

PUBLIC HEARING

before

SENATE REVENUE, FINANCE AND APPROPRIATIONS COMMITTEE

on

SENATE CONCURRENT RESOLUTION NO. 3028  
(Proposing to amend the State Constitution to  
require the enactment of laws limiting maximum  
permissible expenditures of the State and  
counties and municipalities in certain instances)

Held:  
Senate Chamber  
State House  
Trenton, New Jersey  
July 10, 1975

COMMITTEE MEMBERS PRESENT:

Senator Joseph P. Merlino (Chairman)  
Senator John F. Russo  
Senator Bernard J. Dwyer

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SENATE CONCURRENT RESOLUTION No. 3028

STATE OF NEW JERSEY

INTRODUCED JUNE 27, 1975

By Senators RUSSO, BEDELL, ZANE, BUEHLER, AMMOND,  
FAY, DUMONT, MARTINDELL, MUSTO, GREENBERG,  
DODD, MCGAHN, MARESSA and FELDMAN

Referred to Committee on Revenue, Finance and Appropriations

A CONCURRENT RESOLUTION proposing to amend Article VIII,  
Section II of the Constitution of the State of New Jersey by  
adding a new paragraph thereto requiring the Legislature to  
enact laws limiting maximum permissible expenditures by the  
State and counties and municipalities in certain instances.

1 BE IT RESOLVED by the Senate of the State of New Jersey (the  
2 General Assembly concurring):

1 1. The following proposed amendment to the Constitution of the  
2 State of New Jersey is hereby agreed to:

PROPOSED AMENDMENT

3 Amend Article VIII, Section II by adding a new paragraph as  
4 follows:

5 4. a. The Legislature shall enact laws limiting the maximum  
6 permissible expenditures by the State, county and municipal  
7 governments. Any such laws shall define "expenditures," with  
8 respect to the State, as all amounts appropriated by the State in  
9 the general appropriation law and all other laws appropriating  
10 money for any purpose in any fiscal year, exclusive of money  
11 appropriated as State aid to counties, municipalities and local  
12 school districts and included in county, municipal and local school  
13 district budgets as amounts received from the State in the form of  
14 State aid; and exclusive of all expenditures of money received by  
15 the State from the Federal Government, and of money derived  
16 from, or expended in payment of any interest or principal on, any  
17 general obligation bond issues approved by the legally qualified  
18 voters of the State at any general election. Any such laws shall  
19 also define "expenditures," with respect to counties and munic

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill  
is not enacted and is intended to be omitted in the law.

20 palities, as all amounts appropriated by each respective county  
 21 and municipality, inclusive of money received from the State in the  
 22 form of State aid for any county or municipal government purpose,  
 23 but exclusive of: (1) all expenditures by boards of education, and  
 24 all expenditures to meet obligations of school debt in Type 1  
 25 school districts; (2) all expenditures of money received from the  
 26 Federal Government; \*~~and~~\* (3) all expenditures of money  
 27 derived from, or expended in payment of any interest or principal  
 28 on, any bond issues approved by the legally qualified voters of the  
 29 respective county or municipality at any general *\*or special\**  
 30 election\*; (4) *all appropriations for reserve for uncollected taxes;*  
 30A *(5) all appropriations mandated by the State or by the Judiciary*  
 30B *except expenditures for wages and salaries; and, (6) emergency*  
 30C *appropriations as defined by the Legislature\*.*

30D b. Any such laws shall provide:

31 (1) That the maximum permissible expenditures of the State  
 32 and of each county and municipal government in any given year  
 33 shall be determined pursuant to a formula which relates the  
 34 *\*[per capita]\* personal income <sup>as defined by the Legislature</sup>*  
 34A *of the State <sup>or county or municipality as the case may be</sup>* *[of*  
 35 *New Jersey, as certified by the Federal Government, and the pro*  
 36 *rata portion of that personal income attributable to each county*  
 37 *and municipality in any given year]\* to: (a) State, county or*  
 38 *municipal personal income in a base year to be determined by the*  
 39 *Legislature; \*[(b) the current population of the State or any*  
 40 *county or municipality, as the case may be, according to the most*  
 41 *recent population estimates based upon the most recent Federal*  
 42 *decennial census;]\* and \*[(e)]\* *\*(b)\* the expenditures of the*  
 43 *State or any county or municipality, as the case may be, in the*  
 43A *base year;**

44 (2) A method to account for any increase or decrease in ex-  
 45 penditures resulting from: (a) the transfer or assumption of  
 46 functions and services from or by one level of government to  
 47 or by another level of government; or (b) the creation of State,  
 48 county or municipal agencies or instrumentalities to which any  
 49 function or service operated or performed by the State or any  
 50 county or municipality, as the case may be, may be transferred,  
 51 or by which its operation or performance may be assumed; *\*or*  
 51A *(c) the assumption by a municipality of garbage, water, sewerage*  
 51B *or other utility service frequently provided by other municipal*  
 51C *governments but not already provided;\**

52 (3) That the State and any county or municipality may exceed  
 53 the maximum expenditures permitted pursuant to the formula  
 54 prescribed in such laws if such increase over maximum expendi-  
 55 tures is submitted to the people of the State or county or munici-  
 56 pality, as the case may be, in the form of a referendum at a general  
 57 or special election, and approved by a majority of the legally  
 58 qualified voters of the State or county or municipality, as the case  
 59 may be, voting thereon; and

60 (4) That nothing contained in any such laws shall be construed  
 61 as requiring the State or any county or municipality to expend in  
 62 any fiscal year the full amount of maximum expenditures permitted  
 63 pursuant to the formula prescribed therein.

1 2. When this proposed amendment to the Constitution is finally  
 2 agreed to, pursuant to Article IX, paragraph 1 of the Constitution,  
 3 it shall be submitted to the people at the next general election  
 4 occurring more than 3 months after such final agreement and  
 5 shall be published at least once in at least one newspaper of each  
 6 county designated by the President of the Senate and the Speaker  
 7 of the General Assembly and the Secretary of State, not less than  
 8 3 months prior to said general election.

1 3. This proposed amendment to the Constitution shall be sub-  
 2 mitted to the people at said election in the following manner and  
 3 form:

4 There shall be printed on each official ballot to be used at such  
 5 general election, the following:

6 a. In every municipality in which voting machines are not used,  
 7 a legend which shall immediately precede the question, as follows:

8 If you favor the proposition printed below make a cross (X),  
 9 plus (+) or check (V) in the square opposite the word "Yes."

10 If you are opposed thereto make a cross (X), plus (+) or check  
 11 (V) in the square opposite the word "No."

12 b. In every municipality the following question:

	Yes.	CONSTITUTIONAL AMENDMENT RELATING TO LIMITATIONS ON PERMISSIBLE EX- PENDITURES BY THE STATE AND COUNTIES AND MUNICIPALITIES  Shall the amendment to Article VIII, Section II of the Constitution, agreed to by the Legislature to enact laws limiting maximum permissible expenditures by the State and counties and municipalities in certain instances, be adopted?
	No.	



SENATOR JOSEPH P. MERLINO (Chairman): I would like to call this ten o'clock meeting to order. It is 10:24 A.M. This is a public hearing being held by the Senate Revenue, Finance and Appropriations Committee, as ordered by the Senate, pursuant to Article IX, paragraphs 1 and 2 of the Constitution of the State of New Jersey and Senate Rule No. 164.

The purpose of this hearing is to take testimony with regard to a proposed amendment to the Constitution of New Jersey, as set forth in Senate Concurrent Resolution 3028.

In the interest of an orderly hearing, all persons desiring to offer testimony will please give your name to Mr. Zuzzio, of our staff, and we will proceed according to the written list, as presented to me by the staff.

I would like to request that those of you who have prepared statements leave sufficient copies for the stenographer and for the members of the committee who are present and for those who are not present.

The committee will afford all interested persons the opportunity to be heard. There is no rule or mandate that there be any particular number of persons of the committee present during the hearing, so the fact that I am here by myself doesn't make this hearing any less official than if all ten of us were here.

From the Federation of New Jersey Taxpayers we have Richard Solyom as our first witness.

Let the record show that Senator Dwyer has now joined me. Good morning, Senator.

R I C H A R D S O L Y O M: Mr. Chairman and members of the committee, my name is Richard Solyom and I speak to you today as Legislative Vice President of the Federation of New Jersey Taxpayers.

New Jersey's fiscal problems are not ones of taxation; taxes are the result. Crazy government spending is the cause and to solve the problems we must first reduce - and then limit - the spending. Therefore, we, of the Federation, are in favor of a spending limit amendment to our State Constitution but we do not support SCR-3028.

Mankind's propensity to elaborate and complicate is nowhere more evident than it is in the field of taxation. A good case in point is the proposed resolution under consideration. Having been presented with a good, simple idea, namely, that the amount of money spent by government should be held within reasonable limits, the sponsors of SCR-3028 have proceeded to embroider upon the idea to the point of utter confusion and to the point where the original idea is so obscured and obfuscated that the proposal can no longer be recognized or considered good legislation.

