to the surviving spouse of a qualifying deceased veteran. The exemption is limited to one primary residence, which must be the location that the veteran regards as his or her permanent home.

Upon being declared disabled, a veteran may make an exemption application to the local tax assessor. The assessor confirms the veteran's disabled status, service history, primary residence and ownership of the property in question. Once approved, the application is to be retained by the assessor for three years beyond the term of the exemption in accordance with DORES record retention requirements.

Tax assessors may later request subsequent confirmation of continued eligibility from veterans claiming exempt status. Obtaining such subsequent confirmation is not required, but can be used to determine if the veteran has sold the premises in question or, for example, to determine if the veteran's surviving spouse has remarried and therefore lost eligibility for the exemption. The Department of the Treasury's Local Property Bureau has designed a form for local assessors to use to document continued eligibility.

We reviewed a judgmentally selected sample of files from each audited municipality to determine if the veterans' exemption is being properly granted. We did not identify any exceptions in Middletown or Bridgeton.

In Paterson, we tested 7 files out of a total of 28 properties listed as owned by disabled veterans as of January 2011. The local tax assessor was able to provide only three of the seven files we requested. We found no exceptions with those three files. The assessor stated that Paterson's current filing system is disorganized, presenting challenges concerning the retrieval of documents. By not maintaining such files, Paterson is not in compliance with DORES record retention requirements and is limited in its ability to confirm the initial and continuing exempt status of property owners.

In addition, when we inquired about the process Paterson uses to verify eligibility for the veterans' exemption, we learned that the city does not verify each veteran's residency as part of the application process, despite the fact that this requirement is printed on the back of the application. Similarly, Paterson

does not perform any subsequent verification that the veteran is still residing at the exempted property.

We separately analyzed property tax records for all tax exempt property listed as being owned by disabled veterans in New Jersey, which we extracted from data provided by the Department of the Treasury's Local Property Bureau. By conducting a name match, we sought to determine if the same person was improperly receiving more than one disabled veteran's exemption. We did not find any such exceptions in the three municipalities that were the subject of this audit. We noted, however, four instances of improper use of this exemption in other municipalities. We asked the local assessors in those municipalities to determine the eligibility for the exemptions. The assessors determined that three property owners were in fact improperly receiving multiple exemptions. Absent the improper exemption, the total property tax that would have been collected based on the applicable rate, assessed values and exemption periods we tested was \$19,404. In the fourth instance, we found that both the disabled veteran and his surviving spouse were deceased, but the subsequent owner nonetheless was continuing to receive exempt status. In that case, the property spanned two municipalities. While one municipality had been informed of the deaths, the other assessor had not been notified. The total tax for the property for the two-year period in question would have been \$17,463, which instead was allocated to other taxpayers.

Recommendations

4. Paterson and Middletown should retain initial statements in compliance with DORES requirements.
5. Paterson and Middletown should collect further statements from owners of exempt property in compliance with *N.J.S.A. 54:4-4.4*, and should follow up with those owners that fail to supply such documents to determine if they still qualify for the exemption.

6. Paterson and Middletown should periodically monitor the use of local tax exempt properties to ensure that only eligible properties are receiving exempt status.
7. Paterson should maintain all files related to disabled veterans' exemptions in compliance with DORES requirements.
8. Paterson should periodically confirm the continued eligibility of all properties granted an exemption due to disabled veteran status.
9. Paterson should confirm primary residence information before granting an exemption based on disabled veteran status.

Tax Abatement Agreements and Payments in Lieu of Taxes

Tax abatement agreements and payments in lieu of taxes should be monitored, and the cost and benefit of each proposed abatement should be considered as part of the award process.

Tax abatements are reductions of or exemptions from taxes granted generally to businesses and developers, typically to encourage them to make improvements to property or to locate a project in a distressed or blighted area. Municipalities grant tax abatements to enhance employment opportunities, attract residents and lure commercial establishments.

