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MEMORANDUM

TO: City Council
FROM: Jason Freeman
RE: Resolution Authorizing Estimated Tax Billing
DATE: May 20, 2020

On the May 20, 2020 Hoboken City Council meeting, there is an agenda item entitled “Resolution Authorizing Estimated Tax Billing Per NJSA 54:4-66.3.”

Estimated tax billing for the third quarter of this year has been discussed and agreed to over several meetings with the Finance Subcommittee. A recent Local Finance Board Notice from the Division of Local Government Services (DLGS) of the Department of Community Affairs supports the consensus of the Finance subcommittee to issue estimated tax bills for the third quarter of this year. DLGS recommends that Estimated Tax bills be issued this year for the third quarter due to the delay in adopting a municipal budget in 2020. This delay is due to the financial and economic uncertainties resulting from the COVID-19 pandemic.

Estimated Tax billing is a municipal finance tool to help defray spikes in costs to the taxpayer. Each year, the first and second quarter property taxes are due prior to adoption of a budget for the calendar year. As tax rates are not yet certified for this period, a preliminary billing for these quarters is done based on the prior year’s final certified tax rate. The remaining two quarters are generally then billed based on the actual tax rate, including any necessary adjustment to “catch-up” the first two quarters.

The total tax rate in Hoboken is made up of five components: 1. Municipal Tax 2. County Tax (including County Open Space Tax) 3. Board of Education Tax 4. Library Tax 5. Municipal Open Space Tax. Municipal and County taxes are the two largest components. We now know the 2020 levy for the Board of Education (7.7% increase), Library (1.1% increase), and Municipal Open Space. The increase in these three items is approximately 2.6% increase to the 2020 Levy. As mentioned previously, the third and fourth quarter tax billings (August and November) absorb the full amount of any increase in the 2020 levy.

As mentioned in a previous memo from Director Marks, at the beginning of 2020, the City anticipated an operating shortfall of \$7+ million. At that time, the shortfall was created due to a number of factors, including: increased pension costs, increased medical costs, potential reductions in revenue, and continued projected increases in contractual labor costs.

The City has made progress in finding savings in a few of those areas which have proven helpful to closing the budget gap, but due to COVID-19, many of the revenue streams that the City has relied on, have seen substantial reduction.

Another component of budget preparation is determining the appropriate amount of surplus to be included in the 2020 budget. As previously, stated the City regenerated \$5.1 million in 2019, while including \$11.5 million in the 2019 budget. This additional difference adds another factor in budget preparation and one that has been discussed many times with the finance subcommittee.

The Administration recommends that the City Council approve an increased estimated third quarter tax bill based on a 5% increase in the total levy to mitigate the possibility of an outsized bill for taxpayers in November 2020. By passing this resolution, the City Council allows for flexibility and less pressure to be put on the taxpayer come November 2020.

We are continuing to work on the Introduced Budget and plan to have a draft to the Council in June, but there still remains a great deal of uncertainty surrounding the different decision points to be able to present as accurate as possible budget at this meeting. We have been working on this and discussing many of these decision points with the Finance Subcommittee. Our goal is to introduce a budget that is not only based in sound financial principles, but also to have as much accurate and up-to-date information as possible.

As we continue to finalize the figures and the budget totals, an estimated tax bill for the August 2020 cycle will begin to right-size the taxes based on potential and actual increases in the five components of a tax bill. It will also enable the City to have sufficient cash flow to pay the taxes to these other entities and to continue to operate our essential functions. Thank you for your consideration on this matter.