The basic idea of a spending limit amendment is good because it is tacit recognition of a very fundamental economic fact, which is that all government expenditures are nonproductive overhead expense of an economy, from an accounting standpoint. If this overhead is not held in due proportion to the real product and income of the people, you have an economy in liquidation. This has been the cause of the downfall of practically every civilization in recorded history. Here in New Jersey the annual non-productive overhead expense of the State, that is to say the total Federal, State and local tax take, is now over \$18 billion. This must be brought under control and we believe that a true, simple spending limit amendment, applicable at State level only, would do the trick.

However, the Federation does not believe that such an amendment should be used as a vehicle to enable the Legislature to enact laws limiting the taxing powers of local municipalities, thus concentrating power in Trenton, and we believe this is the hidden intent of this proposed

amendment. Transference of the power to tax from municipal level to State level is the most effective way I can think of to destroy Home Rule. Restricting local officials' authority to raise revenue and yet at the same time mandating to them certain expenditures will result in making municipal officials impotent figureheads whose only excuse for being would be to carry out dictates received from Trenton bureaucrats.

Our reasons for believing that SCR-3028 would result in a concentration of power in Trenton are to be found in the definitions of "expenditures." Note that expenditures for State purposes is defined as "all amounts appropriated by the State but excluding appropriations for state aid to counties, municipalities and school districts." This effectively sets up "The State" as a source of revenue for these entities; then when laws are passed limiting the taxing ability of these entities, they are forced to turn more and more to the "the State" as a source of revenue.

Note, also, that money received by the State from the Federal government is also excluded from being considered as part of expenditures. This means that no limitation is placed on expenditures if the money is received from the Federal government, thus providing a convenient loophole for "The State" but not for counties or municipalities. Another exception to the amount of money the State may spend is that spent for interest and principal on State bonds. In other words, back-door spending by means of bond issues would not be restricted.

Looking at definitions of expenditures for municipal and county purposes, we find they are defined as all amounts appropriated including state aid but excluding:

1. Expenditures for education and school debt;
2. For payment of principal or interest on bond issues;
3. For reserves for uncollected taxes;
4. For appropriations mandated by the State or the Judiciary;

5. For any emergency appropriations as defined by the Legislature.

In other words, limitation on spending will apply at the municipal level to practically all revenue raised locally but not to any money that Trenton mandates be spent.

These exceptions, when taken in conjunction with laws enacted by the Legislature to limit maximum permissible expenditures, will result in municipalities and counties becoming mere vassals of the State.

Adoption of this amendment would be a most effective way to destroy Home Rule in New Jersey. It would remove taxing authority a giant step further away from the local level where citizens still have some control over the amount being taken away from them and place it in the hands of Trenton bureaucrats over whom citizen-taxpayers have but little control.

The Federation proposes a much simpler spending limit amendment, one which would apply only to State expenditures. In essence, our proposal will tie spending limit to taxing limit; therefore, taxes will be limited also. Heart of the amendment will be a formula based on the relationship between general government expenditures and personal income of the people. This formula will establish a ratio not to be exceeded. We suggest using 1971 as the base year with figures from the U. S. Department of Commerce for that year to set the limiting ratio. Thus: General Expenditures divided by Personal Income equals .07. The figure .07 is that obtained by using Department of Commerce figures for the year 1971. If the relationship of .07 was good enough in 1971, then it ought to be good enough during the foreseeable future and will mark the limit which is not to be exceeded in future years. The formula accounts for inflation. If personal income is inflated, then general State expenditures would be inflated also.

We believe the amendment should also provide that:

1. Any single year's increase in government spending shall not exceed 10% of the previous year's expenditures.
2. The total number of persons employed by the 20 principal departments of the State shall not exceed 0.7% of the total population of the State.

Attached hereto is a copy of a preliminary draft made in April 1974. We request that this draft and our proposal, as outlined above, be considered as a substitute for SCR-3028. I thank you for your attention.

(see page 1 X.)

SENATOR MERLINO: I have one or two questions, Mr. Solyom.

MR. SOLYOM: Surely.

SENATOR MERLINO: What makes the Commerce Department's figures of 1971 the magic number?

MR. SOLYOM: There is no magic in the number.

SENATOR MERLINO: Why don't we use 1975?

MR. SOLYOM: Well, why would you want to use 1975?

SENATOR MERLINO: For the same reason I ask you "Why use '71?" Why do we always have to live in the past?

MR. SOLYOM: I am not married to the year 1971 figures but I think that the rate of inflation at that time--

SENATOR MERLINO: They probably fit your theory a lot better than those of the current year.

MR. SOLYOM: No. I think the proper answer to your question, Senator, is that this formula was devised by a professor of economics from one of the universities in New York City and it was his suggestion that we use 1971.

If you wish, I can check it out with him and find out why he picked 1971. I do not think it is an important point. The idea is that we limit spending to a reasonable amount.

SENATOR MERLINO: Do you know the ratio of public employees - State employees - to the population in the State of New Jersey?

MR. SOLYOM: I know that this State has one of the lowest ratios.

SENATOR MERLINO: Not "one of the" - the lowest.

MR. SOLYOM: All right. Let's keep it that way. I think that's great. We should brag about that. I think that's wonderful that the State of New Jersey has fewer State employees than any other state in the Union. Thank you for telling me that we have that status. I think that is a status to be proud of because government is getting too big in this country, not only nationally but at the state and local level.

The fact that we, here in New Jersey, have less than any other state, I think, is a tremendous asset to us and we should keep it that way. That is the reason we have this proposal in here that the number of employees in the State never be allowed to exceed point seven-tenths of one percent. That was taken from a bill that was introduced in this Senate about two or three years ago.

SENATOR MERLINO: That leads to my next question: What is so sanctimonious about home rule in 1975? Isn't that a throw-back to the past too?

MR. SOLYOM: What is your definition of sanctimonious?

SENATOR MERLINO: Well, you seem to make quite an issue of maintaining home rule and not destroying home rule in New Jersey.

MR. SOLYOM: That's true.

SENATOR MERLINO: Why not?

MR. SOLYOM: I think that home rule in New Jersey is one of the things, again, that makes us a wonderful State and a nice place to live.

Home rule to me means that the local people have

control over their government and they are not being dictated to by some faceless entity in Trenton or Washington.

If we maintain home rule, we will be operating in the fashion which Americans have always wanted to operate, namely, to govern themselves and to educate their own children and to mind their own business and to earn a living and raise a family.

SENATOR MERLINO: And also to tax the people into oblivion to maintain this. Instead of having one bureaucracy we have almost 600 in this State, isn't that so?

MR. SOLYOM: The further away from the people you take the bureaucracy the less power the people - citizen-taxpayers - have over controlling the bureaucracy. I do not want to see the bureaucracy transferred, and the powers of bureaucracy, away from the local level and placed in the hands of someone here in Trenton.

SENATOR MERLINO: It is just a question of which bureaucracy you really favor.

MR. SOLYOM: No, because the local bureaucracy is one that you can control. The people in control at the local, municipal level are our friends and neighbors and when they do something that they shouldn't do, their friends and neighbors can go to them directly and make them toe the mark. That is not easy to do with a faceless bureaucracy here in Trenton.

SENATOR MERLINO: That's a rather elusive term you use - "faceless bureaucracy."

MR. SOLYOM: Yes. I will tell you what I mean by that: People come down here to Trenton and they are over-awed by the State House and the fact that this is the center of State Government. In fact, I remember Assemblyman Kean, who was testifying at the trial of a case brought by the New Jersey State Chamber of Commerce to test the constitutionality of the Election Law Enforcement

Commission -- some of the provisions in that law. Incidentally, we won on that one; did you know that? Judge Kimmelman ruled in our favor on that one.

SENATOR MERLINO: You mean that some lobbyists don't have to report their incomes while others do. That was the decision.

MR. SOLYOM: Well, that is your interpretation of what the judge said, but it is not actually what he said.

What I am trying to say is, here in Trenton people are over-awed by the bureaucracy. They come down here - and this point was brought out by Tom Kean when he testified at that trial... He said - I can't recall his exact words but the intent of his words was that people come down here and they are actually frightened.

SENATOR MERLINO: They might be frightened by people like Tom Kean, but do you know anybody who is frightened by Joe Merlino?

MR. SOLYOM: No, I don't see how anybody could be frightened by Joe Merlino.

SENATOR MERLINO: Thank you.

Senator Dwyer, do you have any questions?

SENATOR DWYER: No questions.

SENATOR MERLINO: I guess the longer you and I are here, the more we agree on some things.

MR. SOLYOM: Well, good. I am glad to hear that. That is why I am a lobbyist, because we are trying to get across to the legislators the feeling and the thinking of the taxpayers.

SENATOR MERLINO: But you don't have to say who supports you with any funds though.

MR. SOLYOM: No, I do not. The law says we do not.

SENATOR MERLINO: That judge said you do not. That trial court judge said you don't.

MR. SOLYOM: The judge ruled that way. Now, if you want to take that up with Judge Kimmelman, fine.

