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REPORT
OF THE
SENATE COMMISSION
ON
FINANCING STATE SCHOOL AID

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Legislature of the State of New Jersey

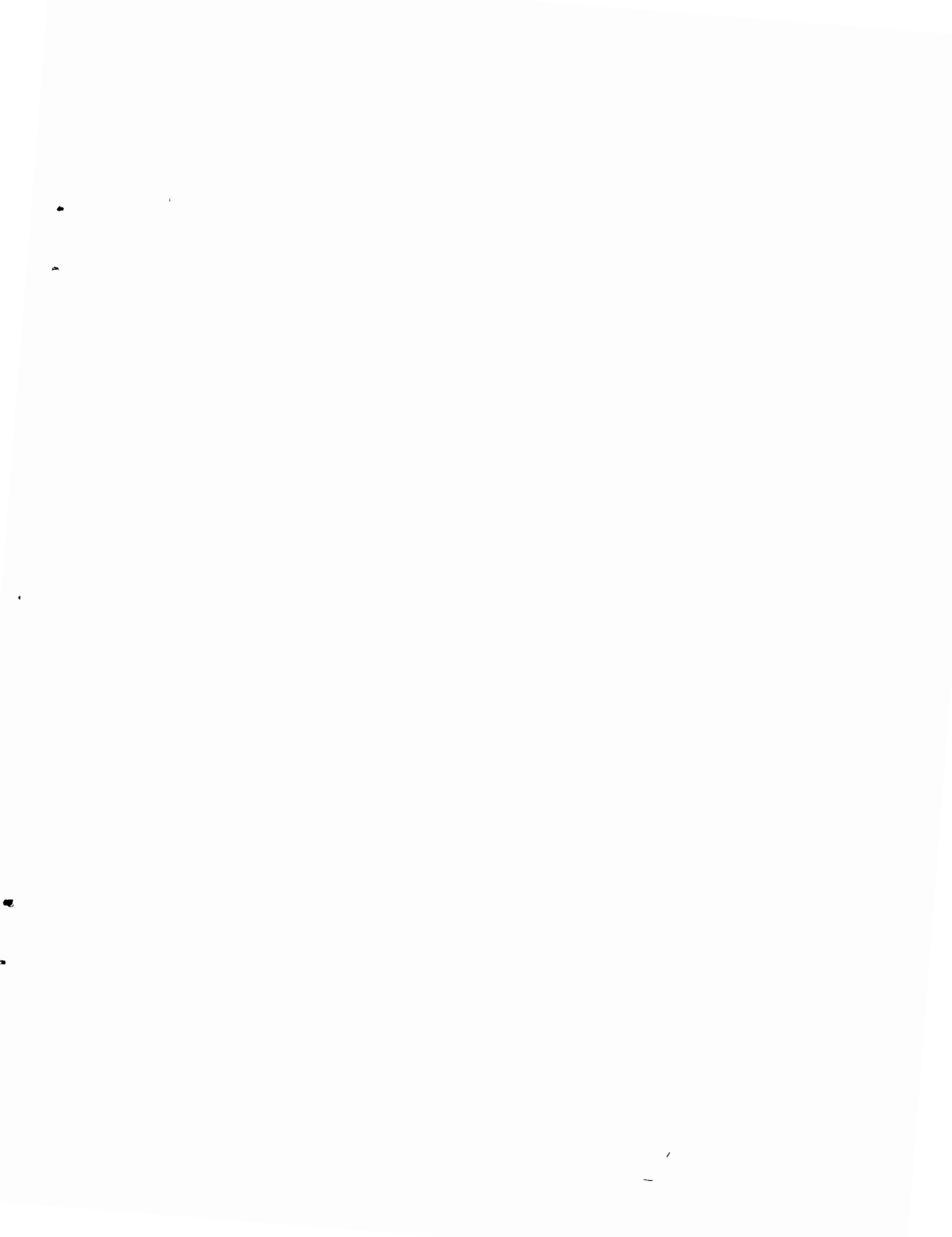
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I - Background and Charge to the Commission

On April 3, 1973, the New Jersey Supreme Court ruled in the case of Robinson v. Cahill that the system of financing the public schools of the state was unconstitutional because the Legislature had not met the requirement to

"...provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in the state between the ages of five and eighteen years."

The Court indicated that the Legislature not only has a duty to define the meaning of "thorough and efficient" and to take steps to ensure that such a system is established and maintained, but that it must also provide for the financing of the system. On this point, the members of the Court indicated that they could see no basis for finding that the existing school aid law, even if fully funded, would satisfy the constitutional obligation of the state. More specifically, the Court expressed doubt that a "thorough and efficient" system of schools could be obtained through reliance on local taxation, because of the wide variation in school district needs and local tax bases.

Since that time, the Legislature has been attempting to enact a comprehensive law which would fulfill the constitutional requirements. On May 23, 1975, the Supreme Court directed that, in the continued absence of final legislative action, State financial aid for the 1976-77 school year must be distributed according to a plan which would remove most of such funds from the wealthier districts of the state and redistribute them among the poorer districts on an equalized property tax basis. Data available to the Court showed that 295 school districts

would gain by the redistribution plan and 283 districts would lose, provided that the Legislature appropriated the total amount of funds which would normally be distributed in 1976-77 under existing law. This would require an estimated \$124 million more than had been recommended as an appropriation for 1975-76. An independent calculation indicated that if the Legislature only appropriated the same dollar amount as in 1975-76, there would be 247 districts gaining funds and 331 losing by the Court plan in 1976-77.

