

January 27, 1941

BOROUGH OF ALLENDALE, NEW JERSEY

COMPARATIVE SUMMARY OF THE BUDGETS FOR THE YEARS 1941 AND 1938

	<u>1941</u>	<u>1938</u>
Cost of Local Government	\$21,275.00	\$39,628.74 *
County and State Taxes	21,000.00	25,718.23
Local School	42,529.00	45,321.25
Bonds retired	13,000.00	13,000.00
Interest on Bonds	4,700.00	6,900.00
Miscellaneous	200.00	1,100.00
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Total appropriation for all purposes	102,704.00	131,668.22
Deduct anticipated revenues	30,370.00	46,795.00
Deduct surplus cash	17,000.00	12,090.70
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Leaving amount to be raised by taxation	55,334.00	72,782.52
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Net Valuation taxable	\$1,785,193.	\$2,357,624.
Percentage of collections anticipated	80%	70%
Tax rate per \$100.	\$3.88	\$4.37
If comparison of the rate for 1941 is to be made with that of 1938 the valuations existing before re-assessment should be applied, in which case the tax rate for 1941 would be	\$2.90	

* Includes provision for extraordinary expenditures amounting to \$3,500.

NOTE: The figures for 1938 were prepared by the Borough Auditor from the published budget of that year as amended by the County Board of Taxation.

The budget for 1941 was prepared by the Mayor and the Finance Committee and was reviewed by the Borough Auditor. He has not completed his audit but the figures used are believed to be substantially correct. They must pass review by the Commissioner of Accounts and by the County Board of Taxation.

ALLENDALE, N. J.
January 27, 1941

To the Taxpayers:

I asked you to meet with us tonight to help us consider our budget for 1941 and to discuss various matters relating to our Borough finances.

On an occasion such as this one it is desirable to get to the crux of a matter at once and avoid suspense. I will do this by telling you that since this administration took office in 1939 we cut our cost of government as well as the County and State taxes severely. Comparing the budget of 1941 with the year before the present administration took office (1938), the total savings on these two items amount to well over \$21,000. I will deal with this subject more fully later.

I knew that money could be saved all around but I had no idea that it would come to such a figure as \$21,000. a year. This result could not have been achieved but for the un-wavering support of the majority of the council and of the sympathetic cooperation of our citizens.

PUBLIC DEBT

Before going into any details, I want to impress on you that the one thing that has been conspicuously wrong with our finances for many years, remains wrong now, and will continue to be wrong for about another ten years, is the large sum which the taxpayers are paying each year for a dead horse. Nothing can be done about it but it is distressing even to think of it. I refer to the yearly payment for bonds and interest which this year amounts to \$17,700.

No benefit did the Borough ever get for this money, nor for any of the similar annual payments made in past years, nor for the \$130,000. odd of bonds still to be paid off in the years to come.

If our Borough affairs had been run properly we would be debt-free today. Not only that, the taxpayers would, in the last 8 or 10 years, have saved in their taxes another \$100,000. at least.

I cannot give you minutely accurate figures because the old records are missing, but enough of the important items is known to give a rough outline of where a lot of the taxpayers' money was wasted.

1. Unnecessary capital outlay for the Water Department.	\$110,000.
2. Interest on that investment for 12 years.	25,000. at least
3. Money wasted on the Police Department and in other departments in 10 years.	<u>120,000.</u> at least
	\$255,000.

To this figure should be added probably \$50,000. more which we paid unnecessarily for State and County taxes since 1928 because the job of re-assessment was neglected. It is therefore no exaggeration to say that well over \$300,000. of taxpayers' money was actually wasted during the years from 1928 to 1938, nor can it be truthfully denied that we should not now be paying out \$17,000. a year, or thereabouts, to get rid of a debt of which \$130,000. is still outstanding, and which would not exist if our Borough affairs had been dealt with in years gone by as a trust.

To drive home what this means to the taxpayers, let me remind you that in 1941 the items of bonds retired and interest amount to nearly one dollar a hundred

in your tax rate.