SENATOR MERLINO: It is interesting. I am a lawyer too. I don't know if you have learned this or not but when the judge rules in our favor we think it is the greatest thing in the world.

MR. SOLYOM: Well, that is human nature.

SENATOR MERLINO: But when he rules against us, then he doesn't know what he is talking about.

MR. SOLYOM: Sure. Thank you, Senator.

SENATOR MERLINO: Richard Standiford, Department of Treasury, Division of Budget and Accounting - one of our "bureaucrats." You are not one of the "faceless ones", are you?

R I C H A R D S T A N D I F O R D: I would hope I am not. I will give you my phone number, if you would like, and I'll get my face back.

Mr. Chairman, Senator Dwyer, my name is Richard Standiford. I am the Supervisor of the Bureau of the Budget, Division of Budget and Accounting.

I'd like to make a few comments, Senator, representing, perhaps, some of the observations of our technical staff in the last few years since I have been Supervisor of the Bureau.

SENATOR MERLINO: Will you reduce this to writing so that the other members of the committee can have the benefit of it before the transcript comes out?

MR. STANDIFORD: I have a general outline. I'd be glad to share that with you.

SENATOR MERLINO: Thank you.

MR. STANDIFORD: We are in opposition to the proposal of establishing a ceiling on state expenditures as proposed in the Senate Concurrent Resolution.

It is our opinion that the present Constitution already has within it an effective device for setting a limit on the expenditures by the State. Such device is contained in Article 8, Section 2, Paragraph 2, requiring

the establishment of a balanced budget for the State of New Jersey.

The appropriations which are made through the normal appropriation process cannot exceed the amount of revenues which the State has available to it. Further, Paragraph 3 of the same section does not permit the State of New Jersey to go into debt without referendum of the people.

I think these two provisions effectively provide a ceiling on our expenditure level.

Not to drag out a recent occurrence, but the budget for 1976 fiscal year probably represents just such an example of containing the expenditures to available revenues. When revenues were inadequate to support the proposed expenditures, it was necessary to reduce that budget to so contain them.

The appropriation process, as the budget develops through the requests of individual state agencies, through the recommendations of the Governor, and through the scrutiny and review of the Legislature, both through its Joint Appropriations Committee and through the individual debate which may occur and through discussions which may occur with individual members, places a definite legislative input on the amount of expenditures which the State will undertake.

This, again, gives us an opportunity for the people, through their elected representatives, to keep a ceiling on the State expenditures.

Ceilings, artificially imposed, frequently can cause great problems to the general management and the development of new programs in government. Some of the expenses which we are required to make are not directly related to any normal economic growth.

Welfare case load is an example. The laws which have been established for the State of New Jersey require

us to make payments to the people who qualify. As economic conditions change, this number can soar dramatically and it may soar in times of recession far greater than other areas of the economy.

If there is a ceiling on expenditures, the Legislature would certainly - and the Governor - be hampered in the development of new proposals for new programs to meet new demands of the people as the world changes.

I'd like to give you an example of where a ceiling has been used in New Jersey and how it was ineffective and had to be modified continually. In 1968, an assessment law was passed which permitted the Department of Public Utilities to assess the utility companies the amount of their annual appropriation. This assessment law set the limit of such assessment at one-tenth of one percent of the gross receipts of the utilities. It was 1971 - three years later - that the Department of Public Utilities, being severely criticized for not performing many services which were necessary, such as inspection of gas lines where hazardous explosions had occurred, such as back-log of rate review cases, found it necessary to approach the Legislature and raise the ceiling from one-tenth of one percent to one-eighth of one percent.

Again, in 1975, with rate hearings increasing tremendously because of energy crises, shortage of fuel, pressure of the economy on citizens objecting to higher electric, gas, and water bills, it became necessary for the Department to again come to the Legislature and request an increase in the ceiling from one-eighth to one-sixth of one percent.

Ceilings artificially placed are bad. They do not permit the State to change quickly and rapidly as situations change and as the world changes on a day-to-day basis.

Another related situation which should be brought to your attention in considering this amendment is a situation that many state departments now operate within the revenues and the fees which they charge - examples being the Department of Insurance, the Department of Banking, the Department of Public Utilities, the Division of Fish and Game. All of these agencies sell licenses or charge fees for the services they render. To include them in a sweeping manner within this limitation may react adversely by causing these agencies to restrict their expenditures and not perform the service which they are billing their constituents directly for.

Mr. Chairman, I think that represents a conclusion of my comments.

SENATOR MERLINO: The conclusion is, you don't think this is such a good idea?

MR. STANDIFORD: Correct.

SENATOR MERLINO: Are there any questions, Senator Dwyer?

SENATOR DWYER: No questions.

SENATOR MERLINO: May we have your outline? The transcript will be available, but time is of the essence to get these questions - if they are passed - on the ballot. So, rather than wait for the transcript, we would like to have copies made of the outline for the other members of the committee. Thank you, Mr. Standiford.

At this time Senator Russo, who is the prime sponsor and architect of this resolution, will put his thoughts on the record before the public.

SENATOR JOHN F. RUSSO: Thank you, Senator Merlino. I would just very briefly like to point out what the background of this resolution has been and why it was introduced.

During the past two years we have heard a lot of talk in this state concerning an income tax and other

forms of taxation.

The most common complaint that we have all received - certainly I have - from our constituents has been, if you give them a new tax you are only going to spend it anyway, no matter how much it is. There may be some merit to that, I don't know.

But, in any event, I think that in order for the people to reestablish some confidence in the fiscal responsibility of State government, as well as local and municipal, there has to be - or they are looking for - some restraint upon the growth in budgets. They saw that, in a four-year period - from 1970 to 1974 - State spending increased by over one billion dollars, virtually double what it was at the start of that period.

They don't trust us to limit spending and the attitude is that if we have the money, we are going to spend it. The concept behind this bill was to hopefully put some restraint on ourselves. There are only two ways I know of to restrain State, county, and municipal and school board spending - one is, don't give us the money and the other is restrain it by law - and, in this case, restrain it not only by statutory law but by constitutional amendment.

I think in order for the public to have - or to reestablish - faith in their government, there has to be some limitation of this sort.

I don't know, frankly, whether this bill is the answer. This bill is an effort - a first step. It becomes very upsetting, frankly, when a first step is taken, such as this - it may not be the final one and it may not be the best one - to have people make accusations, as I understand some witnesses have, that there are hidden meanings in the bill. You know, so many times when I say to people, "If we limit State spending, perhaps that will solve the problem," their answer has been, "Oh, no. Then there will be more money for the local and county people to spend and they will spend it." If you think that's not true, look at any

county - my own is one - where growth has been so tremendous in recent years that no matter how much we grew in property values and ratables and no matter how many dollars we poured into the county budget, it was spent.

So, to limit state spending but then let local or county spending go on unrestrained - and that is more than half of the taxation the people pay - doesn't seem to make sense to me. Yet this bill - and maybe with justification, I don't know - has been accused of being an effort to destroy home rule. Well, maybe it is. Perhaps limiting state spending alone will solve the problem. If it will, that's all I want to do. I want to reestablish some faith on the part of the public in their governmental officials. They don't have it today. They won't support any programs. They won't support school budgets. They won't support a state income tax. You name it. They won't support it because they don't trust us and this bill is an attempt to limit, in some manner, the amount we can spend in the event funds become available.

Another thing that is potentially possible - I don't know if it is going to happen - is, our State revenues this year are off tremendously as a result of the recession. President Ford says the recession is ending. Nobody believes him, but, just in case he is right, then the revenues are going to rise again and we may then have - assuming, of course, we do pass new taxes to balance our budget - money left over. So, this bill would restrain us from simply spending it just because we have it.

So, it is a concept that I am trying to introduce here, with some twenty-four or twenty-five of my colleagues in the Senate as co-sponsors. It is a concept. Maybe it needs refinement. Maybe the whole idea is no good, but it just seems to me as though we have to take a step to, in some way, limit the amount that our governmental officials, on all levels, can spend. If we shouldn't

limit the local and county governments because it is a violation of some home rule concept, well then I don't know what the answer is as to how else you are going to limit them. They are not going to limit themselves - you know that. School board budgets are rising 15% a year; county budgets are rising by as much as there is in the pit. I don't know how else you are going to limit them, other than by constitutional amendment that would have to be approved by the people of this State, and then it can only be changed by the people.

So, that is the concept behind this piece of legislation. It is a first step in a rather major problem area and I would be awfully surprised if this bill, as drafted, solved all of the problems without any difficulties or complaints. I'd also be awfully surprised if the people involved in the spending were to unanimously agree with such a concept that would restrain them.

Unfortunately, the people we almost never hear from at these hearings - and it is true of the Assembly Taxation Committee hearings going on right now - are the people out there that are going to pay the taxes. The special interest groups are very vocal and very present but the ones out there that are particularly involved aren't here today, apparently, and seldom are. Nevertheless, somehow, in spite of their inability to be here - or their apathy, or what have you - I think we have to very seriously consider their plight.

