



## OFFICE OF THE GOVERNOR

### NEWS RELEASE

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## Gov. Whitman Signs Legislation Reforming Energy Tax, Lowering Consumer Rates and Continuing Municipal Property Tax Relief

Gov. Whitman today implemented the 14th tax cut of her administration and ensured the continuation of one of the most important sources of municipal property tax relief when she signed legislation that reforms the state's energy tax. This reform will lower by nearly half the amount of tax that all New Jersey consumers pay in their electricity and gas bills and will ensure a fair and competitive energy market.

"The energy tax reforms that we are putting in place today will put more money back in the pockets of gas and electric consumers throughout the state and will guarantee continued property tax relief for municipalities through a stable funding mechanism," said Gov. Whitman. "This new law will not only stabilize the amount of funding that towns receive, but it will also actually increase the amount over the next five years."

The legislation revises the tax code in anticipation of the deregulation of the electricity, natural gas and telecommunications markets. The law eliminates the Gross Receipts and Franchise Tax (GR&FT), which is levied only on regulated utilities and not their competitors, and replaces it with a combination of the Corporate Business Tax (CBT), the sales tax levied on retail sales of gas and electricity and a Transitional Energy Facilities Assessment (TEFA). The TEFA will be levied on energy utilities that currently pay GR&FT;

In the first year under this new tax system, calendar year 1998, the TEFA will be set to maintain revenue neutrality with GR&FT.; Beginning in calendar year 1999, when the TEFA will be phased down by 20 percent per year until it is eliminated in 2003.

Currently, the GR&FT; is passed through to customers in their bills. This tax reform mandates that all savings from this tax reduction also be passed on to consumers. The phase-out of TEFA is expected to amount to \$350 million in savings to utility consumers. GR&FT;, which accounts for approximately 13 percent of consumers' bills, will be replaced by a seven percent tax, resulting in a 45 percent reduction in energy taxes for all consumers.

Prior to the enactment of this law, the state was experiencing a decline in GR&FT; revenues, one of the largest single sources of municipal revenue. The decline was based upon a shift in the market toward the use of non-utility power producers and out-of-state gas suppliers, which were not taxed under GR&FT.; Additionally, large industrial firms switched to cogeneration for their electricity, allowing them to avoid paying GR&FT.;

"This new law levels the playing field for utility companies and their competitors in a deregulated market. The law will ensure that all energy providers will be taxed fairly and that all consumers' energy rates will be reduced. It will also guarantee that we will have more money to send to towns to help relieve their property tax burden," she said.

This new legislation will ensure a stable and continuing funding source to provide municipalities with property tax relief. Companion legislation, A-2824, which has been approved by both houses of the legislature, will guarantee steady and rising rates of property tax relief to municipalities and will also specify the distribution formula for the funding. This companion bill will guarantee municipalities \$740 million in property tax relief in 1998, rising to \$755 million over five years.

In 1995, the Governor appointed a joint Board of Public Utilities and Department of Treasury task force to review the GR&FT; and recommend revisions in anticipation of the inevitable market changes. The task force held a number of public hearings and workshops to solicit input from stakeholders including municipal officials, energy producers and consumers. Community and government groups including the League of Municipalities and the Conference of Mayors played an important role in the development of the Governor's energy reform plan.

The legislation signed by the Governor, A-2825, was sponsored by Assembly Members Richard Bagger (R-Middlesex/Morris/Somerset/Union) and Paul DiGaetano (R- Bergen/Essex/ Passaic) and Senate President Donald DiFrancesco (R-Middlesex/Morris/Somerset/Union) and Senator Peter Inverso (R-Mercer/ Middlesex).

Throughout her administration, Gov. Whitman has remained committed to lowering the overall tax burden on New Jersey citizens. She has cut taxes 14 times, including a 30 percent reduction in the personal income tax for most New Jerseyans. The administration has also enacted a number of business tax cuts to spur economic growth and job creation. During Gov. Whitman's term, these policies have helped create more than 185,000 net new jobs.

Gov. Whitman has also provided municipalities with a stable level of state aid, added budget savings and a variety of tools and programs to help local officials control property taxes paid by local residents. In 1996, as a result of these efforts, combined with smart fiscal management by local officials, New Jersey municipalities experienced the third smallest increase in property tax levies in 20 years.

A list of the Governor's initiatives to help municipalities control property tax rates is attached.

### **The Whitman Administration Budget Savings and Tools Provided to Municipalities to Help Them Keep Property Taxes Under Control:**

Signed legislation that reforms the binding arbitration process, providing local government with the tools to control spiraling employment contract costs.

Signed legislation implementing a state mandate/state pay amendment to the constitution to put an end to the imposition of unfunded mandates on municipalities.

Streamlined municipal aid programs -- held direct aid unchanged at \$1.5 billion, and held municipal aid steady overall.

Absorbed the cost of the county court takeover, saving municipalities in excess of \$250 million in property taxes.

Enacted a property tax deduction for state income taxes -- generating \$100 million in direct property tax relief to New Jersey citizens this year alone.

Improved management of the State Health Benefit Plan resulting in \$97.2 million in savings for municipalities -- which could be directly applied to property tax relief.

Provided Local Government Budget Review teams through the Department of Treasury to help local officials identify potential cost savings and efficiencies on the local level. The program has performed more than 36 local budget reviews for school districts and municipalities, identifying nearly \$100 million in savings and efficiencies.

Provided municipalities with the "Local Official's and Taxpayer's Guide to Performance Reviews," a manual which provides the framework for public officials and taxpayers to begin internal examinations of their communities to reduce the reliance on property taxes.

Advocated the sharing of services between municipalities wherever possible to improve efficiency while maintaining the same high level of service.

Supported legislation allowing municipalities the flexibility to manage infrastructure costs through innovative public/private partnerships.

Increased direct aid to school districts by \$398 million -- helping municipalities control costs.

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