A payment in lieu of taxes (PILOT) may be agreed upon as part of an abatement agreement. A PILOT is made to compensate a municipality for some or all of the tax revenue it loses as a result of relieving the property owner of otherwise applicable tax obligations. Outside of the tax abatement context, a PILOT also may be agreed upon and made by a tax-exempt entity (e.g., college or public agency) to help defray the costs of providing municipal services such as police and fire protection. Municipalities initiate a PILOT through a resolution approved by the local governing body and set forth its terms in a financial agreement with the property owner.

The number of tax abatement agreements and other PILOT agreements in Calendar Year 2011 in the three audited municipalities is shown in the following table:

Municipality	Number of PILOT Agreements	Total Number of Parcels Covered by PILOTs
Paterson	23	428
Middletown	7	131
Bridgeton	12	71

We attempted to reconcile the PILOT payments received by each municipality to individual property records and reviewed the recordkeeping related to properties subject to an abatement agreement. We note in this regard that the State’s Department of Community Affairs is in the process of implementing a regulation that requires that information about a municipality’s long-term tax abatement agreements be included in the municipality’s annual financial statement. *See N.J.A.C. 5:30-8.8.*

Bridgeton maintains a list of local properties that are the subject of abatement agreements, along with a file containing relevant information for each agreement and related abatement. For the abatement agreements we tested in Bridgeton, we were able to reconcile the resolution and financial agreements to each property record.

Middletown was similarly able to provide us with a list of municipal properties covered by tax abatement agreements. However, the township does not have a system to track the expiration date of those agreements. Without such a system, it is possible that property covered under an abatement agreement may not be placed back on the tax rolls in a timely manner.

We requested specific information concerning the seven PILOT agreements in Middletown. Two of the seven files we received were missing both the municipal resolution and the financial agreement with the developer. One other file was missing the resolution only, and another was missing the financial agreement. Maintaining such documentation is critical in ensuring that the

township is aware of the developer's commitments to the township and is in a position to enforce those commitments.

In Paterson, in some instances we could not reconcile PILOT payments to particular municipal properties because of incomplete records. Specifically, local records did not distinguish which Paterson Housing Authority properties are the subject of a PILOT and which are not. The local tax assessor told us that he would have to meet with the Paterson Housing Authority to confirm which properties were part of a PILOT and to identify those others that continued to be treated as exempt based on their continuing governmental use. The inability to determine the specific properties that relate to each PILOT agreement will preclude Paterson from making the required reports in its annual financial statement.

In at least one case, Paterson has not taken the necessary action to realize the full value of its abatement agreement. Specifically, in 1986 Paterson granted a long-term abatement to a project that involved the construction of several hundred residences, a hotel and other commercial facilities. The residential property was granted a 25-year tax abatement while the other property was granted a 15-year abatement. The property owners received a tax abatement on the residences once they were built. However, the hotel and the other facilities were never built. Additional residences generally are a burden on local property taxes because of the added services (e.g., schools, sanitation) the municipality must provide to those residents. On the other hand, commercial properties are less demanding of municipal services and nonetheless add to the municipality's ratable base. Had the hotel been completed, Paterson would have been provided 2 percent of the estimated \$35 million project cost, or \$700,000 per year, in PILOT revenue for 15 years after the project was completed. The city has not taken any action to compel performance by the developer under the agreement or revisit the abatement that the developer received.

Paterson granted its most recent long-term tax abatement in 2008. The municipal ordinance related to this 15-year abatement stated that a cost impact analysis had been completed as part of the abatement process. Under State law, such a cost-benefit analysis is a required step in the tax abatement process. Local governments granting tax abatements are specifically instructed to consider the costs and benefits of an abatement, taking into account the “relative benefits of the project to the redevelopment of the redevelopment area when compared to the costs, if any, associated with the tax exemption.” *N.J.S.A. 40A:20-11*. However, when we requested this analysis from Paterson, the city was not able to provide it. Absent such a comprehensive cost-benefit analysis, municipalities such as Paterson are hindered in their ability to distinguish worthwhile redevelopment projects from arrangements that involve unnecessary tax losses.