Since the Court issued its redistribution plan in May, 1975, the Legislature has completed action on the new Public Education Act of 1975 (introduced as Senate Bill 1516 and enacted as Chapter 212 of the Laws of 1975). This law, signed by Governor Brendan T. Byrne in September, responds to the Constitutional mandate, as interpreted by the Courts, by defining a "thorough and efficient" system of free public schools, providing a process of educational governance to achieve such a system, and specifying a plan starting July 1, 1976 for distribution of the State financial aid needed by communities of varying wealth so that each will have a fair chance of implementing the system through a combination of State and local resources.

Chapter 212, however, does not raise the additional funds necessary at the State level if the law is to be put into effect to reduce the reliance on local taxation. By the terms of Senate Resolution 3016, the State Senate on July 21, 1975, created the Senate Commission on Financing State School Aid, with an assignment to:

"...study the various alternative methods for financing the school aid program to take effect July 1, 1976...(and to)...set forth specifically all feasible alternatives for the financing of the school program enacted into law."

Since the creation of this Commission, the New Jersey Supreme Court has received petitions from parties in the case of Robinson v. Cahill, asking variously that Chapter 212 be approved as meeting the Constitutional mandate, that it be held valid pending the appropriation of funds for its implementation, or that it be declared unconstitutional on its own merits. The Court has set November 24, 1975 for further argument, including in its notice to parties in the case a request for briefs to be addressed to the question of.

"The appropriateness of the consideration and determination by the Court at this time of the validity of the 1975 Act prior to its fiscal implementation...."

II - Definition of Financial Need

The charge to the Commission focuses primarily on the cost to the State government of Chapter 212. However, in order to define the financial need, decisions must be made on the treatment to be given to a variety of related factors. These include:

- (1) other forms of State aid to schools which are not covered by Chapter 212, but are authorized by other, continuing legislation,
- (2) other, non-school, State budgetary needs,
- (3) possible changes in Chapter 212 to provide for a different period for implementation,
- (4) the establishment of a base line for determining the funds to be anticipated on a continuing basis from existing revenue sources.

Cost Projections

Cost Projection - Chapter 212

Chapter 212 allocates funds to four programs of aid to local school districts

Current Expense Equalization Aid

Debt Service and Budgeted Capital Outlay Equalization Aid

Transportation Aid

Categorical Program Aid

In addition, there are some special costs required by other provisions of the act which include a compensatory education research and development fund, a Commissioner's emergency aid fund, and an appropriation for a Task Force on Business Efficiency of the Public Schools.

The equalization funds for both current expenses and for debt service

and budgeted capital outlay are phased in over a two year period; all other program aspects of Chapter 212 become fully effective as of July 1, 1976. Public school enrollments have been dropping since 1972-73, and further reductions are projected through the foreseeable future. It is not yet clear whether the decline will be reflected in reduced school costs. On the assumption that increased costs per pupil will offset savings because of fewer pupils, the Commission has projected State aid for the next several years at +9% annual growth. Based on preliminary 1975-76 data and assumptions of future enrollment and expenditure patterns, the projections for the next six years are shown in Table 1.

Table 1: Projected Need for Chapter 212 Funds in Millions of Dollars

	1975-76 Appropriated	Projection					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Current Expense Equalization Aid	\$431,808,284	\$624	\$714	\$778	\$848	\$924	\$1,007
Debt Service and Budgeted Capital Outlay Equalization Aid	23,006,310	48	55	60	65	71	77
Transportation Aid	45,225,450	78	85	93	101	110	121
Categorical Program Aid	63,013,076	115	125	136	148	161	175
Special Costs	--	1	2	2	2	2	2
Total	563,053,120	866	981	1,069	1,164	1,268	1,382
Change from Prior Year		+ 303	+ 115	+ 88	+ 95	+ 104	+ 114

Cost Projection - Pensions

Various statutes provide for other forms of State financial aid to local school districts which are not affected by Chapter 212. The largest of these is the State appropriation to the Teachers Pension and Annuity Fund, which covers the entire employer's contribution for the more than 100,000 members. The State also pays the employer's contribution to Social Security for members of the fund. The cost of this form of State aid has been rising steadily, as shown in Table 2.

Table 2: State Contributions to Teachers' Pensions, 1973-74 to 1975-76

	1973-74		1974-75	1975-76
	<u>Appropriated</u>	<u>Expended</u>	<u>Adjusted Appropriation</u>	<u>Appropriation</u>
Normal Contribution	\$ 48,845,702	\$ 49,017,293	\$ 58,177,043	\$ 71,597,527
Accrued Liability	25,435,494	25,435,494	25,435,494	25,435,494
Payment on Behalf of Local Employee Veterans Appointed After 1/1/55	186,810	186,810	186,810	186,810
Premium for Non-Contributory Insurance	6,900,594	6,729,003	6,759,589	8,054,692
Social Security Tax	63,320,000	58,402,769	72,400,000	77,200,000
Pension Increase Act	8,838,000	7,696,119	9,470,000	12,600,000
Accelerated CPI Adjustment-Pension Increase Act	--	--	--	1,313,817
Total	153,526,600	147,467,488	172,428,936	196,388,340
Percentage in Appropriation Increase Over Prior Year			+ 12.3%	+ 13.9%

The future cost of the State contribution to the pension system has been projected by the Division of Pensions in Table 3.

Table 3. Projected Need for Pension Contributions in Millions of Dollars

	1975-76 <u>Appropriated</u>	<u>Projection</u>					
		<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>
Contribution to Pension System	\$196,388,340	\$221	\$240	\$263	\$285	\$311	\$336
Change from Prior Year		+ 25	+ 19	+ 23	+ 22	+ 26	+ 25

* 1981-82 Projection added by Committee staff.

