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Basic Budget Math

Three key numbers are essential in understanding and reporting on municipal or school district finances:

Ratables, the total assessed value of all taxable property in the municipality, school district or other taxing district you are reporting on. You get this from the local assessor or the county abstract of ratables.

Tax levy, the amount to be raised from property taxes by that taxing district. This is the total budget minus state aid and all other anticipated revenues, such as tuition, parking meters, license fees, etc. You get this from the school board or governing body. It is the end result of their budget deliberations.

Tax rate, the amount a homeowner will pay in taxes for each \$100 of the property's assessed valuation. You get this from local officials, or you can calculate it for yourself.

$$\frac{\text{Tax Rate}}{100} = \frac{\text{Levy}}{\text{Ratables}}$$

Let's take a simplified example:

Suppose you have \$5,000 in ratables and need to raise \$75 in property taxes.

$$\frac{\text{Tax Rate}}{100} = \frac{75}{5000} \qquad \frac{\text{Tax Rate}}{100} = .015 \qquad \text{Multiply each side by 100}$$

$$\text{Tax Rate} = \$1.50$$

Let's try one a little closer to reality. Levy of \$345,679; and \$9,876,543 in ratables.

Same process:

$$\frac{\text{Tax Rate}}{100} = \frac{345,679}{9,876,543} \qquad \frac{\text{Tax Rate}}{100} = .034999 \qquad \text{Multiply each side by 100}$$

$$\text{Tax Rate} = \$3.50$$

Why do we multiply by 100?

Because the tax rate is applied, not to every dollar of assessed value, but to every \$100 of assessed value.

A key question in most readers' minds is, "What is this going to cost me?"

You can't provide a precise answer, but you can help them estimate the answer by calculating the effect of the proposed budget on the average single-family home in the municipality or school district. This number comes from the local assessor.

Let's take the above municipality with the \$3.50 tax rate. The assessor says the average single-family home is assessed at \$200,000.

$$\text{Tax Bill} = \frac{\text{Average Assessed Value}}{100} \times \text{Tax Rate}$$

$$\text{Tax Bill} = \frac{200,000}{100} \times 3.50$$

$$\text{Tax Bill} = \$7,000$$

Why do we divide by 100?

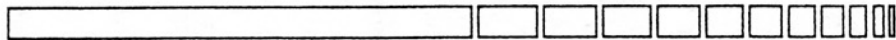
Same reason. Tax Rate is applied to each \$100 of assessed value.

In situations where there is a wide variety of housing values, from modest to very expensive, it might be more helpful to readers to calculate the tax bill on two or even three different priced houses: a house assessed at \$90,000 and another assessed at \$250,000.

It is essential to remember – and to explain to readers – that each taxing district sets its own tax rate and that the property owner pays the total of as many as five or six tax rates to different governmental entities.

Here's an example:

To find total property tax rate...



- It's a combination of all taxing districts:
(on average \$150,000 property)

Taxing District	Tax Rate	Assessed Value/100	Property Tax
Municipal	\$1.23	1500	\$ 1,839.00
Local School	\$1.10	1500	\$ 1,650.00
Regional School	\$0.74	1500	\$ 1,114.50
County	\$0.97	1500	\$ 1,459.50
Open Space	\$0.02	1500	\$ 30.00
Total	\$4.06	1500	\$ 6,093.00

CALCULATING AN AVERAGE PROPERTY TAX

EXAMPLE: The average home in Edison is valued at \$167,500. The municipal tax rate is rising from 87 cents per \$100 of assessed valuation to 93 cents in the new fiscal year. How much would the average taxpayer's bill for municipal services rise?

Step One	Step Two	Step Three
\$1,675	\$1,675	\$1,557.76
<u> x .87</u>	<u> x .93</u>	<u>- \$1,457.25</u>
\$1,457.25	\$1,557.75	\$100.50

PUTTING IT INTO WORDS:

Edison Township's new budget will raise the municipal tax rate 6 cents to 93 cents per \$100 of assessed valuation.

For the owner of the average Edison home – valued at \$167,500 – property taxes will rise \$100.50 to \$1,557.75 to support municipal spending in the coming fiscal year.

KEY BUDGET ELEMENTS FOR YOUR STORY:

1. The total amount of the budget. Found on Sheet 11a.
2. The total amount to be raised by taxes. Found on Sheet 3, Line 6a
3. The anticipated surplus. Found on Sheet 4, Line 1.

PUTTING THEM INTO WORDS:

Edison's municipal budget will rise \$4.3 million in the 2000-01 fiscal year to \$97 million. Taxpayers are to contribute \$42 million to that spending plan, up almost \$3 million from last year.

The mayor and council also intend to use \$6 million in surplus toward the new budget. That's \$5 million more than last year, but this is an election year for the Mayor Jones and a big tax rise isn't in his best interest.

PRACTICE THESE PROBLEMS

1. The average home in Old Bridge is valued at \$155,000. The municipal tax rate is going from .62 cents per \$100 of assessed valuation to .67 cents. Tell your readers the average increase for municipal services?

Step One	Step Two	Step Three
\$1,550	\$1,550	\$-,---?----
<u> x .62</u>	<u> x .67</u>	<u> - \$-,---?----</u>

2. The Milltown Board of Education has a new \$17 million budget that will raise the school tax rate from \$1.25 per \$100 of assessed valuation to \$1.47. They know residents will not be pleased. The average Milltown home is assessed at \$134,000. Tell your readers what they can expect to pay.

3. The Union County Board of Chosen Freeholders adopted a new \$226 million county budget for fiscal 2000. For the average homeowner in Union County's 21 towns – whose property is worth \$179,000 – the equalized tax rate is going up .4 cents to .48 cents. What does that really translate to?

4. The Bridgewater Township Council learns three sewage pumping stations are shot while it is drafting a new calendar year budget. To pay for overhauls, the council raises the local tax rate by .28 cents to \$1.02. If the average Bridgewater home is worth \$152,900, how much will taxes rise?

5. Woodbridge Mayor Jim McGreevey wants to show what he could do if elected governor, so he decreased his town's budget by \$4.5 million. The tax rate will drop .7 cents to .66 cents. The average home is assessed at \$103,000. Why will homeowners cheer McGreevey?