So, that is the purpose behind the bill. Certainly, we are willing - or I am willing, as the committee is - to listen and refine this in any manner that it can be refined.

SENATOR MERLINO: Senator Russo, just as you and I are here as representatives of the people in the State who elected us, those people whom you refer to as "special interest groups", I would hope and I would presume are speaking for the people they represent - and they are the people

out there.

SENATOR RUSSO: There is no question about that.

SENATOR MERLINO: We can't have eight million people come in here and testify.

SENATOR RUSSO: The point I am making, Senator Merlino, is, if you look at the list of witnesses, we have officials, who I think have a perfect right to be here - we would be silly not to look for their input and I welcome it, I commend them - but they speak from one approach, from one angle. The average taxpayer - who makes up the vast majority, not the elected officials or particular groups - isn't really here. That's my point.

SENATOR MERLINO: I can't think of two more representative groups here than the New Jersey Taxpayers Association and the Federation of New Jersey Taxpayers.

SENATOR RUSSO: I hope they won't be offended, but I can't think of two less representative groups. Now, if you want me to elaborate on that I will. They are nice people and I don't want to offend them, either one of them.

SENATOR MERLINO: I don't think anyone would find you offensive.

SENATOR RUSSO: Okay. But if it needs elaboration, I'd be happy to do so, but, no, I will not concede that point.

SENATOR MERLINO: Are there any questions, Senator Dwyer?

SENATOR DWYER: No questions.

SENATOR MERLINO: Thank you, Senator Russo.

From one of those disinterested groups - the New Jersey Taxpayers Association - we have Mr. Frank Haines.

F R A N K W. H A I N E S: Senator Merlino and other Senators on the panel, particularly Senator Russo, I will identify myself. My name is Frank Haines. I am Executive Director of the New Jersey Taxpayers Association, which is a non-profit, non-partisan governmental research

organization operating in New Jersey since 1930.

I'd just like to point out that we have no direct relationship with the Federation of New Jersey Taxpayers, which is a little more recent in this State. I'd like to emphasize the difference in the organizations which are often confused because of the similarity of title.

I appreciate the opportunity to present views on behalf of the Association on this unique and complex proposed constitutional amendment requiring the Legislature to enact laws placing maximum limits on the expenditure level of the State, county and municipal governments. I am particularly pleased to have the opportunity to come after the sponsor. I was apprehensive that I might miss his comments. Hopefully, the comments we have, following his, will be constructive. Certainly, that is what they are intended to be.

Our preliminary research on this proposed amendment indicates that no state has adopted such an approach to limit governmental spending; that is, through a complicated formula relating expenditure increases to increases in the State's personal income.

An initiative effort in California in 1973, which would have limited state appropriations to a fixed percentage of personal income, was rejected by voters.

An initiative effort in the State of Washington this year is directed at a proposed constitutional amendment to limit annual growth of state government taxes to nine percent of state personal income averaged over the three previous years. I have no current information as to whether that will be on the ballot.

There are undoubtedly other states where legislation of this type has been introduced in recent years. We have not yet found any record of enactment.

Some states have constitutional limits on

certain financial aspects of local government. Other states use the statutory approach. The common limiting technique employed by states on local governments is millage, a rate limit on property taxes. At least 38 states have such constitutional or statutory limits.

Thus far our incomplete research has not revealed any state which has a constitutional provision for limiting overall state taxes or expenditures - emphasis on "state." The absence of such provisions raised two questions concerning reasons for their absence: Is it that no such feasible proposal has been developed? Or, is it that no workable plan has ever been developed that was saleable to legislators and the voters?

We are not prepared to give you the answers at this time, but do feel the committee should endeavor to obtain the answers to these questions.

From the viewpoint of certain taxpayers, which I understand is shared by some legislators, the concept of the amendment, that is, limiting expenditures, is certain to be extremely popular. From the viewpoint of an elected official at the local government level, the proposal can hardly be expected to be received with enthusiasm. As is true of so many things in our society today, the idea may be great - if it will work and will not create more problems than it is intended to solve. But before such a proposal is adopted it needs testing. It is essential that you determine how the proposal will work.

We have several suggestions to make in relation to SCR No. 3028, as amended:

1. A significant analytical effort is needed to determine how the principle would work and whether it is practicable both for the State Government and a representative sample of counties and municipalities.

Study should also be made of the potential side effects of limiting appropriations, and whether further

fiscal controls will be necessary. Millage limits lead officials to search for alternative approaches to provide governmental services, such as creation of authorities and special districts. They may also lead to utilization of debt to finance capital projects instead of pay-as-you-go, particularly where there are no requirements for local referenda for issuance of debt, as is the case of New Jersey municipalities and counties. The experience of other states in this respect should be valuable.

2. The bill which would implement the amendment, Senate No. 3289, should be revised if necessary and presented for public hearing or analysis in relation to the amendment. Only then can the complete concept be seen as set forth, analyzed, and evaluated. Consideration should be given to designating the state agency to enforce the local government provisions. We find no designation in the bill at this time of who would enforce it. I think it is probably only logical, possibly, that the Division of Local Government Services, if it is still in business at the time such amendment might be adopted, would be the agency to enforce this. But then there is a question of how it would be handled at the state level also - in other words, an enforcement agency, other than the Legislature. Perhaps it should be a legislative agency.

3. The language of the proposal needs careful study so as to clearly differentiate between appropriation and expenditure. The proposed amendment suggests that an expenditure shall be defined as an "amount appropriated". We submit that there often is considerable difference between the authority to spend - which is an appropriation - and actual expenditure. Rather than use an impractical or technically erroneous and confusing definition, we urge consideration to changing the basic language to read limit "appropriations", rather than limit "expenditures". Spending from funds appropriated for a specific fiscal

period usually does not equal the authorizations for the period for reasons such as a lag in spending for capital projects, and spending of appropriation balances carried over from the previous fiscal period. These definitions need clarification to facilitate understanding of the measurement procedure.

4. The language of the proposed amendment is too detailed and therefore too long as the result of the attempt to spell out various measuring techniques. It violates the constitutional drafting principle of brevity and simplicity. We suggest the following language as a substitute, thus leaving the details to statutory implementation. Limitation of constitutional detail will also facilitate amendment if experience proves need for modification. This is our suggested, very brief, approach to this, if the whole concept should be considered to be valid:

"The Legislature [shall] may enact laws limiting the maximum permissible appropriations by the State, and county, and municipal governments which may be exceeded only after approval at public referendum as provided by law."

To summarize NJTA's views, the concept of limiting spending in the proposed constitutional amendment, although popular in principle, has not yet been explained statistically nor its application demonstrated. Such research with dissemination of results for purposes of explanation and understanding is essential before a vote is taken on the amendment by the Legislature and before the question is submitted to the voters. A shorter and more simple amendment is urged.

Thank you, gentlemen, for the privilege of appearing before you to discuss this very unique approach to limiting governmental cost.

SENATOR MERLINO: Senator Russo, it is your bill; do you wish to question Mr. Haines?

SENATOR RUSSO: Mr. Haines, first of all, I should explain something to you. The remark made earlier, when Senator Merlino asked about the two groups being representative of the average taxpayer and I indicated that I felt that they were not, I should explain. It was not said in a derogatory sense. What I did mean is, your organization, which does an awful lot of fine work and an awful lot of helpful work for us, particularly, is, however, comprised primarily of the leaders of the business and industrial community in the State, which I gathered when I read your list of Board of Directors, the most recent one, anyway, that I could obtain.

So, what I meant was that it may be that you represent a point of view more closely akin to the business and industrial community than, let's say, the average taxpayer. I don't say that is so; I just say that to me it would appear to be so.

It occurred to me after I sat down that maybe my remark might have suggested something derogatory. It did not, or should not have. I think you do a fine job in your various distributions that I have used and relied upon many times.

The only other thing I wanted to say is, I think your suggestion as to the language of the constitutional amendment makes a lot of sense at first blush to me. It, perhaps, indicates we ought to use you for drafting, rather than our own staff. Yours does seem simpler and I am going to take it up with the staff.

Other than that, you make a number of comments and suggestions that, frankly, I can't discount as out of hand. We are going to have to study them - or certainly I am - to see whether changes should be made. I for one thank you for offering these suggestions.

SENATOR MERLINO: Senator Dwyer, do you have any questions?

SENATOR DWYER: No questions.

SENATOR MERLINO: Mr. Haines, there is one particular part of this bill which bothers me. What do you do with communities that experience a decline in their residents' personal income if the provisions of this bill are adopted?

MR. HAINES: Senator, I would have to say at this point, I can't answer your question because I don't feel that we have had enough opportunity to plug in data - in other words, to be able to interpret it, in the first place - in order to answer the question.

There may be some significant problems in such an approach. We have attempted, in the limited time we had, to try to use the bill and the amendment and statistical sources available to interpret this.

Frankly, at this stage, we have not been able to touch base with anybody in the State government who may have worked on the concept and put in some "for instances" in terms of, for example, State budget. So, this is one of the reasons why I say at this point we urge that this be done so we can determine whether the whole concept is feasible in terms of available data sources.