Cost Projection - Other Grant-in-Aid Programs

In addition to the pension contribution, there are a variety of special continuing programs of aid to local school districts authorized by statutes other than Chapter 212. These will require additional State funds if they grow in the future as they have in the past.

Table 4. Appropriations for Educational Grant-in-Aid Programs, 1973-74 to 1975-76

	<u>1973-74</u>		<u>1974-75</u>	<u>1975-76</u>
	<u>Appropriated</u>	<u>Expended</u>	<u>Adj. Approp.</u>	<u>Appropriated</u>
School Building Aid Debt Service	\$ 9,645,702	\$ 8,316,015	\$ 7,744,250	\$ 11,702,205
Aid to Non-Public Education	19,500,000	2,644,451	--	3,678,750
Adult and Continuing Education:				
High School Equivalency	1,130,000	1,119,518	1,300,000	1,264,436
Adult Education	824,708	817,224	1,071,859	1,041,738
Adult Literacy	889,000	887,116	889,000	889,000
Evening Schools for Foreign-Born	150,000	147,318	176,128	184,359
Other Grants-in-Aid				
Emergency Fund	200,000	200,000	200,000	200,000
Children Resident in Institutions	740,539	407,535	962,390	1,338,531
Children Resident on State Property	397,412	391,793	514,546	495,839
Public School Safety Act	2,268,038	2,128,509	2,557,788	2,506,598
County Audio-Visual Centers	100,000	100,000	100,000	30,000
State School Lunch Program	6,090,173	6,194,078	9,967,439	9,300,000
Career Development.				
Vocational Education	3,500,000	3,254,000	4,000,000	4,000,000
Work-Study Program	400,000	400,000	450,000	450,000
Schools for Industrial Education	90,000	90,000	90,000	90,000
District & Reg. Vocational Schools	1,613,315	1,613,315	1,653,265	1,705,950
Total	47,538,887	28,710,872	31,676,665	38,877,406
Total Without Aid to Non-Public Schools	28,038,887	26,066,421	31,676,665	35,198,656
Percentage Increase in Appropriation Over Prior Year			+ 13.0%	+ 11.1%

Note: Excluded are salaries and expenses of State employees responsible for administration of grant-in-aid programs and costs of State-operated demonstration and direct service activities.

On the basis of the experience of recent years, the cost to the State of these other State grant-in-aid programs has been projected at +12% annually in Table 5.

Table 5. Projected Need for Educational Grant-in-Aid Funds in Millions of Dollars

	<u>1975-76</u> <u>Appropriated</u>	<u>Projection</u>					
		<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>
Other Grant-in-Aid Programs	\$38,877,406	\$44	\$49	\$55	\$62	\$69	\$77
Change from Prior Year		+ 5	+ 5	+ 6	+ 7	+ 7	+ 8

Consolidated Cost Projection

The individual State aid cost projections which have been made above now may be consolidated as shown in Table 6.

Table 6. Projected Need for State School Aid Funds in Millions of Dollars

<u>State Aid Element</u>	1975-76	Projection					
	<u>Appropriated</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>
Chapter 212	\$ 563,053,120	\$ 866	\$ 981	\$ 1,069	\$ 1,164	\$ 1,268	\$ 1,382
Pension Contribution	196,388,340	221	240	263	285	311	336
Other Grant-in-Aid Programs	38,877,406	44	49	55	62	69	77
Total State Aid to Education	798,318,866	1,131	1,270	1,387	1,511	1,648	1,795
Change from Prior Year		+ 333	+ 139	+ 117	+ 124	+ 137	+ 147

Phase-In Considerations

One way in which the need for additional State revenue may be reduced in the next few years is by phasing in the provisions of Chapter 212 over a longer period of time. The law already provides for a two-year phase-in, with the objective of raising the State share of local educational costs from 29.0% in 1975-76 to almost 38% in 1976-77 and to nearly 39% in 1977-78 and thereafter. Amendments could be made to stretch out this phase-in period, so that the dollar needs in the earlier years might be reduced. A comparison of the costs of State aid including Chapter 212, as it now stands, and as modified to achieve the same proportion of State funding in equal percentage increments over a 3-year and a 5-year period, is shown below:

Table 7. Projected Costs of State School Aid with Chapter 212 as Enacted, and with Phase-In Over 3 or 5 Years

	Estimated 1975-76	Projection					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Estimated Total School Expenditures	\$ 2,748	\$ 3,005	\$ 3,277	\$ 3,576	\$ 3,899	\$ 4,253	\$ 4,636
<u>Chapter 212 as Enacted:</u>		(---Phase-In---					
Annual Cost	\$ 798	\$ 1,131	\$ 1,270	\$ 1,387	\$ 1,511	\$ 1,648	\$ 1,795
Change from Prior Year	--	+ 333	+ 139	+ 117	+ 124	+ 137	+ 147
Percentage State Support	29.0%	37.6%	38.8%	38.8%	38.8%	38.7%	38.7%
<u>3-Year Phase-In:</u>		(-----Phase-In-----)					
Annual Cost	\$ 798	\$ 968	\$ 1,163	\$ 1,387	\$ 1,512	\$ 1,651	\$ 1,799
Change from Prior Year	--	+ 170	+ 195	+ 224	+ 125	+ 139	+ 148
Percentage State Support	29.0%	32.2%	35.5%	38.8%	38.8%	38.8%	38.8%
<u>5-Year Phase-In:</u>		(-----Phase-In-----)					
Annual Cost	\$ 798	\$ 932	\$ 1,078	\$ 1,248	\$ 1,435	\$ 1,650	\$ 1,797
Change from Prior Year	--	+ 134	+ 146	+ 170	+ 187	+ 215	+ 147
Percentage State Support	29.0%	31.0%	32.9%	34.9%	36.8%	38.8%	38.8%

If an extended phase-in plan is to be used, an aspect which must be considered is the method by which it is accomplished. Four different methods have been identified.

