



State of New Jersey

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June 23, 2016

The Honorable Jose Torres
Mayor
City of Paterson
155 Market Street
Paterson, NJ 07505

The Honorable Gerard P. Scharfenberger, Ph.D.
Mayor
Middletown Township
1 Kings Highway
Johnson Gill Annex Building
Middletown, NJ 07748

The Honorable Albert B. Kelly
Mayor
City of Bridgeton
181 East Commerce Street
Bridgeton, NJ 08302

Re: Follow-Up Report F-17

Dear Mayors Torres, Scharfenberger and Kelly:

On July 30, 2013, the Office of the State Comptroller (OSC) issued an Audit Division report titled Management of Tax Exempt Property by Selected New Jersey Municipalities (Report PA-19). In that report, the OSC made recommendations directed to the City of Bridgeton (Bridgeton), the Township of Middletown (Middletown) and the City of Paterson (Paterson). Pursuant to *N.J.S.A. 52:15C-1 et seq.*, the OSC has conducted a follow-up review to assess the implementation of those recommendations.

Background, Scope and Objective

Municipal governments rely, in large part, on property taxes to fund their operations. As discussed in the OSC's underlying report, the State Constitution provides that all property in the State is to be assessed and taxed according to the same standard of value, while certain properties are granted tax-exempt status. A municipality may confer tax-exempt status on a property if it is being used for

religious, educational, charitable or cemetery purposes or if the property is being used by an exempt organization such as a volunteer fire company or veterans' organization or as a historic site. Municipalities may also grant exemptions from property-tax obligations through tax abatement agreements used to promote economic growth or development. In our underlying audit, the OSC examined the practices of selected municipalities concerning the granting of tax-exempt status, as well as the monitoring of such status.

In our initial audit report, the OSC identified seven properties in Paterson and four properties in Middletown that were no longer being used for a tax-exempt purpose. The total value of these 11 properties exceeded \$2 million and would have generated more than \$50,000 in tax revenue in 2011.

Those properties were returned to the tax rolls as a result of OSC's findings. Bridgeton was not found to have any properties improperly designated as tax-exempt during our initial audit.

OSC's audit identified other deficiencies in the management of municipally owned property and the enforcement of tax abatement agreements and included 15 recommendations designed to address those weaknesses.

The objective of our follow-up engagement was to determine if the municipalities have implemented the 15 recommendations contained in our initial audit report.

Summary Conclusion

Officials in Bridgeton, Middletown and Paterson have made significant progress in implementing the recommendations set forth in our initial audit report. Of the 15 prior audit recommendations, 13 recommendations have been implemented, one has been partially implemented and one has not been implemented.

Status of Initial Audit Recommendations

Recommendation 1

Paterson should ensure that its municipally owned property is properly monitored and used appropriately, and that all available revenue is collected.

Status: Partially Implemented

During the initial audit period, OSC identified several municipally owned properties in Paterson that were being improperly used and maintained. During our follow-up, OSC observed these properties again and found they were being properly monitored and used appropriately.

In our initial audit, the OSC found that Paterson officials were unaware that there was a private billboard carrying a commercial advertisement on one of its properties. As a result, the City had not collected any rent or fees from the billboard company. During our follow-up, OSC observed this property and found that the billboard remained. However, in response to our initial audit, an ordinance has been drafted authorizing Paterson to execute a lease agreement with CBS Outdoor,

LLC for the use of a portion of this City-owned property. A lease agreement between Paterson and CBS Outdoor, LLC has also been drafted, but the City has yet to adopt the ordinance or execute the lease. Further, CBS Outdoor, LLC has since been renamed Outfront Media. As a result, updated lease agreements will need to be drafted. The Paterson Tax Assessor indicated that, as of August 2015, the City had not received any rent payments for the billboard on the property.

Recommendation 2

Paterson should designate a single location within its government for the monitoring of City-owned property.

Status: Not Implemented

During the initial audit, several Paterson officials had to be contacted in order to obtain basic information about the municipal properties selected for our review. In response to our audit, Paterson stated that it would seek to hire a Director of Redevelopment to centralize the management of its properties. Paterson has since hired a Director of Economic Development, who oversees six divisions, including the Division of Redevelopment. At this time, however, the Director of Redevelopment position is vacant. Through discussions with the Director of Economic Development, the OSC confirmed that there continues to be no single location within the Paterson administration for the monitoring of City-owned property.