There is one thing that I think has to be looked at very carefully - and may have been done - and that is the lag in personal income data is probably twelve to sixteen months behind preparation of the budget. For example, I think, if my research staff is right, the fourth quarter personal income data for 1974 would have been available in connection with analysis - or checking this - against the 1975-1976 budget. In other words, there is a considerable lag.

This may be okay. This may be perfectly all right and I may be misinterpreting it, in terms of period. But

from our standpoint I should say we have to have an understanding as to how this would work so that we can analyze it in connection with staff work at the state level.

I don't have the staff or resources to do the extensive research, along with all the other things that are going on in the state today, regrettably, in order to present specific evidence to you on this concept.

We want to, let's say, leave the option open today, inasmuch as it is potentially a popular concept and may be something which is extremely valuable; we did not want to take an absolutely negative approach today. We wanted to try to be constructive and suggest that we would like to help on this, if possible. Certainly we don't want to say that because this hasn't been tried anywhere or hasn't worked anywhere, it won't work. We just want to suggest-- We were looking for experiences to see if we could draw on them, in terms of their applicability to New Jersey. As yet, we have none. We do have knowledge, let's say, of efforts and there have been many studies done with relation to millage-limit efforts, which I indicated is a rather common effort, nationwide, among certain states. We know the problems, etc., in connection with that.

But this is a new concept and, as I say, we want to leave our opinion open on this and not just say, "We don't think it will work" because we are willing to be convinced and we are willing to work and look at it and see if it is possible to make something like this work.

SENATOR RUSSO: Do you agree that even if this were not to be the answer, we have to search for some way to limit expenditures to off-set the attitude of our people with regard to the fiscal policies of State, county, and local governments?

MR. HAINES: This is an extremely tough one to do, sir. Certainly, with the present attitude of the public, an action like this would appear to be highly desirable.

However, we will then, I think, be running up against the "sacred cow" - maybe this was mentioned earlier and I want us to recognize it for what it is - of the philosophical approach which is historical in New Jersey of local discretion, called "home rule." We are seeing it now reflected in the efforts and in the approach that is being made in Senate No. 1516 - T. & E. This bill would attempt to let the local districts determine how they will define T. & E. for themselves, subject to some broad State guidelines. But, at the same time, the State is saying, "We are going to look over your shoulder and we are going to limit your spending in these matters." This is going to make it extremely difficult because the common approach in New Jersey, in certain areas, is that we let local units make their own decisions, subject always - because it is the nature of the legal system - to legislation, whether it be constitutional amendment or statute.

But it is a historical evolution which may be, in some cases, causing more problems than it is helping in New Jersey and maybe we have to change the whole nature of that approach. Certainly, I think that an amendment, such as this, would be doing that. But then we may have to also consider the whole statutory approach. We have to stop the legislature from mandating costs on local governments and maybe it even gets to the point of - and I recognize that this has been rejected - providing local option taxes for them to do these things on a local option basis in order to meet their problems. Or, you can go all the way with the legislature recognizing - as I hope it might in some situations - that we probably have too many local units of government - small, possibly inefficient units of government in New Jersey - to be able to come up with simple solutions to the problems we are trying to solve such as the question: Do we need, or is it essential to have, six hundred school administra-

tive units and five hundred and sixty-seven municipalities?

This will come into direct confrontation, let's say, with the home rule concept, as this amendment might do on a lesser basis. But I have to review it in that broad concept, sir. There is no simple, easy answer as I see it personally in working with New Jersey government for over 25 years.

SENATOR MERLINO: Thank you.

Charles Williams, Middlesex County Board of Freeholders.

C H A R L E S F. W I L L I A M S: Senator Merlino, Senator Russo and Senator Dwyer, thank you very much for the opportunity to present some views today. My name is Charles F. Williams. I reside at 101 Barnert Place, Middlesex Borough, New Jersey. I am presently a Freeholder in Middlesex County and I am a candidate for the General Assembly.

I speak today as a Freeholder and as a former Councilman from my town. By way of reference I will allude back to that because I think that is the basis for some of my concerns, my governmental service, elected governmental service on the local and county level. This gives me the benefit of a variety of input as to the problems that I think are being faced by those two levels of government, as well as the State government here in Trenton.

I would also like to say that while I was invited to appear here today by the State Freeholders Association, due to the timing of this bill - the Concurrent Resolution was introduced on June 27 - the State Freeholders Association is going to meet next Monday in Woodbridge at which time I presume there will be some definite policy statement made on behalf of the Association, so I am speaking not on behalf of 153 Freeholders, but on behalf of one. I think though, from the information I gleaned from our

State Freeholders Convention back in May and from information I have received while talking with the other Freeholders and from workshops held at that convention, I sense the feeling of a significant number of Freeholders in the State, if not the majority of them.

It seems to me the question of caps on spending might be totally unnecessary. I think it is the feeling of the Freeholders that I have spoken to, regarding this type of a proposal, that when this idea of a cap on spending first came out it had a lot of merit.

I heard Senator Russo speak before about the question of reestablishing credibility. I submit to you, gentlemen, that the credibility gap doesn't seem to exist in the 567 municipalities or their Town Halls, or the 21 county court houses; the credibility gap, instead, is here.

As a Councilman for three years and as an active participant in local government for longer than that, I have attended some eight or ten public hearings on the budget in my municipality of some 15,000 people and if, over that period of some eight years, 15 people showed up to protest the local budget, it was a lot. In fact, most of the people who showed up at the public hearings were there representing some special vested interest group - PBA or some environmental group - who wanted more money in the local budget and not less.

Since I have been a Freeholder in Middlesex County I have voted on three budgets involving a total expenditure of somewhere in the neighborhood of about \$175 or \$180 million over the last three years. I have attended budget hearings prior to that also. Again, this year we had a \$71 million budget in Middlesex County - the highest that the county has ever had by some \$15 million over the preceding year, a budget increase, I think, of from \$57 million up to \$71 million - almost \$72 million -

and scarcely anybody spoke against it.

The public concern does not appear to be with the spending levels at the local level or at the county level. Curiously, one area where there is - from my experience and background - some considerable concern about spending is with the school budgets. Yet, I note, from looking at S-3028, cleverly excluded from any cap of any kind are all expenditures by Boards of Education and all expenditures to meet obligations of the school debt in Type One school districts. It seems to me that that is where the concern is. I see that this bill neatly excludes all of those.

I think that the question really is one where it would be grossly unfair to apply a formula to all of the 21 counties. Let me say that in Middlesex County-- And, again, since I have been a Freeholder I have voted on some \$27 million worth of capital expenditures in the area of education. This sounds like a whole lot of money. In a county like Middlesex where we currently have a debt of some \$85 or \$86 million and we have a debt limit, I guess, of some \$148 or \$150 million, to have voted for \$27 million for education is a considerable sum. But that education has gone into a new vocational, technical school of \$11.5 million. We voted again this year on a \$3 million addition for vocational needs for handicapped children. We have put up numerous buildings at Middlesex County College in Edison, which is probably the premier county college in the State.

At these public hearings, on the question of these bond ordinances, not a single voice in opposition showed up in a county of 603 thousand people, according to unofficial estimates.

So, for you to come along and, in effect, ask the voters to amend the Constitution to place this question on the ballot, Senator Russo, seems to me, first

of all, that you are being unduely harsh on the counties.

For example, Middlesex County carries an extremely large enrollment in the county college. We, on the Board of Freeholders, are extremely aware that the State is no longer a 50% participant in funding that; we - the county - are a 58% participant and we are hurting there. What do we do in cases of other counties that don't have county colleges? Is it fair to impose a limit on Middlesex County, which is subsidizing some 58% of the cost of that county college and how do you match that up with other counties that don't even have a county college? How about the Judiciary? In Middlesex County we have a court house. We have a \$6 or \$7 million court house addition going up, which I voted to spend the money to build and which is going to be staffed with a bigger Judiciary. We now have 21 or 22 judges in Middlesex County, not by our wish but by the wish of the court because we have the space and because we have been willing to accept them. With that enormous Judiciary, we have sheriff's offices, we have probation offices, we have assistant prosecutors, we have a whole cadre of bureaucracy that goes with the court system, much of which Middlesex County has to fund out of its own treasury.

How about the counties where they have little court houses? Somerset County, for example, where they have refused for years to enlarge the court house. They don't have that big Judiciary. They don't have all the trappings and the trimmings that go along with it. Are we supposed to live under a cap, based on some formula where we absorb a tremendous amount of this cost when other counties don't?

Go to the area of probation. I have been assured by probation officials--

SENATOR RUSSO: Mr. Williams, may I interrupt you for just one minute?

MR. WILLIAMS: Yes.

SENATOR RUSSO: To save a lot of time, there is no sense in talking about your big Judiciary and Somerset's small one because this bill would apply to increases; it wouldn't apply to the amount you are already spending. If you are spending \$10 million on the courts and Somerset is spending \$1 million, this would only limit your increasing your budget by, say, 10%, or whatever the amount would be.