- (1) The guaranteed valuation in Chapter 212 could be phased in at different levels until the appropriate State funding percentage is reached. For example, instead of multiplying the State average valuation per pupil by 1.30 in 1976-77 and 1.35 in 1977-78 to obtain the guaranteed valuation, as Chapter 212 now provides, the law might be amended to use a smaller multiplier in the first year and to increase the multiplier gradually until the desired level of State support is reached. If this is all that is done, there is the problem that the amount of funds allocated to minimum aid for those school districts having more than the guaranteed valuation would become a larger portion of the total State aid than had been planned originally. In addition, the proportion of the State's pupils included within the equalization formula would be reduced.
- (2) The guaranteed valuation might be phased in as above, but with minimum aid also being phased in at less than the 10% figure now in the law. This could be done in such a way that the overall proportion of funds going to minimum aid would remain relatively constant. Such an approach would include more pupils within the equalization system than the first approach, but the number would still be less than in the law as enacted. By phasing in the minimum aid, those school districts having more than the guaranteed valuation would receive less State aid than under the law as enacted.¹

¹ Bills to amend Chapter 212 using this approach have been introduced as S.3401 and S.3402.

(3) The equalization formula, including the guaranteed valuation, could be left in the law as enacted, but the results of applying the formula in future years might be implemented only on a percentage basis. For example, if the percentage for 1976-77 were 26%, a school district receiving \$400,000 in aid in 1975-76, and entitled according to the formula to \$500,000 in 1976-77, would actually receive only \$426,000 in that year. As in the first approach, this method would place greater emphasis on the minimum aid funds at the expense of equalization aid. However, it would include within some equalization aspect of the formula just as many pupils as in the law as enacted.

(4) The non-equalization portions of Chapter 212 -- transportation aid and categorical program aid -- could be modified. Approved transportation, which under Chapter 212 is funded 100% by the State, could be cut back to some extent. Categorical program aid, covering 100% of the extra cost of educating children with some form of handicap, also might be changed. In neither case, however, is the potential cost saving large enough to provide for an extended phase-in by itself.

Finally, if a phase-in is to be implemented, any number of combinations of the above approaches is possible. In general, the idea of a phase-in has both the advantages and disadvantages of requiring less State money and of providing less money for local school districts during the early years of the State aid program. Some members of the Commission favor a phase-in because of the present economic climate, and because it would provide an opportunity to evaluate the impact of the initial funding of Chapter 212 with changes in the formula possible

in the near future.¹ Other Commission members prefer funding Chapter 212 as it was enacted so that there would be an observable delivery of property tax replacement, they also fear that a reduction in the funding level due to a phase-in might make the law difficult to sustain in the courts.

¹ Senator Wallwork wishes to be recorded as in favor of a 5-year phase-in.

Cost Projections - Other State Needs

The two State appropriation bills enacted thus far for 1975-76 total \$2,698,140,700. If the State aid to schools which has been enumerated, is deducted, a balance of \$1,899,821,834 is left as attributable to other costs of operating the State government (including other State costs for education). The projection of costs for other State needs can only be arbitrary at this point, since innumerable policy decisions will be required by the Legislature and the Governor before any valid figures can be obtained. Neither the Department of the Treasury nor the Legislative Office of Fiscal Affairs has been able to provide the Commission with any solid information. However, the following table shows the non-school needs of the State government at various growth assumptions, and these may be of value in placing the above projections of State aid costs in context.

Table 8. Projected Need for Non-School State Costs in Millions of Dollars

<u>Assumed Annual Rate of Growth</u>	<u>Projection</u>					
	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>
+ 0%	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
+ 2%	1,938	1,977	2,017	2,057	2,098	2,140
+ 4%	1,976	2,055	2,137	2,222	2,311	2,403
+ 6%	2,014	2,135	2,263	2,399	2,543	2,696
+ 8%	2,052	2,216	2,393	2,584	2,791	3,014
+ 10%	2,090	2,299	2,529	2,782	3,060	3,366

Establishment of Baseline and Recommendations on Definition of Need

This Commission could take a variety of positions regarding the baseline from which the requirement for new funds should be determined. The most limited view of this requirement would be to establish the baseline at the level which would have been reached by the State's obligation under the school aid laws repealed by Chapter 212, if they had been left in force. Our best estimate at this time is that these laws -- the Bateman-Tanzman law and the programs of aid for atypical pupils and for transportation aid -- would cost about \$731 million in 1976-77 if fully implemented. Since these State aid laws were to have been funded by existing State revenue sources, it can be argued that \$731 million of the \$866 million cost of Chapter 212 should be borne by existing revenue sources, and only \$135 million of new revenue must be found.

In the most extensive view, the Commission could take the position that the full cost of State aid to local schools should be covered by a new revenue source, and that the funds now obtained from other sources should be made available for general State purposes. If this approach were selected, \$1,131 million would be required for all State aid to schools in 1976-77, or \$866 million if only the Chapter 212 costs were to be covered. Between these extremes lie a wide variety of choices, including the possibility of phasing in Chapter 212.