Recommendations

10. Middletown should maintain relevant documentation pertaining to tax abatement agreements and PILOT payments.
11. Paterson should maintain relevant supporting documentation pertaining to tax abatement agreements and PILOT payments, and ensure that any future agreements are supported by a cost-benefit analysis.
12. Paterson and Middletown should ensure that all PILOT-related information is available for public reporting.
13. In its local property tax records, Paterson should maintain a list of all property covered under PILOT agreements.

Access Controls

Access to change property tax records should be limited to authorized personnel.

New Jersey municipalities use a computer system known as “MOD-IV” to maintain local property records. The use of MOD-IV provides for uniform preparation, presentation and storage of property tax information. Local tax assessors and their designees make entries, deletions and changes to property information, property values and other aspects of the MOD-IV records. This information is used for tax bills as well as statistical reports.

Paterson has a MOD-IV data center that is integrated into its financial system. Middletown and Bridgeton use an outside vendor to operate their MOD-IV systems.

We reviewed access to the MOD-IV data system in each audited municipality to identify any access control issues. Best practices for information systems security state that individuals should have the lowest level of access to a system necessary to perform their work. Best practices also provide that each user should have a unique user name to ensure that any changes to data that are made are properly associated with the responsible individual.

In Paterson, we found that information technology administrative staff has the same level of MOD-IV access as the tax assessor’s staff. Although the information technology staff makes changes to property records in batch form, that staff does not have a need to update individual records. The risk associated with this unnecessary access is compounded by the fact that the volume of changes made to the tax list is substantial. At times, thousands of changes are implemented at once. As a result, the assessor could easily fail to detect any single unauthorized change to a property record.

In Bridgeton, we found that the tax assessor was sharing a user name with another staff member. This similarly creates a risk that an unauthorized change may be undetected. We further found two still-active user names associated with employees who were no longer employed by the city. City officials took action to remove access for those users and establish individual user access names when informed of our findings.

We did not identify any information security issues in Middletown.

Recommendations

14. Paterson should provide a lower level of access to MOD-IV data to its information technology administrative staff.
15. Bridgeton should continue to ensure that MOD-IV access is revoked when employees no longer need access to those records.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Paterson, Middletown and Bridgeton officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A. We address selected points from one of the response in Notes set forth in Appendix B.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement and in accordance with *N.J.A.C. 17:44-2.8(a)*, following the distribution of the final audit report, Paterson, Middletown and Bridgeton shall report to the Office of the State Comptroller within 90 days stating the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. *N.J.A.C. 17:44-2.8(a)*.

CITY OF PATERSON
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Jeffery Jones
Mayor

April 30, 2013

Re: Management and Tax Exemption Audit
State of New Jersey
Office of the State Comptroller
Management of Tax Exempt Property
Paterson, New Jersey

Director Chalice,

I have read your Auditor in Charge, Mr. Morley's findings in reference to the Management and Tax Exemption Audit conducted by your office. I have made corrective changes and or recommendations in our department on an item per item basis as stated in your report in hopes of correcting any deficiencies and or changing past policies to reflect current records and policies to better adhere to New Jersey State regulations. They are as follows:

Municipally Owned Properties:

The Audit states the City of Paterson has some 220 properties as noted in the audit.

- A. Of the two vacant properties noted on page 6, one of the properties has been cleaned up and remains vacant, located on 45 Watson (B: 124, L: 13). The other property 59 Graham (B: 3008, L: 13) remains a vacant lot and continues to have cars parked on them. I have located the person using the lot. This person does not have any ownership rights and I have notified the Legal Department to the matters with necessary steps to vacate the lot.
- B. Billboard property, (Block: 608. Lot: 12) address 199-201 West Broadway. The billboard is a CBS leased billboard #3441. CBS leased the billboard from James Jesrally, 2640 Southwest 22nd Street Delray Beach, Florida 33445 who was the former owner of the property prior to the City of Paterson foreclosing on the property. I have requested and received from CBS information regarding the lease in which I will forward to our legal department determine what steps are necessary to seek any erroneous payments which were received after the City of Paterson foreclosed on the property, also to assume or draft another lease.