So, it doesn't serve any purpose to talk about the fact that you have 40 judges and Somerset has 2.

MR. WILLIAMS: Senator, I think it does and if you will bear with me for a minute, I will try to point out why it does. Middlesex County has bitten the bullet as we have gone along. We have in the corrections area - another area of State expenditure, really... A lot of people think that the question of the courts and the probation system and the correctional system ought to be under State control and be State funded. Middlesex County operates three such facilities and we operate at the current time two JINS facilities. Now, it is all well and good to say that you are going to limit the percentage of increases from here on out but the point is that you have some counties that are burgeoning in growth and you have others that are hardly growing at all.

In Middlesex County the growth need, the need for open space, the need for park land, the need for water resources, the need for a whole host of other things that we face in our county -- transportation alone is not the same as every other counties... I submit to you that over the course of the years the taxpayers of Middlesex County, if they feel they are being robbed blind, would show up at public hearings to protest these increases.

I submit to you that there is no magic formula. The kinds of people who construct income tax forms and

those types of things have never found a magic formula yet to eliminate the loopholes or to meet all of the contingencies that come along.

I submit that the fact of the matter is, the taxpayer in this State is concerned about the current fiscal crisis and chaos and everything else that is being faced. I watched the hearings for the last two days - Monday and Wednesday of this week - on channel 52, or 58, and I intend to attend them in person tomorrow. I wish to make some comments on that too and I will at that forum.

But the questions raised by those people in attendance -- nobody is rapping the municipalities, nobody is rapping the county governments, but they are questioning the expenditures and the bureaucracy and the growth - the uncontrolled growth - at the State level.

I found as a local official and I find now as a County Freeholder that the people seem, when viewing the tax picture, to favor that government over which they at least have some control. I cite, for example, the feeling I have had when talking to any number of constituents about their willingness to go out and vote on school budgets, that maybe schools are rapped because they are the one area where the taxpayer has the chance to get even, if you will.

The question doesn't seem to be - as remote as county government may be to some people - the expenditures there.

I cite for you, Senator, an example in Middlesex County, just this week, which will give you an idea, I think, of how people are willing to go and, in effect, impose their own caps at the local level. The City of South Amboy, one of the 25 municipalities in Middlesex County, had a school referendum on Tuesday. For some 13 years they have had double sessions in the high school. The State Commissioner of Education's office and the County

Superintendent threatened them that if they didn't approve this proposed high school referendum, some of the school children would be bussed out of the town to another school district. It would cost them more money, in the form of busses. And they were going to lose, in effect, the accreditation of the high school. Despite that, despite the threat that hung over their heads, the people of South Amboy, for whatever reason, chose to vote "no" by better than 2 to 1 on that referendum. Whether we, in other levels of government, like to see that or not, and whether or not we agree in principle or in fact with the outcome of that type of thing, I think it demonstrates amply to everyone that the local people, on the local level, whether they are blind or not, are willing to go out and lay it on the line - or draw the line - as to what they want to see spent.

SENATOR RUSSO: Why don't you want that to be done to the people of the State as a whole?

MR. WILLIAMS: I don't want to see it imposed by any "magic formula" because I don't think you are bright enough - I know I am not bright enough - to come up with a formula that is going to amply apply. I know of no way that you can apply a formula that is going to treat, equally, the problems of a fully saturated county, such as Hudson or Essex, and a county that is growing like Middlesex or Somerset or Monmouth or Ocean.

SENATOR RUSSO: But who are you or I to say that the formula is good or isn't? I want to give the people of this State the chance to vote on it. You don't want to let them have a right to vote on it.

MR. WILLIAMS: You know, we elected you, Senator--

SENATOR RUSSO: Let me finish the question. I want to put it on the ballot so they can say that you are right and they are happy with municipal and county spending, or they might say you are wrong - they are not happy. But why shouldn't they have that right to vote?

MR. WILLIAMS: Another point which I wish to offer some testimony on is the way the question is phrased. It is an extremely dubious type of wording and to put that question that vaguely on the ballot and to expect to get a meaningful vote, I think, would not only jeopardize the passage of any such bill of this nature, but would jeopardize any other bond issue on the ballot this year.

The people are extremely skeptical and you studiously avoided doing anything with the educational area. Somebody talked before - I think you did, Senator, when you spoke - about the amount of money that is being spent on the local and county levels exceeding the amount being spent by the State. The biggest chunk of expenditures you haven't even included in this.

SENATOR RUSSO: You really don't know why? You are a Freeholder and a candidate for the Assembly and you really don't know why the school budgets aren't included in this Constitutional Amendment and the bill?

MR. WILLIAMS: I think I understand full well the real reason why.

SENATOR RUSSO: Why? What is the real reason why?

MR. WILLIAMS: I think I know and I think that I have a damn good reason, from looking at the co-sponsors of this measure, why, magically, the school boards were eliminated.

SENATOR RUSSO: Why? Tell us why?

MR. WILLIAMS: Why? Because I think it is pressure from the NJEA so as to not hold down teachers' salaries. That's the reason why.

SENATOR RUSSO: All right. Now I will give you the real answer, okay?

MR. WILLIAMS: Tell me.

SENATOR RUSSO: Incidentally, when you look at the co-sponsors, you had better look at the whole Senate because

there are 24 of them so far.

MR. WILLIAMS: Let's hear why.

SENATOR RUSSO: Pardon me?

MR. WILLIAMS: Let's hear why.

SENATOR RUSSO: All right. The reason why is because the caps on the school board expenditures are already covered in a bill that passed this Senate - S-1516 - and which is pending before the Assembly - and I am sure it will pass there if we solve the financing problem - and that contains, already, the caps on school expenditures.

Apparently you haven't read about that bill nor have you seen that bill.

MR. WILLIAMS: I am not aware of that fact.

SENATOR RUSSO: You are not aware of that bill?

MR. WILLIAMS: No. I am aware of 1516. I am not aware of the cap provision.

SENATOR RUSSO: You didn't read the bill then.

MR. WILLIAMS: Well, perhaps I didn't study the bill as deeply as you did.

I am trying to solve my problems and I will get down here to try and solve yours too, perhaps, next year.

SENATOR RUSSO: No, you won't help much because that leads me to my next question. I don't mean to suggest you won't be here, or will be here, I don't know. But my next point is: You have indicated that the people are very happy with local and county expenditures; it is the State that they are up in arms about.

MR. WILLIAMS: I think that's true.

SENATOR RUSSO: Okay. I think you indicated that because you voted on so many millions of dollars worth of budgets and there weren't many people there to protest.

MR. WILLIAMS: No, it is not just that, sir. Don't over-simplify it. Obviously, I get mail from constituents; I get telephone calls; I have face-to-face contact with people. The curious thing about this is that

the majority of the comments coming to you come in from interest groups that want more, not less, local and county spending; they want more to satisfy public interest, whereas that is the antithesis of what goes on down here.

SENATOR MERLINO: I disagree with you wholeheartedly, Mr. Freeholder. I have been on the State Appropriations Committee - the Joint Committee - for six years. This is my sixth year. This year we had three days of public hearings, where the public was invited, and ninety nine and nine-tenths of the people who appeared before that committee for three whole days, all came and asked for some spending. Nobody came and said, "Save some money."

How much money does your county government have to raise to support itself? How much do you as a Board of Freeholders raise?

MR. WILLIAMS: To support the \$71 million this year, the amount to be raised by taxation is slightly in excess of \$50 million - a million dollars a week.

SENATOR MERLINO: How much does the county raise?

MR. WILLIAMS: About one million dollars -- I mean, fifty million dollars.

SENATOR MERLINO: Out of the \$71 million?

MR. WILLIAMS: Out of the \$71 million.

SENATOR MERLINO: When you say you raise it, what do you mean?

MR. WILLIAMS: It is the amount to be raised by taxation.

SENATOR MERLINO: By whose taxation?

MR. WILLIAMS: The property tax.

SENATOR MERLINO: That is the municipality's.

MR. WILLIAMS: The municipality's.

SENATOR MERLINO: You raise hardly a damn thing.

MR. WILLIAMS: I know and as a Councilman I resented that too, and we get 100% return on our taxes. We collect every penny of it.

SENATOR MERLINO: Would you favor an amendment to the Constitution placing municipal and county budgets on referendum, like the school board budgets that you praise so highly?

MR. WILLIAMS: I don't know whether I would or not.

SENATOR MERLINO: Why not?

MR. WILLIAMS: Because I think that it would be -- I question whether you would want to do it in special elections. I don't see any outcry from any area to call for that.

SENATOR MERLINO: What makes the school board so different?

MR. WILLIAMS: Because it is a big chunk of salaries. It is a big chunk of taxes. Most of the towns of Middlesex County, Senator - and Middlesex is a good bit different from Mercer--

SENATOR MERLINO: It is just a little bigger; that's all.

MR. WILLIAMS: And a little bit different in demography and geography and a whole bunch of other things. For the 25 towns in the county, the school expenditures, in most cases, run somewhere between 68% and -- I think one town in our county is 78% of the total tax rate for school expenditure.