The approach selected by the Commission has four steps.

- (1) The funds available from existing revenue sources have been estimated over a six-year period. The time period was selected to show the differing impacts of implementing

Chapter 212 as enacted and as it might be phased in over a 3- or 5-year period.

- (2) Each suggested new revenue source has been projected over the same period and added to the revenue stream anticipated from existing sources.
- (3) The projected costs of State school aid have been deducted from the funds available in steps (1) and (2).
- (4) The remainder is the net balance available to the State government for non-school expenditures.

In effect, this approach assigns to State school aid not only the \$798 million used for this purpose in 1975-76, but also a share of the growth anticipated in existing revenue sources. Other State government costs are assigned the residual amount of the available revenue after State school aid needs have been met.

III - Potential Sources of Funds

Four broad types of revenue sources have been examined by the Commission to find the funds required.

- (1) normal growth of existing revenue sources.
- (2) a reduction in other State services.
- (3) changes to increase the yield of established revenue sources.
- (4) development of new revenue sources.

Normal Growth of Established Revenue Sources

Appropriations for the 1975-76 State budget have been balanced with anticipated resources from the following sources:

Resources to Balance Chapter 128, Laws of 1975

Estimated balance, July 1, 1975 \$ 40,664,685

Major Taxes:

Sales Tax	\$ 832,000,000	
Motor Fuels Tax	273,500,000	
Miscellaneous		
Corporation Taxes ..	214,000,000	
Foreign Insurance		
Corporation Tax	51,700,000	
Domestic Life		
Insurance Corpora-		
tion Tax	1,300,000	
Motor Vehicles Fees,		
et cetera	169,000,000	
Motor Fuel Use Tax ...	6,000,000	
Cigarette Tax	165,000,000	
Transfer Inheritance		
Tax	80,000,000	
Alcoholic Beverage		
Tax	56,000,000	
Pari-mutuel Tax	36,000,000	
Public Utility Tax ...	43,000,000	
Bank Stock Tax	12,000,000	
Financial Business		
Tax - State Share ..	3,000,000	
Savings Institution		
Tax	<u>3,000,000</u>	
		... 1,945,500,000

Miscellaneous Taxes, Licenses and Other Revenue	\$ 225,551,712
Federal Aid	56,089,469
Interfund Transfers	<u>173,433,223</u>
Total Anticipated	\$ 2,441,239,089

Resources to Balance Chapter 175, Laws of 1975

Increase in Estimated Balance, July 1, 1975	\$ 4,000,000
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Changes in Major Taxes:

Corporation Net Income Tax (rate increase)	\$ 95,000,000	
Unearned Income Tax ..	65,000,000	
Motor Vehicle Fee Increase	25,000,000	
Business Personal Property Replace- ment Tax	25,000,000	
Realty Transfer Tax ..	11,000,000	
Unincorporated Business Tax (rate increase)	9,000,000	
Banks Subject to Corporation Business Tax and Bank Stock Tax Repealed	<u>6,000,000</u>	... 236,000,000
Increase in Penalties for Delinquent Taxpayers	3,000,000	
Increase in Revenue Estimate for Lottery .	6,000,000	
Interfund Transfer: Motor Vehicle Liability Security Fund and Unsatisfied Claim and Judgement Fund	8,000,000	
Total Anticipated Resources	\$ 257,000,000	
Total Resources		<u>2,698,239,089</u>

Anticipated Growth

Revenue projections made by the Office of Fiscal Affairs anticipate as an "average" increase a growth of 5% in the yield of existing revenue sources in 1976-77, 6.7% in 1977-78, and 6.8% in 1978-79. The change in growth rates is due to the nature of the revenue package adopted in 1975-76, which included several "one-time" items of revenue.

OFA also has provided a "worst" projection and a "best" projection. The "worst" projection anticipates a lower elasticity of some revenue sources, and also acknowledges the possibility of several significant revenue losses which could occur before 1976-77. These include.

- (1) a possible loss of \$48 million in commuter income taxes due to legal challenges by Pennsylvania and New York of the New Jersey law. These cases are pending.
- (2) a possible loss of \$67 million in Federal revenue sharing funds if the Federal law is not extended.
- (3) a possible loss of \$30 million due to Federal insistence on payment of social security obligations on a monthly, rather than a quarterly, basis.

The "best" projection anticipates a higher tax elasticity and no substantial loss of revenue due to the special circumstances listed above.

The Commission has concluded that some recognition should be given to the possible losses of revenue listed above, but that the tax elasticities reflected in the OFA "average" projection are a reasonable estimate. Therefore, a "working" projection has been developed which falls between the OFA "worst" and "average" projections. A revenue loss

of \$75 million, or about half of the potential loss, is anticipated in this projection. In order to place the revenue projection in the same time frame as the cost projections in Chapter II, the Commission has extended the 3-year OFA data for three additional years by using the last OFA annual growth rate, as shown in Table 9.