- C. As far as designating a single location within the government for the monitoring of city-owned property and having a central place to handle city owned properties and act as a property manager of the same, the City of Paterson has installed a new Director of Redevelopment-Ruben Gomez, he will be the responsible person to handle these properties. A list of disposable city owned property has been forwarded to Director Ruben and the Director of DPW for maintenance.

I have developed procedures, when the City forecloses on a property, I will conduct an inspection of the property and ensure the property has no noticeable issues. If so notify proper departments, DPW, Legal and ensure that the property will comply with the audit findings.

Religious, Charitable and Other Exemptions:

- A. The City of Paterson has placed 7 properties of concern from exempt status back to a non-exempt status.
- B. The Assessor's Office has reviewed and updated all new and existing exemptions files (Religious, Charitable, Veterans, Disabled Veterans, Senior, Initial and Further Statements) and has created excel sheets for all categories for easy tracking and periodic follow up and confirmation, regarding residency and maintaining exempt status as well as keeping in compliance with DRES requirements, record retention.
- C. Veterans, Widows of same, Senior Citizen and Disabled are all currently on an excel with date triggers in place to advise the Tax assessor's office of any disqualifying factor which will affect the exemption of same. All exemptions are being asked to provide identification of residence and other satisfying data required to process the application. If the applicant does not meet the necessary qualifications or necessary data required, they are notified of data necessary and should all else fail, denied with a form PD4.
- D. All exemptions are filed and held in file in compliance with DRES requirements
- E. The Passaic County Board of Taxation has received copies of all back copies to current date all further statement

I have implemented procedures in the assessor's office for filing and follow up on the exemptions so as to comply with the current audit and ward off non compliance and adverse future audit findings.

Property Tax Exemptions for Disabled Veterans:

- A. The Assessment Office has defined all of the 100% disabled veterans and or surviving Spouse and has confirmed an excel listing with the tax list and actual manual files with a follow up date to reconfirm the continuing exempt status.
- B. The Assessor's office will periodically and randomly spot check exempt Properties to ensure they remain in accordance with requirements for exemption.

I have implemented procedures in the assessor's office for filing and follow up on the exemptions so as to comply with the current audit and ward off non compliance and adverse future audit findings.

Tax Abatement Agreements and Payments in Lieu of Taxes:

- A. Paterson has had a number of Pilots (27 pilot agreements in total), with a total 428 parcels. The majority of the abated parcel number (Garret Heights) will be coming to fruition this year with 137 units expiring abatement. The balance of this complex, smaller amount will totally expire in 10 years. See exhibit A
- B. The Assessor's office is working with the Director of Community Development office and the Division of Internal Audit to maintain a developed list of all properties covered under PILOT agreements and abatements, log and track the Abatements as they currently exist, come through as an open application for approval and throughout the life of the abatement until they expired and are entered as a tax ratable line item.
- C. Any new abatements and Pilots will be reviewed and will require that it includes a Cost-Benefit Analysis before authorizing.
- D. Paterson Housing Authority properties which are in a PILOT and those Pilot Code registered by Paterson Housing Authority non-Pilot usage were identified and separated with specific coding, as well as confirmed & verified with an IT (Information Technology) run list.
- E. All abatements and Pilots are available for public reporting and are maintained in a Block, Lot, and Qualifier format. A list will be posted on the City Web Site as well as posted in the Assessor's Office (bulletin board) for public viewing.
- F. The Tax Assessor will promote with the legal department that the Legal Department and Department of Community Development ensure any future Abatement agreements incorporate some type of action that can be taken if a developer does not meet their contractual requirements, i.e.: bond held for life of abatement, etc... and that the agreement of abatement includes a thorough supported cost-benefit analysis specifying relative benefits of the project to the redevelopment of the area and neighborhoods concerned.

I have implemented procedures in the assessor's office for filing and follow up on the PILOT exemptions so as to comply with the current audit and ward off non compliance and adverse future audit findings.