RE-ASSESSMENT

The purpose of re-assessment was to correct a bad situation which got worse with each passing year.

- (a) Many of our properties were over-assessed and,
- (b) As a result of this over-assessment, we were paying too large a sum of money each year for County and State taxes.

You are aware that the taxes levied on municipalities by the County and the State are based on the total assessed valuation of each municipality and therefore, the higher the assessed valuation of a municipality, the higher are its County and State taxes.

Since our valuations were known to be too high, we undertook a re-assessment during the year 1939 in order to get a reduction of County and State taxes for 1940 and thereafter.

We could not get to this job until after the Police case was under way and by that time we were exposed to the risk of losing the reduction for the year 1940 because the official review could not be finished within the time limit. In order to minimize this risk we had the expert, whom we engaged, make a preliminary tentative review of only the buildings (which review cost us nothing but which reduced our assessed valuation by nearly \$400,000.) and we put off until the following year the preparation of the complete and final job.

This preliminary work took a few weeks to prepare. As I have stated, it covered only the buildings, no land. It could not help contain some errors but we tolerated them because they would be corrected later when the whole job, including land, would be done with care and deliberation. This will explain why some taxpayers will find that their re-assessed valuation for 1940 was changed again in 1941.

In doing the job by halves, so to speak, we saved in County Taxes in that one year alone (1940) a sum equal to the cost of the re-assessment. We will, of course, save a larger sum every year hereafter, as I will explain later. That re-assessment was an investment which yields our Borough a return of well over 200% per annum.

Since the assessed valuation is one of the prime factors on which the tax rate is based, and since re-assessment changed that basis, it is obvious that after re-assessment the resulting tax rate can no longer be used to make entirely valid comparison with the rates of previous years when the old valuations prevailed. But there is no other way to salvage the large sum which we were sacrificing each year to the County and State, and besides we must begin sometime to educate our people that the tax rate, taken by itself, has for many years been exploited by the politicians to deceive the taxpayer. They have always been able to get money out of the public by a slow increase in the rate accompanied either by rapid increases in valuations, or by failing to reduce valuations that were already too high. I will again revert to this subject later.

How re-assessment would affect individual taxpayers, especially those whose valuations were too low, and how it would affect the over-all rate and so perhaps set up an image to be snowballed by politicians, for these things we cared nothing as we are not politicians.

Now to tell you what re-assessment has saved for our taxpayers in dollars, not just simply in one year, but in every year hereafter.

If we had not re-assessed our properties, our present net taxable valuation would be \$2,397,624. At \$1.15, which is the recent rate, our State and County tax would now amount to \$27,572.67. We reduced our valuations to \$1,785,193. On the basis of last years rate, which will not likely be reduced this year, our State and County Taxes will cost us \$21,000. This is a reduction of \$6,572. To do the job of re-assessment we spent \$3,000., therefore this expenditure (we should call it an investment) yields a profit every year of well over 200%. This matter will again be referred to later.

BUDGET

The attached budget for 1941 is preliminary. It was prepared by the Mayor and the Finance Committee and the Borough Auditor checked it up. I believe it to be substantially correct but it must pass muster by Commissioner Darby and by the County Board of Taxation before it can be considered official.

This statement also shows the budget for 1938, which is the year before the present administration took office. These figures were taken by the Borough Auditor from the official budget of that year as amended by the County Board.

I ask you to study these comparative figures since they disclose, in the most practical manner possible, the changes which have taken place in the various important items.

I direct your particular attention to the first line, cost of local government. This item shows reductions brought about by the present administration which should be of special interest. From first to last, the cost of local government has been progressively cut down from \$39,628.74 in 1938 to \$21,275. in 1941, and is now, I believe, down to a basis which can be called normal.

It should be mentioned here that the 1938 figures include non-recurring items of \$3,500. which should be eliminated for the purpose of comparison, otherwise the two periods would not be on a fair comparative basis. After making that adjustment, the actual net reduction in cost of local government is \$14,853.74.