Table 9. Projections of Normal Revenue Growth from Existing Sources in Millions of Dollars

	1975-76 Anticipated	Projection					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
<u>Worst Projection</u>	\$ 2,698	\$ 2,658	\$ 2,820	\$ 2,995	\$ 3,181	\$ 3,378	\$ 3,587
Change from Prior Year		- 40	+ 162	+ 175	+ 186	+ 197	+ 209
Percentage Change		- 1.5%	+ 6.1%	+ 6.2%	+ 6.2%	+ 6.2%	+ 6.2%
<u>Working Projection</u>	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Change from Prior Year		+ 60	+ 185	+ 200	+ 214	+ 228	+ 244
Percentage Change		+ 2.2%	+ 6.7%	+ 6.8%	+ 6.8%	+ 6.8%	+ 6.8%
<u>Average Projection</u>	\$ 2,698	\$ 2,833	\$ 3,023	\$ 3,229	\$ 3,449	\$ 3,684	\$ 3,935
Change from Prior Year		+ 135	+ 190	+ 206	+ 220	+ 235	+ 251
Percentage Change		+ 5.0%	+ 6.7%	+ 6.8%	+ 6.8%	+ 6.8%	+ 6.8%
<u>Best Projection</u>	\$ 2,698	\$ 2,857	\$ 3,074	\$ 3,311	\$ 3,566	\$ 3,841	\$ 4,137
Change from Prior Year		+ 159	+ 217	+ 237	+ 255	+ 275	+ 296
Percentage Change		+ 5.9%	+ 7.6%	+ 7.7%	+ 7.7%	+ 7.7%	+ 7.7%

If the "working" data from the above projection are combined with the projected costs of State aid to schools shown in the table on page 10 of this report, it is possible to estimate the impact on the State budget if the State aid program were to be financed entirely through normal growth of existing revenue sources. This has been done for the three alternative plans for implementing Chapter 212.

with the law as enacted -- Table 10A

with the law phased in over a 3-year period -- Table 10B

with the law phased in over a 5-year period -- Table 10C

In summary, the State budget for non-school functions would have to be reduced, at least in 1976-77 under any of these phasing plans if no new revenue source is developed and it would be at least 1979-80 before such expenditures could be returned to their 1975-76 level.

Table 10A. Impact of Using Only Normal Growth of Existing Revenue Sources to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Minus Aid to Schools	- 798	- 1,131	- 1,270	- 1,387	- 1,511	- 1,648	- 1,795
Net Available for Non-School State Costs	1,900	1,627	1,673	1,756	1,846	1,937	2,034
Change from Prior Year		- 273	+ 46	+ 83	+ 90	+ 91	+ 97
Percentage Change		- 14.4%	+ 2.8%	+ 5.0%	+ 5.1%	+ 4.9%	+ 5.0%

Table 10B. Impact of Using Only Normal Growth of Existing Revenue Sources to Finance Chapter 212, if Phased In Over a 3-Year Period

Revenue Available from Normal Growth of Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Minus Aid to Schools	- 798	- 968	- 1,163	- 1,387	- 1,512	- 1,651	- 1,799
Net Available for Non-School State Costs	1,900	1,790	1,780	1,756	1,845	1,934	2,030
Change from Prior Year		- 110	- 10	- 24	+ 89	+ 89	+ 96
Percentage Change		- 5.8%	- 0.6%	- 1.3%	+ 5.1%	+ 4.8%	+ 5.0%

Table 10C. Impact of Using Only Normal Growth of Existing Revenue Sources to Finance Chapter 212, if Phased In Over a 5-Year Period

Revenue Available from Normal Growth of Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Minus Aid to Schools	- 798	- 932	- 1,078	- 1,248	- 1,435	- 1,650	- 1,797
Net Available for Non-School State Costs	1,900	1,826	1,865	1,895	1,922	1,935	2,032
Change from Prior Year		- 74	+ 39	+ 30	+ 27	+ 13	+ 97
Percentage Change		- 3.9%	+ 2.1%	+ 1.6%	+ 1.4%	+ 0.7%	+ 5.0%

Reduction in Other State Services

Very similar to the above analysis is the alternative of financing the program of State aid to schools through reductions in other State services. In fact, the table immediately above shows the degree to which this would have to be done, given the "working" projection rate of normal growth in existing revenue sources. For the next three years, State non-school costs would remain below the dollar level anticipated by the 1975-76 budget; thereafter, there could be modest growth above that level.

Increases in Established Major Revenue Sources

New Jersey relies on a wide variety of sources for its revenue. Changes in some of these might be considered to increase their yield.

Sales Tax Rate Increase

The New Jersey sales tax is currently levied at a rate of 5%, with major exemptions being granted to food, clothing, prescription drugs, professional and personal services, and a variety of other items. In recent years, the sales tax has averaged about 30% to 33% of the total of State revenues anticipated and budgeted.

Table 11. New Jersey Sales Taxes as a Percentage of Total Revenue, 1973-74 to 1975-76

	<u>Sales Tax Revenue</u>	<u>Total Revenue</u>	<u>Sales Tax Percentage</u>
1973-74 Actual	\$ 735,064,829	\$ 2,443,090,224	30.1%
1974-75 Estimated	765,000,000	2,313,791,689	33.1%
1975-76 Appropriation Acts	832,000,000	2,698,239,089	30.8%

In comparison, the State revenues obtained from sales taxes in selected

other states are shown in Table 12.

Table 12. Sales Taxes in Other States as a Percentage of Total Revenue

	<u>Rate</u>	<u>Sales Tax Revenue</u>	<u>Total Revenue</u>	<u>Sales Tax Percentage</u>
California	4 3/4% *	\$ 3.7 billion	\$ 10.8 billion	34%
Georgia	3% *	0.6	1.8	33%
Illinois	4% *	1.7	7.7	22%
Indiana	4%	1.4	5.8	24%
New York	4% *	2.2	10.3	21%
Ohio	4% *	1.0	3.4	29%
Pennsylvania	6%	1.8	5.5	33%

* Local rates in addition

The combined State and local sales tax rates in jurisdictions surrounding New Jersey range from nothing in Delaware to 4% in Orange and Rockland Counties, 5% in Westchester, 6% in Pennsylvania and in the city of Poughkeepsie, 7% in Connecticut, in Nassau and Suffolk counties, and in the cities of Mount Vernon, White Plains and Yonkers, and 8% in the five counties within New York City.