Now, that's an enormous chunk of the budget - an enormous chunk. I am not happy with the fact that in some cases 4% to 6% of the electorate come out to vote for the school budget either. I am not happy with that. I'd like to see a better expression.

That is why I avoided testimony today about the fact that there is some significance in - or something that you can read into - a determination made by 4% or 6% of the electorate. If they go out and defeat a school budget, two-to-one, that is rather insignificant.

This matter I alluded to in South Amboy, Tuesday, better than 50% of the electorate turned out in that

referendum.

SENATOR MERLINO: My concern with your statement is when you said the only place there is a question of credibility is here in Trenton. I presume that what you followed up with was in support of that.

MR. WILLIAMS: That's right.

SENATOR MERLINO: I can tell you, Mr. Freeholder, that you are absolutely wrong. The credibility as far as government is concerned starts right down at the grass-roots level of the municipality. I was in municipal government too, so I know from whence I speak. For you to come here today and say, "everything is peaches and cream"--

MR. WILLIAMS: Senator, don't put those words in my mouth. I didn't say it was peaches and cream.

SENATOR MERLINO: Well, you say it your way and I will say it my way.

MR. WILLIAMS: I will say the question of the credibility gap is right under the golden dome, here.

SENATOR MERLINO: It is under every roof where there is any governmental agency operating - every roof, from Washington to the little municipal building.

MR. WILLIAMS: And it grows geometrically as the distance from the taxpayer to the seat of that government increases.

SENATOR MERLINO: But that isn't what you said.

SENATOR RUSSO: Do you know why it does, Mr. Williams?

MR. WILLIAMS: Why is that?

SENATOR RUSSO: One reason why, at the risk of sounding political-- There is some element of truth to what you say. A lot of it is right on the air because right on the air we hear people stand up - members of this Body - and say what the people out there want to hear about State spending. And we hear a man like you, in government for many years, talk about it too. Yet,

those same voices were silent - deathly silent - and, in fact, participated in increasing the State budget by one billion dollars in four short years, and you, Mr. Williams - and I don't know you, but I'll bet my last nickle - didn't say one word in protest when this budget was going up 15% to 18% a year - from 1970 to 1974. That's why they don't believe us.

MR. WILLIAMS: No. We have spoken out many times. I have testified on other matters down here at the State House and other Freeholders in my county have on numerous occasions and we have given you our thinking and our input in areas which, obviously, were vital to us.

SENATOR MERLINO: Calling for spending.

MR. WILLIAMS: For spending and for taking over the responsibilities of areas that are rightfully the State government's.

SENATOR RUSSO: Did you ever come down here and protest State spending?

MR. WILLIAMS: I have come down here and protested, yes, in the area of the Department of Institutions and Agencies in regard to the JINS Program.

SENATOR RUSSO: When was that? Who did you appear before?

MR. WILLIAMS: That is the enormous bureaucracy.

SENATOR RUSSO: No. When was that and who did you appear before?

MR. WILLIAMS: It was in 1973. The bill was passed in the latter part of 1973. As I recall, it was signed into law by Governor Cahill before he left office. It must have been in the Fall of 1973.

SENATOR RUSSO: What is the total amount that that program involved?

MR. WILLIAMS: The total amount that that program involved in expenditure in Middlesex County alone - I can only speak accurately for that - is somewhere in the neighborhood

of about \$120 to \$125 thousand a year.

Now, the fact that we have had to go around and rent buildings, the fact that we have had to employ special people, the fact that we have had a duplication of facilities, the fact that we have had a juvenile detention home, which in my estimation was capable of serving this need, sitting idle with a staff of some 40 people, that's got to be figured in too.

Senator, regardless of where you want to put the blame, regardless of where you want to fix it, the buck that is being spent is green on one side and grey on the other and they all come in one, five, ten, and twenty dollar denominations - and I suppose bigger. I never see enough of them to know what the bigger denominations are. The taxpayer is concerned about every single one of them, whether they are Federal, State, county, or local. My observation is, and that's all it is is an observation-- I don't know, maybe you have never served on the local level, I don't think you ever were a Freeholder but you may have served in local government down there in Ocean County somewhere. Maybe you have had the experience where taxpayers come into your town hall or your borough hall to complain about local budgets - I don't know.

To me it has been a dichotomy in the sense that people can get so riled up about expenditures further away - here and in Washington and the other state capitols - and not so much on the local level. I think they feel they have a direct input, they can get the ear of the person who is spending the money and they can exercise a proportionately larger influence on the local and county level.

SENATOR RUSSO: Am I correct in assuming then that your total involvement with protesting these State expenditures that you speak about here today is to the extent of \$125 thousand per year on a budget of \$2,800,000,000?

MR. WILLIAMS: Oh, no. That's like trying to -- That is drawing a ridiculous comparison, Senator.

SENATOR RUSSO: It is wrong then?

MR. WILLIAMS: I have felt, for example, that there are enormous areas where cuts could be made. In the Department of Community Affairs--

SENATOR RUSSO: Where are you on record as having protested? I don't care what you have felt or what you dreamed about. Where are you on record, other than the JINS program, as coming down here either during those four years when the budget went up one billion dollars or before or since - coming down here and, whether pounding your fist on the table or not, protesting these huge expenditures that you refer to in State Government? Are you on record? It is not what you thought or what you might have said to your neighbor; are you on record down here as ever coming before the Joint Appropriations Committee or anybody else down here in Trenton to protest these huge expenditures that were piled on us, particularly from 1970 to 1974?

MR. WILLIAMS: I have been down here several times, Senator, to appear before several goups. The specific dates and the "who" and the "where" and the testimony of what I said, I don't have direct access to. But I am recognized in my county as having opened my mouth a few times, Senator, to make statements and I will be happy to send you a copy for your memoirs, if you would like.

The fact of the matter is, I come here today not to engage you in an argument but to offer you the thinking of one Freeholder out of 153, from one county out of 21, from one municipality out of 567, and as one Assembly candidate out of 120 - perhaps even 160 or more than that - who knows how many more there are - including the independents, perhaps 200. There are going to be 160 direct confrontations

and at the rate things are going, maybe a lot of the incumbents aren't even going to go through it in November.

The point is, I come here as one out of, perhaps, 200 of those, Senator, and I look forward to seeing you, come January 14th. Thank you very much.

SENATOR RUSSO: It will be a pleasure.

MR. WILLIAMS: Thank you.

SENATOR MERLINO: For the record, my name is Merlino and I am the Chairman of this committee.

SENATOR RUSSO: I'm sorry.

SENATOR MERLINO: No need to be. I will conduct the meeting.

SENATOR RUSSO: For the record, no comment.

SENATOR MERLINO: Joseph Rauch, Municipal Receivers, Tax Collectors and Treasurers.

MEMBER OF AUDIENCE: Mr. Rauch is not here.

SENATOR MERLINO: Do you wish to testify?

MEMBER OF AUDIENCE: Yes.

SENATOR MERLINO: All right.

F R A N C I S K E N N Y: My name is Francis Kenny. I am the Executive Secretary of Municipal Receivers, Tax Collectors and Treasurers Association of the State of New Jersey. I am also the Legislative Agent. Today I am representing the President of the Association, Mr. Carl Haegy of Dover Township. He was unable to make it.

We are very much interested in this bill. At the moment we have not had time nor the bill to study but we will present this to our Legislative Committee and we will be back and consult with you as to our thoughts on this bill.

Today we are neither for it or against it but we thank you for the opportunity to be able to come down here and discuss this bill with you. To us, it is very, very important. We do handle most all the money in all the municipalities throughout the State of New Jersey. Thank you.

SENATOR MERLINO: Thank you. Mr. Raymond Wheeler, First Vice President, League of Municipalities.

(not present)

Mr. Applegate, State Chamber of Commerce.

(not present)

Mr. Ferrucci.

L O U I S F E R R U C C I: Good morning, gentlemen.

SENATOR MERLINO: Will you identify yourself, please?

MR. FEPRUCCI: My name is Louis Ferrucci. I am a private citizen and I reside in the City of Trenton. I appear here as a concerned taxpayer.

First, I appreciate the remarks made by Senator Russo. I am all for the bill because there is a remote possibility that this point can be reached at the State level, especially at this critical point in our fiscal crisis. Hopefully, it will be enacted and approved by the Legislature.

I appear here as a representative of the average middle - or even lower - income group of taxpayers in the State of New Jersey.