Access Controls:

- A. The Tax Assessor has conveyed the concerns of the audit with the IT department Manager regarding access to make changes in the MOD IV Tax Assessment system and has had the Access Codes change to reflect that only 4 employees in the Tax Assessor's office have the function of changing records (code # 9). All other employees other than the 4 in the Assessor's office will have a "read only" (code #1). .**

I have implemented procedures in the assessor's office for to follow up on the MOD IV accessibility (run6 month recheck lists) so as to comply with the current audit and ward off non compliance and adverse future audit findings.

List of Abatement properties:

<u>PROPERTY NAME:</u>	<u>ABATEMENT TERM:</u>	<u>DATE INITIATED:</u>	<u>TERMINATION DATE</u>	<u>BLOCK/LOT:</u>
GARRET HEIGHTS	25 YEAR ABATE	VAR. DATES 88-97	VAR. DATES 2013-22	5103- VARIOUS
PHOENIX ESSEX	30 YEAR ABATE	11/10/1983	11/01/13	4601-8
ROSA PARKS	30 YEAR ABATE	10/1/1984	10/01/14	4202-4
BELMONT TOWERS	30 YEAR ABATE	3/1/1990	03/01/20	707-17
FEDERATION APTS	50 YEAR ABATE	10/8/1971	10/01/21	3408-9
GOVERNOR PATERSON TOWER I	50 YEAR ABATE	10/8/1971	10/01/21	6307-42
GOVERNOR PATERSON TOWER II	50 YEAR ABATE	10/8/1971	10/01/21	6307-42
GOVERNOR PATERSON TOWER III	50 YEAR ABATE	10/8/1971	10/01/21	6307-41
MADISON PARK	50 YEAR ABATE	10/8/1971	10/01/21	6903-1
COLT ARMS	50 YEAR ABATE	5/11/1972	05/01/22	3712-28
BROOK SLOATE	15 YEAR ABATE	7/1/2007	07/01/22	1101-1
ASPEN HAMILTON	40 YEAR ABATE	6/17/1983	06/01/23	3420-2
COOKE BUILD ASSOC	30 YEAR ABATE	11/1/1993	11/01/23	4609-11.01
I.N.C.C.A. CARROL	50 YEAR ABATE	9/16/1975	09/01/25	3111-38
504 MADISON AVE	50 YEAR ABATE	5/4/1977	05/01/27	3317-1
SHELTERING ARMS	30 YEAR ABATE	5/1/1998	05/01/28	4503-2,3,4
I.N.C.C.A TRIANGLE	50 YEAR ABATE	9/17/1978	09/01/28	3705-3 & 3708- 1
CHRISTOPHER HOPE '99	30 YEAR ABATE	3/15/1999	03/01/29	201-1
MARTIN DEPORRES/ JACKSON SLATER	50 YEAR ABATE	9/18/1979	09/01/29	6115-3
446-460 E. 19 th ST	30 YEAR ABATE	12/30/1999	12/01/29	3301-10
N. MAIN SCATTERED	30 YEAR ABATE	1/1/2001	01/01/31	VAR.LOTS
HOPE 98 BEECH ST	30 YEAR ABATE	1/1/2001	01/01/31	6305-1
VAN HOUTEN ST	30 YEAR ABATE	1/1/2001	01/01/31	4603-1
200 GODWIN AVE	30 YEAR ABATE	3/1/2001	03/01/31	3507-14
CONGDON MILLS	25 YEAR ABATE	10/1/2011	10/01/36	4601-12

BELMONT 2007	30 YEAR ABATE	6/30/2011	06/01/41	602-1
RISING DOVE SENIOR HOUSING	40 YEAR ABATE	5/8/2006	05/01/46	3501-35

May 3, 2013

VIA ELECTRONIC MAIL ONLY

A. Matthew Boxer, State Comptroller
Office of the State Comptroller
20 West State Street
Post Office Box 024
Trenton, New Jersey 08625

Re: Comptroller's Report On Management of Exempt Properties

Dear Mr. Boxer:

Please be advised that this office represents the Township of Middletown ("the Township") and has been requested to provide a brief response to your office's report. Overall, the Township was pleased to participate in this examination and found it to be a valuable exercise to ensure that it has solid procedures and best practices in place with respect to its handling of exempt properties. The Township makes no particular exceptions to your office's report, but would like to provide the following comments to add some important context to the sections relating to the Township.