Recommendation 3

Bridgeton should consider advertising property for sale more aggressively, such as by placing a list of such property on its website and providing a list of properties that may be viable for business use in the New Jersey Business Action Center's real estate database.

Status: Implemented

During the initial audit, the OSC found Bridgeton was not availing itself of all means to advertise its available properties. During our follow-up, the Tax Assessor provided a list of all vacant property in Bridgeton; however, all of the properties are not available for sale. The City is waiting until its property revaluation is completed in order to determine the current property value before posting them on its website and moving forward with sales. With regard to using the New Jersey Business Action Center, the Business Administrator provided a list of available properties to the entity for advertisement in its real estate database.

Recommendation 4

Paterson and Middletown should retain initial statements in compliance with [Division of Revenue and Enterprise Services] DORES requirements.

Status: Implemented

When the owner of property used for an exempt purpose believes the property may qualify for a property tax exemption, the owner is to submit to the local tax assessor an application known as the “initial statement.” Our initial audit identified numerous instances in which Paterson and Middletown could not provide initial statements for review.

For our follow-up, Paterson provided initial statements for all new tax-exempt properties upon our request. The Middletown Tax Assessor confirmed that the Township has granted one new property exemption since our initial audit. We verified that an initial statement was retained in compliance with DORES requirements for the new property exemption.

Recommendation 5

Paterson and Middletown should collect further statements from owners of exempt property in compliance with N.J.S.A. 54:4-4.4, and should follow up with those owners that fail to supply such documents to determine if they still qualify for the exemption.

Status: Implemented

Every third year after the tax exemption is granted, the property owner must submit to the local assessor a short follow-up document known as the “further statement.” The further statement confirms the property’s continuing tax-exempt status and use. During our initial audit, OSC found that Paterson had not obtained any further statements since its last property tax revaluation began in 2005. For our follow-up engagement, OSC selected a sample of five Paterson properties for review. We were provided with further statements for only two of the properties selected. However, the Tax Assessor stated he sent follow-up requests to property owners who had not yet submitted such further statements. We were provided with a sample follow-up letter along with an excel spreadsheet used to track the status of those properties.

During our initial audit, Middletown could not locate the further statements for all properties selected for review. For our follow-up engagement, OSC selected a sample of five Middletown properties for review. All selected further statements were completed, properly filed and reviewed by the Tax Assessor. Furthermore, the collection of further statements from organizations claiming property-tax exemptions is ongoing. The Tax Assessor has sent out the first request to property owners. The second phase of this process will include sending follow-up requests to those owners who failed to respond to the Tax Assessor’s initial request.

Recommendation 6

Paterson and Middletown should periodically monitor the use of local tax-exempt properties to ensure that only eligible properties are receiving exempt status.

Status: Implemented

During our initial audit, the OSC identified a series of properties in Middletown and Paterson that did not qualify as tax exempt. As a result of that review, Middletown placed four properties back on the tax rolls and Paterson placed seven properties back on the tax rolls. The Middletown Tax Assessor advised us that the use of Township property is periodically monitored for proper use, and that no instances of improper use warranting investigation have occurred since the issuance of our initial audit report. The Paterson Tax Assessor stated that a revaluation of City properties concluded in April 2015 and all properties were verified so that only eligible properties continued to receive a tax-exempt status.

Recommendation 7

Paterson should maintain all files related to disabled-veterans' exemptions in compliance with DORES requirements.

Status: Implemented

During our initial audit, OSC found that Paterson's filing system was disorganized. By not maintaining all files related to disabled-veterans' exemptions, Paterson was not in compliance with DORES record retention requirements. For our follow-up engagement, OSC reviewed files pertaining to exemptions granted to all disabled-veterans since the initial audit and observed that the disabled-veterans' files were in compliance with DORES requirements. All information, including completed application forms and supporting documentation, were provided for the disabled-veteran files reviewed.

Recommendation 8

Paterson should periodically confirm the continued eligibility of all properties granted an exemption due to disabled-veteran status.

Status: Implemented

Our initial audit found that Paterson is limited in its ability to confirm the continuing tax-exempt status of the property. During our follow-up, the Tax Assessor stated that all properties granted an exemption due to disabled-veteran status were checked during the revaluation of City properties that concluded in April 2015.

Recommendation 9

Paterson should confirm primary residence information before granting an exemption based on disabled-veteran status.