OFA has estimated that increasing the sales tax rate in New Jersey to 6% would produce an additional \$165 million. A 7% tax rate is estimated to produce an additional \$325 million. Both figures are for 1975-76. In recent years, sales tax collections have been growing at roughly 8% per year, although collections since July 1, 1975 show a very low growth rate. Tables 13A, 13B, and 13C show the projected impact of a change to a 6% sales tax. Tables 14A, 14B, and 14C provide the same information for a 7% sales tax. An annual growth rate of 8% has been assumed.

Table 13A. Impact of Using 1% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 6%	--	178	192	207	224	242	261
Minus Aid to Schools	- 798	- 1,131	- 1,270	- 1,387	- 1,511	- 1,648	- 1,795
Net Available for Non-School State Costs	1,900	1,805	1,865	1,963	2,070	2,179	2,295
Change from Prior Year		- 95	+ 60	+ 98	+ 107	+ 109	+ 116
Percentage Change		- 5.0%	+ 3.3%	+ 5.3%	+ 5.5%	+ 5.3%	+ 5.3%

Table 13B. Impact of Using 1% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212, if Phased In Over a 3-Year Period

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 6%	--	178	192	207	224	242	261
Minus Aid to Schools	- 798	- 968	- 1,163	- 1,387	- 1,512	- 1,651	- 1,799
Net Available for Non-School State Costs	1,900	1,968	1,972	1,963	2,069	2,176	2,291
Change from Prior Year		+ 68	+ 4	- 9	+ 106	+ 107	+ 115
Percentage Change		+ 3.6%	+ 0.2%	- 0.5%	+ 5.4%	+ 5.2%	+ 5.3%

Table 13C. Impact of Using 1% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212, if Phased In Over a 5-Year Period

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 6%	--	178	192	207	224	242	261
Minus Aid to Schools	- 798	- 932	- 1,078	- 1,248	- 1,435	- 1,650	- 1,797
Net Available for Non-School State Costs	1,900	2,004	2,057	2,102	2,146	2,177	2,293
Change from Prior Year		+ 104	+ 53	+ 45	+ 44	+ 31	+ 116
Percentage Change		+ 5.5%	+ 2.6%	+ 2.2%	+ 2.1%	+ 1.4%	+ 5.3%

Table 14A. Impact of Using 2% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 7%	--	351	379	409	442	477	515
Minus Aid to Schools	- 798	- 1,131	- 1,270	- 1,387	- 1,511	- 1,648	- 1,795
Net Available for Non-School State Costs	1,900	1,978	2,052	2,165	2,288	2,414	2,549
Change from Prior Year		+ 78	+ 74	+ 113	+ 123	+ 126	+ 135
Percentage Change		+ 4.1%	+ 3.7%	+ 5.5%	+ 5.7%	+ 5.5%	+ 5.6%

Table 14B. Impact of Using 2% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212, if Phased In Over a 3-Year Period

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 7%	--	351	379	409	442	477	515
Minus Aid to Schools	- 798	- 968	- 1,163	- 1,387	- 1,512	- 1,651	- 1,799
Net Available for Non-School State Costs	1,900	2,141	2,159	2,165	2,287	2,411	2,545
Change from Prior Year		+ 241	+ 18	+ 6	+ 122	+ 124	+ 134
Percentage Change		+ 12.7%	+ 0.8%	+ 0.3%	+ 5.6%	+ 5.4%	+ 5.6%

Table 14C. Impact of Using 2% Increase in Sales Tax, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212, if Phased In Over a 5-Year Period

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Additional Revenue from Sales Tax Increase to 7%	--	351	379	409	442	477	515
Minus Aid to Schools	- 798	- 932	- 1,078	- 1,248	- 1,435	- 1,650	- 1,797
Net Available for Non-School State Costs	1,900	2,177	2,244	2,304	2,364	2,412	2,547
Change from Prior Year		+ 277	+ 67	+ 60	+ 60	+ 48	+ 135
Percentage Change		+ 14.6%	+ 3.1%	+ 2.7%	+ 2.6%	+ 2.0%	+ 5.6%

In summary, a 6% sales tax, when combined with anticipated normal growth of other revenue sources, would permit financing Chapter 212 as enacted if non-school State costs were cut by about 5% in 1976-77, were held to an increase of about 3% in 1977-78, and grew at a little over 5% thereafter. If the sales tax were increased to 7%, a surplus in the first year and in 1977-78 would permit a 4% increase in non-school State costs, which would rise to between 5% and 6% thereafter. If the 3-year or 5-year phasing plans were used, the first year increase in the tax, combined with lower State aid requirements, would permit a larger growth of non-school costs in 1976-77. The situation appears less favorable during the rest of the phase-in period. All three plans would reach about the same level of funding and of permissible future non-school expenditure growth upon completion of their respective phase-in periods.

Sales Tax Base Extension

The New Jersey sales tax applies to a relatively limited range of taxable items. Its yield could be increased by eliminating some of the exemptions now granted. The major potential extensions, with revenue estimates made by the Office of Fiscal Affairs for 1975-76, are shown in Table 15.

