



MUNICIPAL TAXATION AND REVENUE ADVISORY COMMITTEE

RECOMMENDATION #4

Cape May is justifiably honored to have the USCG TRACEN as part of our Community. As host to the only such facility in the country we share the special relationship and pride the City, our residents, and our visitors feel by having them here.

As an integral part of the United States Department of Homeland Security the USCG safeguards the lives and interest of every American. They are also a critical part of the fabric of Cape May as our residents, visitors and businesses enjoy and employ the waters that surround our city, county, and State. We are a Coast Guard Community on many levels and look forward to continuing as such.

Unfortunately for Cape May, since 1975 City taxpayers have been under the inequitable burden of a statutory formula for the funding Lower Cape Regional School District. This formula does not recognize the unique situation in which the larger communities in the regional district are using the Cape May City tax base to subsidize and minimize their fair share of revenue to support the educational program of that district.

For this reason, MTRAC recommends that Cape May City Council immediately begin any and all efforts to secure a Payment in Lieu of Taxes (PILOT) agreement with the Federal Government through negotiations with our Federal Legislative Delegation and Executive Branch Agencies.

A payment in lieu of taxes is a payment made to compensate a government for some or all of the property tax revenue lost due to tax exempt ownership or use of real property.

The intent of this recommendation is twofold:

- To mitigate the annual fiscal damage to Cape May resulting from its membership in the Lower Cape May Regional School District (LCMR).
- To compensate Cape May property taxpayers for the unique and significant annual cost burden resulting from the tax-exempt status of a federal property.

There is ample precedent for such an arrangement.

- The **Lanham Act** (1940) provided for a rudimentary form of Impact Aid as payments in lieu of taxes for districts with military bases within their boundaries.

- Since 1965 this impact aid is included in **Elementary and Secondary Education Act (ESEA)**
- Since 1976 **Chapter 69, Title 31** of the United States Code has recognize the financial impact of the inability of local governments to collect property taxes on federally owned property.
- Since 1971 PILOT's in a variety of forms and uses have been created under New Jersey Statutes.
- For the past two decades Cape May City has been receiving Payments in Lieu of Taxes from the Diocese of Camden in compensation for municipal services rendered to the tax-exempt Victorian Towers.

Findings:

- Since 2017 **\$14,058,927** in property tax dollars has left the City of Cape May to fund the LCMR School District. Tax revenue rendered unavailable for CM municipal purposes.
- Since 1975 the City of Cape May has absorbed the grossly disproportionate tax burden inherent in the LCMR current funding model.
- During this 47-year period, efforts by State, county and local agencies have focused on maintaining this burden and resisting any attempt at remedy.
- Cape May City is not eligible for Federal Education Impact Aid for our secondary level resident students because the Cape May Elementary School District serves only preK-6 grade. The district does receive Federal Impact Aid for our military connected students.
- Only the LCMR can apply for this aid and because military connected students represent only 2% of the total enrollment, that district is also not eligible.
- There are 60 Cape May City resident students attending LCMR, about 5% of the total enrollment. Of that number, there are 27 military connected resident students.
- For 2021, Cape May City taxpayers contribute \$7.9 million for our 60 residents at a per/pupil tax cost of **\$131,618**.

- The 27 military connected resident students account for **\$3,458,678**, or about half of Cape May's annual tax bill to LCMR.
- There are 10 Federally owned tax-exempt properties housing the USCGTC assessed at \$235,168,096.00. This represents about 7% of the city's assessed valuation. If collected a property tax for tax-exempt federal properties would be approximately \$2.3 million.
- The Victorian Towers, a tax-exempt property valued at \$18 million annually provides the City of Cape May with approximately \$185,000, an amount roughly equivalent to a property tax levy if that property were not tax-exempt.
- Cape May may be the unique municipality in which the presence of a federal facility generates a tax burden of this magnitude on its local residents and taxpayers, without some measure of recourse or compensation. This burden is due solely to the state mandated funding formula for the regional district.