It is most unfortunate that this idea about reducing State expenditures wasn't promulgated and presented to the taxpayers prior to the present fiscal crisis we are facing, and which you, Senator Merlino, are playing such a prominent part in as a vigorous proponent to enact this legislation. Although it has been defeated five times in your body, the Senate, you resurrected it. You are still for it. You are a most competent lawyer. I have known you since you were a youngster. I saw you grow up. I know your background. Besides being a competent attorney, you are a fine legislator. You have held posts in the City government - the City of Trenton. You have devoted much, much of your time - which is very valuable to you - for the meager remuneration you receive from the State, particularly all those long hours and days which you spent

going through all the appropriations in recent months. However, as friendly as we may be and as affable a gentleman as you are, there will be nothing that will ever change my mind about the enactment of state income tax. I think it will destroy the middle class. I studied this issue thoroughly and I can't come to any other conclusion. I am glad that -- we all know that government cannot function unless there is a certain amount of bureaucracy, but at this time the point of overkill has been reached. The buck cannot be passed any further. We can't resort to any additional taxes. State expenditures must be curtailed. We receive Federal funds in the City of Trenton, and the more we get the more it has become a parking lot. The problem starts with the cities. I disagree with one of the previous speakers. It does start at the municipal level, but particularly in the urban areas. That is the place where all the complex problems are.

A little rural area in Hunterdon County will never be faced with the problems that we face in Trenton. When we receive these Federal funds, in most instances the money is allocated and earmarked and dedicated and cannot be spent unless we adhere to the provisions set forth by the people in Washington. So we tear down our tax ratables; our tax base becomes smaller, and we put up monstrosities such as parking garages. We already have one in the City of Trenton. It is a big loss, and has been throughout the years, but we are putting up another one. That is just one isolated incident that I am pointing out.

As far as thorough and efficient goes, I don't know at this time, as a private citizen, how that will be interpreted by the school boards, because to begin with, the school boards are autonomous bodies, and no one has jurisdiction or control over them, as far as how they spend money from State or Federal funds or local property taxes. They are political bodies intent on creating new jobs each year, particularly in the administrative field. These jobs range from \$15,000 in Trenton and

up to \$28,000 or \$30,000 for an administrator in the City of Newark. Now, these funds go in a funnel. As far as thorough and efficient, in my opinion, we are throwing dollars through the large end of the funnel, and on the thin end of the funnel, the quality of education cannot be guaranteed to be improved over what it is today.

I live adjacent to a high school in the City of Trenton. Eighty percent of these youngsters are dark skinned, the orientals and the hispanics. I cry a little each day, because I see all the money that the school system in Trenton has received, and how little these kids are learning. It is not because of discipline problems, but because the whole system, the whole school system may need revision, from Commissioner Burke all the way down to the superintendents of schools in the municipalities. That has to be done. The entire structure of the school system has to be reviewed. We can't let them continue the way they are going. They are receiving more dollars -- even though the taxpayers, the voters, go to the polls and knock down these budgets year after year, they appeal to the state commissioner of education, and in a year or two, or less - in most of the cases - most of the monies cut from the school budgets are reinstated and automatically there is a built-in tax rate.

Presently in Trenton we are choking with one of the highest property tax rates in the State of New Jersey. It won't be helped with a state income tax, because it is not practical, and it won't be workable. There is no tax which the state Legislature can adopt which will hold up for the simple reason that we will not win one lawsuit in court. The school boards will appeal, and they will win every case, in my estimation. Of course, I don't have the legal expertise to back this up, but as an ordinary layman, that is my opinion.

Not too many years ago, a bill was passed through here which the school teachers called policy. Now, under this policy,

when a school board adopts a budget, whether it is knocked down at the polls or not - and some cuts are trying to be made to reduce these school budgets - the salaries of all school personnel cannot be touched. I think that is cruel.

SENATOR MERLINO: I wasn't here when that was passed, but the first bill I filed was to repeal that.

MR. FERRUCCI: I am proud you took that position, Senator. I hope you will pursue your efforts along that line, because presently when minimal cuts or cuts of any size are made we shortchange the students. We cut down on the supply of school books and other little programs that are not related or connected with salaries, such as school maintenance and items like that. I think that is wrong and I think we need legislation to repeal that bill that gives these autonomous bodies that excessive power, particularly today, because they make you politicians look like amateurs when it comes to giving jobs. In this City of Trenton a few years back we had 70 or 80 administrators in the school system. We have 135 today.

Senator Merlino, I think you are aware of that, because during the last 8 or 10 months, a partner of your law firm has become the attorney for the local school board. Am I correct in saying that? That is public information. I am not leaking out anything.

SENATOR MERLINO: You always have to have a lawyer.

MR. FERRUCCI: Right. We had one before that, too. I don't want to take up too much time, but I want to say this to you, Senators, I made every effort to appear at those hearings, and unfortunately the hierarchy - who holds a \$35,000 a year job in the Assembly - did not grant me the privilege to speak, because he said the slots were filled up a week before. I stayed the entire day. The next day I tried to get to the hearing in Montclair, but I could not make the proper train connections when I got to Newark. I did not have enough money to take a taxi there. In any event, I have been following the hearings through.

I think that this hearing is closely related. Mr. Russo, you were absent for a few comments that I made earlier. I am in total agreement with you on this bill. I hope it is passed by the Legislature in the State of New Jersey. It is a step in the right direction.

In closing, let me say that it is most unfortunate, Senator Russo, that something of this nature was not thought of 18 months ago, before we got into this hassle with a state income tax. It is most unfortunate, because this would have made it possible for the Legislators to-- and the people are aware of it, I assume, because the overwhelming majority are against the state income tax at this time -- pass legislation, and we could have been on to new business. This income tax problem, I know, has been a very costly proposition.

You are attorneys, and the fee that you receive for being servants to the people is meager. Further along those lines, I hope that some day they will respect the wishes of that gentleman who sits over here, Senator William Musto, who throughout the years has been preaching for a unicameral Legislature and other methods of raising revenues as opposed to a vicious and punitive state income tax.

Senator Merlino, I want to thank you and the other gentlemen on your panel. I am still a friend of yours. I always told you that. I am one of your most ardent supporters. But it is unfortunate that our philosophy does not mesh when it comes to a state income tax. I want to thank you all again very much.

SENATOR MERLINO: Thank you. Are there any further witnesses?

MR. WHEELER: I am Raymond Wheeler, First Vice-President of the League of Municipalities. Thank you very much for listening to me. We at the League have just received these two bills this morning. We have not had a chance to study them, and we represent 561 of the municipalities in the State of New

Jersey. I personally would like to take the bills and turn them over to one of our taxation committees before we report on them.

I have listened to Frank Haines and some of his proposed amendments, and some of the other witnesses, and I have made notes of what has been said here today. We in the League will be very glad to look at them. We have not had time. As of the early part of next week, we will get together and have a meeting to discuss these two bills.

I have no comment. I am not saying that I am in favor of or against them, but we do have to study them because we do represent a number of municipalities in the State of New Jersey.

I want to say to Senator Russo, I don't know if he remembers me, but I was the one you took apart in Toms River, at the Community College, when I spoke in favor of the Governor's program. Do you remember? It was quite a while ago.

I hear the gentleman is against all new taxation, but I feel that we have to have some broad-based tax in the State of New Jersey. Whatever you gentlemen come up with, I'm pretty sure it will be good. Thank you very much. The League will have a report on these very shortly.

SENATOR MERLINO: Thank you. Mr. Applegate. (No response.) Is there anyone else here who wishes to offer testimony? This meeting is adjourned.

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Prelim. Draft No. 1

The Spending Limit Amendment  
to the State Constitution.

April 1974

Section 1. The following definitions apply to this article:  
(a) "Emergency" means a sudden and unpredictable event which requires immediate action.

(b) "Expenditure" means any direct or indirect payment to anyone for a good or service.

(c) "General expenditure" means the total of all expenditures by all state agencies during 1 year.

(d) "Personal income" means the total of all income to the people of this state during 1 year as determined by the United States Government.

(e) "State agency" means any state department, agency, commission, and corporation, if the state owns more than 20% of the outstanding stock or controls more than 20% of the votes of the board of directors of the corporation.

Section 2. The state government shall determine the general expenditures for each year according to the following formula:

$$\frac{\text{General Expenditure}}{\text{Personal Income}} = .07.$$

Section 3. Before January 15 of each year, the Governor shall submit to the Legislature a budget which satisfies the formula of Section 2. The budget shall be divided into general expenditures for each quarter. Before April 15 of each year, the Legislature shall consider the budget, and make authorizations and appropriations from the treasury which satisfy the formula of Section 2. On the first day of each quarter, the Governor shall submit to the Legislature a written report of the general expenditures for the last quarter.

Section 4. The Governor shall include in his budget, and the Legislature shall make authorizations and appropriations for a special fund to be used in emergencies.

Section 5. If the Governor submits to the Legislature a budget which does not satisfy the formula of Section 2 or submits to the Legislature a report of general expenditures which do not satisfy the formula of Section 2, then the State Treasurer shall suspend paying any salary to the Governor and the Legislature may remove the Governor from office. If the Legislature makes authorizations and appropriations which do not satisfy the formula of Section 2, then the State Treasurer shall suspend paying any salary to the legislators who voted for the authorization and appropriation.

Section 6. The Legislature shall have the power to levy taxes to pay for the general expenditures for only the next year.

Section 7. The Judiciary shall have no power to change the formula of Section 2 or to change any particular authorization or appropriation. If any court renders any judgment which changes the formula of Section 2 or changes any particular authorization or appropriation, then the Legislature shall remove the court from office.



JUN 27 1985