First, as to the managing and marketing of municipally owned properties, the Township is pleased that no specific recommendations were made relating to its practices. The Township would like to add, however, that three of the four marketable properties mentioned in this section of the report will be up for public auction on June 13, 2013. The Township has conducted similar auctions almost every year as properties owned by the Township became marketable by clearing title encumbrances or addressing other issues that help increase the value of the properties before they are auctioned. Previously, the remaining marketable property referenced was already in the process of being conveyed to a non-profit organization to be utilized for affordable supportive housing pursuant to the Township's housing plan. The Township plans to continue to auction marketable properties obtained through tax foreclosures or other means. This process was previously handled by Township staff which was laid off about three years ago and is now handled by the Township Attorney's office.

Second, with respect to religious, charitable and other exempt properties, it was stated that the Township could only produce 11 of 28 initial statements requested, but that 27 of the 28 current statements were accessible. It should be noted that some of the subject properties have been exempt for longer than the statute requiring initial statements has been in place. Specifically, N.J.S.A. 54:4-4.4, which requires initial statements for exempt properties, was not enacted into law until 1951. Further, today's record retention rules were not in place until long after that time. Regarding the four properties placed back on the tax rolls, three of them are unusable property owned by a single properly exempt religious institution that will likely simply foreclose on these unqualified lots and end-up exempt again in the Township's hands. The last property, which represents the great majority of the value cited in your report, is a group home that was established by a non-profit but is now operated by a for profit entity. As such, it has been placed back on the rolls, but the Township anticipates that this determination could be challenged in court.

Third, with respect to tax abatement agreements, the Township acknowledges that it requires improved practices and procedures in relation to its recordkeeping and monitoring of tax abatement agreements and exhibits required to be affixed thereto. It should be noted, however, that almost all of the Township's abatement agreements are for long-standing public affordable housing projects financed through the HMFA or HUD, and not entered as part of areas in need of redevelopment to private parties. These properties will likely never come off of such agreements and will be renewed as controls expire as the Township recently did with one of these properties while reforming its abatement agreement at a better rate upon renewal.

Finally, the Township has no comments in relation to the security of its MOD-IV system to which no comments or recommendations were made in your report.

The Township is appreciative of the time your staff took to work with the Township's employees to gather the information for this report and the follow-up provided regarding the same. We are hopeful that these recommendations assist other municipalities in their handling of exempt properties.

Office of the State Comptroller
May 3, 2013
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Please do not hesitate to contact me should you have any questions regarding the submission of these comments.

Very truly yours,

ARCHER & GREINER
A Professional Corporation

By: 

Brian M. Nelson

BMN:fjd
Enclosures.

cc. Anthony Mercantante (via electronic mail)
Charles Heck (via electronic mail)
Nick Trasante (via electronic mail)



181 East Commerce Street, Bridgeton, NJ 08302

Bridgeton City Mayor
Albert B. Kelly

Bridgeton City Council Members
Gladys E. Lugardo
William D. Spence
Jack Surrency
Dennis Thompson
Michael D. Zapolski, Sr.

May 2, 2013

Mr. William P. Challice
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625 – 0024

Re: Management of Tax Exempt Property by Selected New Jersey Municipalities
Audit Report

Dear Mr. Challice:

Thank you for the opportunity to respond to the subject report. We had the opportunity to meet with Mr. Morley and other members of the staff to discuss the draft audit in March 2013. We raised some objections to the report and some of the issues that were discussed were corrected. We object to other comments and assumptions made in the audit report.

The stated Objective of your audit was "to examine the practices of selected municipalities concerning the granting of tax exempt status to property owners." We strongly believe that the audit team went well beyond the objective and have incorporated "perceived facts" that do not relate to the granting of tax exempt status to property owners.