Status: Implemented

During our initial audit, the OSC learned that Paterson does not verify each veteran's residency as part of the application process, despite the fact that this requirement is printed on the back of the application. For our follow-up engagement, OSC reviewed disabled-veteran application forms and supporting documentation for each disabled-veteran granted an exemption since the initial audit to ensure that their primary residence was confirmed before granting an exemption. Our review verified that Paterson confirmed each disabled-veteran's primary residence before granting an exemption.

Recommendation 10

Middletown should maintain relevant documentation pertaining to tax abatement agreements and [Payment in Lieu of Taxes] PILOT payments.

Status: Implemented

During our initial audit, some of the requested PILOT agreement files were missing documents. For our follow-up engagement, Middletown officials provided us with eight current PILOT agreement files for review. Our review confirmed that proper documentation was maintained for each of its PILOT agreements.

Recommendation 11

Paterson should maintain relevant supporting documentation pertaining to tax abatement agreements and PILOT payments, and ensure that any future agreements are supported by a cost-benefit analysis.

Status: Implemented

In some instances during our initial audit we could not reconcile PILOT payments received to particular municipal properties because of incomplete records. During the follow-up engagement, OSC confirmed that Paterson maintains relevant supporting documentation for its tax abatement agreements and PILOT payments. One new PILOT agreement has been initiated by Paterson since our initial audit. Documentation provided for that PILOT agreement indicated that the decision to enter into the agreement was supported by a cost-benefit analysis.

Recommendation 12

Paterson and Middletown should ensure that all PILOT-related information is available for public reporting.

Status: Implemented

In our initial audit, the OSC found that Paterson was unable to determine the specific properties that relate to some of its PILOT agreements. Paterson has posted on its website its 2015 adopted budget, which includes a current list of all properties subject to PILOT agreements.

Similarly, during the initial audit, the OSC found that despite being able to provide us with a list of municipal properties covered by tax abatement agreements, Middletown did not have a system to track the expiration date of those agreements. For our follow-up engagement, Middletown officials provided us with their 2015 user-friendly budget, which contains a list of all current PILOT agreements. Further, the expiration dates of their PILOT agreements are entered into the Monmouth County MOD-IV system.

Recommendation 13

In its local property tax records, Paterson should maintain a list of all property covered under PILOT agreements.

Status: Implemented

In our initial audit, the OSC could not reconcile some PILOT payments to particular municipal properties because of incomplete records. During our follow-up, Paterson officials provided us with a list of all current PILOT agreements, including their initiation and expiration dates.

Recommendation 14

Paterson should provide a lower level of access to MOD-IV data to its information technology administrative staff.

Status: Implemented

During the initial audit, OSC found that information technology administrative staff had the same level of access to MOD-IV as the tax assessor's staff, which allowed them to edit property tax records. For our follow-up engagement, Paterson officials supplied us with their current MOD-IV user list. From this list, OSC verified that only employees of the Tax Assessor's office have the ability to update tax records and that IT staff have a read-only level of access.

Recommendation 15

Bridgeton should continue to ensure that MOD-IV access is revoked when employees no longer need access to those records.

Status: Implemented

Our initial audit found two user names associated with former City employees were still active. For our follow-up engagement, Bridgeton officials provided us with a copy of its current MOD-IV user list. Our review confirmed that all active users are current employees who appropriately have access to update MOD-IV data.

Reporting Requirements

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, municipal officials shall report periodically to this Office advising what additional steps they have taken to address the unresolved issues in this report. This Office will continue to monitor those steps.

We thank the management and staff of Bridgeton, Middletown and Paterson for the courtesies and cooperation extended to our auditors during this review.

Sincerely,



Yvonne Tierney, CPA
Director, Audit Division

- c. Nellie Pou, Business Administrator, Paterson
- Richard Marra, Tax Assessor, Paterson
- Jay R. Schwartz, Tax Administrator, Passaic County
- Anthony P. Mercantante, P.P., AICP, Township Administrator, Middletown
- Colleen Lapp, Chief Financial Officer, Middletown
- Charles Heck, Tax Assessor, Middletown
- Matthew S. Clark, Tax Administrator, Monmouth County
- James Edwards, Council President, Bridgeton
- Dale Goodreau, Business Administrator, Bridgeton
- Kevin Maloney, Tax Assessor, Bridgeton
- Patricia A. Belmont, Tax Administrator, Cumberland County