The next item is County and State Taxes. I have already told you the story on re-assessment, but in this item you see the result in the figures. In 1938 we paid \$25,718.23. During 1941 it should be \$21,000. based on the rate levied in 1940, making a reduction of \$4,718.23. But this does not disclose all the saving through re-assessment, because the County and State rate has gone up appreciably since 1938. In other words, we not only saved the aforementioned sum of \$4,718.23 but we also absorbed the increase in the rate. The net effect of this absorption is that the actual amount of money saved to the Borough by the re-assessment in County and State taxes is, as I have previously shown, \$6,572.

Beyond the first two items in the Budget, cost of local government and County and State Taxes, we cannot be charged with any responsibility since we have no authority with respect to the school and the public debt. I do, however, express satisfaction that the School Budget has been reduced from \$45,321.25 in 1938 to \$42,529. for 1941. Let us hope that the Board of Education will continue on this course. As to the public debt, I have already expressed my views on this unfortunate situation and further comment is unnecessary.

TAX RATE

I will now revert to the subject of the tax rate, a bewildering thing. There would be no confusion if municipal governments were run for a period of years like a well managed business. If that were possible, the cost of everything could run on an even keel from year to year. Occasional unevenness resulting from fluctuating collections, would be met by suitable reserves and by temporary borrowings. But that does not happen, because the law forbids it. The law compels us to run our affairs on the so-called cash basis and to levy taxes on that basis. For that reason the tax rate never reflects anything except that on the last day of the year the municipality needs a certain amount of money to operate during the ensuing year. Comparing the tax rate of one year with another year means little. It happens frequently that the rate remains unchanged or even goes down at the very time when money is being wasted, and, of course, it also can happen that a careful management faces an increasing rate even though operating costs were reduced.

And mind you, these things come about even when assessed valuations remain unchanged. When the latter occurs, the tax rate becomes still more confusing when compared with the rate of another year. For instance: Let us say that we must raise \$100,000. and the assessed valuation is \$2,000,000. The tax rate in this instance would be \$5.00 per \$100. Now assume that the amount to be raised is reduced to \$80,000. through economies and the properties are re-assessed downward to \$1,400,000. In this instance, even though the taxpayers put up \$20,000. less, yet the rate advances to \$5.71. The taxpayers' bill, however will show that he pays less dollars under the high rate of \$5.71 than he did in the previous year when the rate was \$5.00.

I could go on and on with illustrations of the complexities of this situation. A cash budget is subject to one or more, if not all, of these factors:

1. Changes in the cost of government.
2. Changes in the County and State Tax.
3. Changes in the cost of the School.
4. Increase or decrease in servicing the public debt.
5. Fluctuation in various revenues.
6. Fluctuation in the promptness with which taxpayers pay their taxes.
7. Adjustments in the valuation of individual properties.
8. Re-assessment of all the taxable properties.
9. The amount of cash on hand at the end of the year.

Now if all these factors confuse the taxpayer, as they do, does this mean that no one can tell from the data published by a municipality if they are operating economically or wastefully? The answer is "yes", you can tell, - but read on.

It can be done by comparing the individual items in the budget with the corresponding figures in previous budgets. Unfortunately however, the published forms, as required by law, are complicated and one must work the figures over in order to gather them into suitable groupings before intelligent comparison can be made. To illustrate - we tell you that the appropriation for cost of local government in 1938 was \$39,628.74 and that we reduced this provision down to \$21,275. in 1941. You will see no such figures in the published budgets of either of these two years, but you can, if you are familiar with the intricacies of municipal accounting, garner the figures from the published budget. Sometimes too, either the County Board of Taxation or the

Commission in Trenton, both of whom must approve Municipal Budgets, add to the gayety of the ceremonies by changing a budget after it has been published.

The taxpayer who wants really to know what is going on in his town is well advised if he goes about watching his taxes in the following manner:

- (a) Observe throughout the year what kind of service the local government is giving.
- (b) Watch the dollar amount on his own tax bill.
- (c) Compare the latest budget with several previous ones and ascertain how much it cost to give him the service which he has been watching. If, after having done these things, he thinks that there is something the matter with the tax rate, then he must consider each of the nine factors which I have previously described, and compile a set of figures like the ones presented in the statement attached hereto. Such a statement should be made available every year, as we did for last year, and are again doing so this year.