Under the section entitled Municipally Owned Property, you present a situation concerning the sale of a property to a "tax paying" nonprofit company and are referring this matter as an ethics issue to the Local Finance Board. We most strongly object to your characterization of this issue as an ethics violation as the audit team fails to present the facts as they exist. First, you state that Bridgeton's City Council passed a resolution transferring land to the nonprofit company and that the Mayor signed the resolution in his capacity as mayor approving the transaction. During our review meeting, we specifically advised that action taken by City Council by Resolution stands on its own; action by the Mayor is not needed to either approve or veto the action of City Council. However, the Mayor does approve or veto the action of City Council taken by Ordinance. The sale of the property to the "tax paying" nonprofit organization was authorized by a Resolution of City Council and City Council provided the authority to the Mayor and City Clerk to sign the documents. This was not an action taken unilaterally by the Mayor and the Resolution was publicly advertised and publicly enacted. It was pointed out in great detail to the audit staff that there was an administrative error in this property transaction which, upon action of the City, corrected the situation. The audit team was provided with a copy of the sales agreement for the property signed by the City Business Administrator, not the Mayor. The Sales Agreement superseded the Memorandum of Understanding signed by the Mayor as authorized by City Council. The audit team chose to

Comptroller Note 1

ignore this document as the only legitimate document for this property transaction. The audit team, in referring this matter to the Local Finance Board, will in fact create greater additional expenses and costs for the City of Bridgeton where there has been no violation of the Local Government Ethics Law. This will be a waste of time and expense for both the Local Finance Board and the City of Bridgeton.

In the section entitled Property Tax Exemption for Disabled Veterans, the audit team did not find any exceptions in the three municipalities that were the subject of this audit. However the audit team did find it appropriate to pat themselves on the back by noting that they found the improper use of this exemption in other municipalities. The City of Bridgeton questions the validity of this statement in this audit when the three municipalities that were the subject of this audit followed the correct procedures.

Comptroller Note 2

In the section entitled Access Controls, an issue was uncovered in Bridgeton regarding user name access to the "MOD-IV" system used to maintain local property records. During the audit staff inspection, upon notation of this issue, Bridgeton corrected the situation immediately. However, the audit staff provided a recommendation in this area that Bridgeton should continue to ensure that access is revoked when employees no longer need access to the records. The audit team, by filing this recommendation, has again created an unnecessary expense for the State of New Jersey and the City of Bridgeton to file a report stating that corrective action has been taken for this recommendation. Considering the recommendation was complied with when the staff was in Bridgeton, there appears to be no additional information to be provided to the State of New Jersey.

Comptroller Note 3

The City of Bridgeton sincerely appreciates the work the audit team completed and we were very pleased that our records and procedures meet the requirements of the State of New Jersey. It is unfortunate that the audit team could pat themselves on the back for work that they did prior to this audit but failed to acknowledge that the City of Bridgeton maintained excellent records and monitoring of the granting of tax exempt status to property owners, which was the objective of the audit.

Very truly yours,

CITY OF BRIDGETON



Albert B. Kelly, Mayor

cc: Dale Goodreau, Business Administrator
Kevin Maloney, Tax Assessor
Rebecca Bertram, City Solicitor

APPENDIX B
COMPTROLLER NOTES ON AUDITEE RESPONSES

The following notes correspond to the auditee responses as indicated in the margins of those responses.

- 1) The mayor participated in his official capacity in the city's transaction with a company of which he is the president, including signing two transactional documents on behalf of the city. It is the statutory role of the Local Finance Board to determine whether an ethics violation occurred in such circumstances, which will include consideration of the fact that subsequent documents were signed by the business administrator and not the mayor.
- 2) The primary purpose of this analysis was to determine if there was improper use of the disabled veterans' exemption in the municipalities that were the subject of this audit. Because New Jersey law limits disabled veterans to one such exemption in the State, it was necessary to include a test of all of the State's municipalities to identify improper use of this particular exemption.
- 3) State law requires that an agency audited by the Office of the State Comptroller submit a corrective action plan in response to the audit. *N.J.A.C. 17:44-2.8(a)*. We are not aware of any expense associated with Bridgeton including in that document a sentence stating that it is continuing to comply with applicable information technology security-related measures.