After having attempted to explain that comparison of the tax rate of one year with the tax rate of another year is unavoidably inconclusive, if you still want to satisfy your curiosity as to how the rate of 1938 and 1941 compare, using the old valuation for both years (plus \$40,000. of new construction since 1938), you will find the relative figures on the last line of the budget statement.

EFFECTS OF CASH SURPLUS AND TAX DELINQUENCY

The amount of cash on hand in all the accounts at the close of 1940 was \$25,000. in round figures. You will observe that in the 1941 budget we applied \$17,000. This should approximately complete the restitution to the taxpayers of the so-called surplus on hand two years ago when we took office, and which, at that time, we promised to restore to the taxpayers.

There should be no cash surplus in a municipality in which tax collections are enforced according to law. When there is a surplus it signifies that the respective amount of money should have been collected in previous years and should have been used to reduce the taxes of those prior years.

Reverting once more to the matter of tax rates, failure on the part of a municipal government to enforce the law in this respect results in confusion in all the tax rates, beginning with the year in which delinquency started and continuing into each year thereafter through the years during which delinquency is finally corrected by law enforcement. Even then the confusion does not cease, for it continues for several years more until the cash arising from delinquent taxes has been returned to the taxpayers. As you know, our Borough went through all this from 1933 onward. We are only this year emerging from the tangle which was created in the years before this administration took office.

Not only is it bad administration to allow taxes to become delinquent beyond the period of grace provided by law, the worst part of this situation is that when the tardy money finally comes in along with the current collections, the presence of the windfall breeds a temptation to keep it out of the budget and to think up an excuse to spend the money for some unnecessary so-called improvement. And, having found that excuse, the temptation then enlarges itself into a bigger improvement involving a bigger sum. The scenery is then complete. The "improvement" becomes the basis for a bond issue. Just such a performance was in the making some years ago when the cash surplus looked alluring.

It was then proposed to build an entirely unnecessary connecting road between the underpass at Orchard Street and the Plaza.

The use of a cash surplus in the budget is not the only thing which confounds the tax rate. Exactly the same mirage is caused by delinquent taxes because a liberal percentage of these delinquents is taken into the budget and this operates on the resulting tax rate in exactly the same manner as does the surplus cash.

The present administration diligently endeavors to enforce the tax laws, but we inherited the effect of the neglect of previous administrations. Consequently the tax rates produced by our budgets for the years since we have been in office, (1939, 1940, and now 1941) cannot, because of laxity in previous administrations, lend themselves to valid comparisons. Mark well, however, that what I just said applies only to the tax rate, which, as I have pointed out repeatedly, is the product of a veritable jumble of things.

It may be interesting and instructive to reconstruct the budgets for the years 1941 and 1938 and take the "luck" out of both, i.e., the deductions arising from cash surplus as well as the excessive credit for delinquent taxes. In other words, make them, so far as possible, truly comparative budgets, and using the same valuations. These figures would show that if in 1938 there had been no large arrearage in taxes and there had been no deduction for cash surplus, the rate in that year would have been - not 4.37 as it was levied - but 8.40. In the year 1941, based on the same assumptions and using the same valuations as were used in 1938, the tax rate would be \$5.59 instead of \$3.88. These examples should serve again to illustrate the point I raised previously, i.e., that comparison of rates is bewildering.

CONCLUSION

All any municipal government can do is to be as economical as possible during the year, and be diligent in collecting taxes. It must then throw the result of its best efforts into the budget hopper at the end of the year along with all the uncontrollable factors. The tax rate that comes out by this process takes charge of the administration just as much as it takes charge of you, the taxpayer. We are helpless against the need of paying for the school, for old debts, and for the effects of past mismanagement. Your chance comes on Election Day, and if on that day you allow your mind to be diverted from the naked fact that your public servants are reducing and holding down the items over which they have control, then there is no use afterward to "squawk", as the saying goes.

L. A. KEIDEL
Mayor