Table 15. Estimated Yield of Sales Tax Base Extensions at Various Tax Rates, 1975-76

	Estimated Additional 1975-76 Revenue in Millions		
	At 5% Rate	At 6% Rate	At 7% Rate
Food	\$ 200	\$ 238	\$ 275
Clothing and footwear	110	130	147
Motor fuels - excluding excise taxes	79	95	110
- including excise taxes	100	120	140
Gas & electric - all users	100	120	140
- non-residential	55	66	77
Heating oils - all users	55	66	77
- non-residential	15	18	21
Telephone and telegraph	20	24	28
Cigarettes - excluding State excise tax ..	17	20	23
- including State excise tax ..	25	28	30
Architectural, planning, and engineering services	24	28	33
Legal and accounting services over \$25 ...	8	10	12
Business management, consultants, public relations	13	16	19
Statistical and computer services	3	4	4
Other business services - direct mail, duplicating and copying, stenography, interior decor- ation, private detective	3	4	4
Construction - labor	38	45	51
Personal services, laundry, dry cleaning .	15	18	21

Many combinations of sales tax base extensions might be put together, although the potential, without food and clothing and without a rate increase, is limited. To illustrate, if all of the above base extensions, except for food and clothing, were to be made, with projected growth at 8% per year, the estimated yield in 1976-77 would be about \$435 million if the rate is kept at 5%.

Increases in Fee Schedules and Other Tax Rates

A variety of other tax rates and fee schedules could be increased to provide a higher yield. Those which have been suggested to the Commission are listed in Table 16.

Table 16. Estimated Yield of Increases in Fee Schedules and Minor Tax Rates, 1975-76

	<u>Estimated 1975-76 Yield</u>
1. Motor fuels tax increase - increase 1¢ per gallon	\$ 32.5 to 35. million
2. Cigarette tax increase -	
(a) 1¢ per pack	8.0 to 8.7
(b) 5¢ per pack	25. *
3. Motor vehicle fee increase - 10% increase ..	20. *
4. Alcoholic beverage tax increase -	
(a) Increase all rates per gallon by 10% ...	5.5
(b) Increase beer tax from 3 1/3 to 5¢ per gallon	2.5
(c) Increase beer tax from 3 1/3 to 6 2/3¢ per gallon	4.8
(d) Increase beer tax from 3 1/3 to 10¢ per gallon	9.6 *
(e) Increase wine tax from 30¢ to 35¢ per gallon ..	.8
(f) Increase wine tax from 30¢ to 60¢ per gallon	1.7 *
(g) Increase liquor tax from 2.80 to 2.90 per gallon	1.7 *
5. Corporation tax increase - increase 1% .. .	38. (61 first year)
6. Corporation net worth tax -	
(a) Increase to flat .002 ...	3.2
(b) Increase to flat .003 ..	38. *
(c) Increase minimum tax from \$25 to \$35 for domestic corporations.	.4
(d) Increase minimum tax from \$50 to \$70 for foreign corporations .	.1
7. Transfer inheritance tax -	
(a) Increase all rates 10% ...	8. *
(b) Exempt only the first \$10,000 of life insurance	4.8
(c) Impose 5% tax on transfers in excess of \$5,000 to charitable and educational institutions, eliminate exemption on non-homestead property held as joint tenancies and limit the exemption to owner-occupied residences of not more than 4 units, remove exemption on life insurance proceeds	7. *
(d) Gift tax	2.
8. Foreign insurance corporation tax-surchage of 10%	5. *
9. Domestic insurance corporation tax -	
(a) Increase rate on premiums to 2 1/4%	1. *
(b) Tax interest and dividends at 2 1/2%	10. *
10. Public utilities excise tax - surcharge of 10% .. .	4. *
11. Parimutual tax - surchargè of 10% .. .	3.5 *
12. Savings institution tax - increase rate to 7 1/2%	1.5 *
13. Business personal property tax -	
(a) Increase rate .10 per hundred .. .	5.7 to 6.
(b) Increase rate to \$2.00	40. *
(c) 10% surcharge	7.5
14. Retail gross receipts tax - double rate to .001	7.5 *
15. Unincorporated business tax - increase permanent rate to 1/2%	20.5 *
16. Unearned income tax - double the rate on interest and dividends	19.0 *

While the list of possibilities is extensive, the total dollar value is not great, and there is considerable duplication in the list. The major proposals (marked by asterisks in Table 16) if combined into a single revenue package, would total about \$380 million in 1976-77. Since the total of all existing State revenue sources has been assumed to grow at about 6.8% per year, while the sales tax -- the single largest component -- has been projected at 8% annually, most of the remaining revenue sources such as fees and minor taxes, must be expected to grow somewhat less rapidly. This observation is supported by the relative income elasticities of the various revenue sources calculated by the New Jersey Tax Policy Committee in 1972. On this basis, this package of tax and fee increases might be expected to have only a +6% annual growth rate in the future.

New Revenue Sources

A number of new revenue sources might be considered by New Jersey to finance Chapter 212. These include a personal income tax, a state-wide property tax, a payroll tax, and several smaller taxes.

Personal Income Tax

Proposals for personal income taxes come in various forms and sizes. In general, most proposals may be placed in one of three major groups: a surcharge on the Federal net income tax, a flat tax on gross personal income, and a graduated tax on net personal income. Forty states and the District of Columbia have an income tax of some kind. The State revenue from the personal income tax in selected other states is shown in Table 17.

Table 17. Income Taxes in Other States as a Percentage of Total Revenue

	<u>Income Tax Revenue</u>	<u>Total Revenue</u>	<u>Income Tax Percentage</u>
California	3.0 billion	10.8 billion	28%
Georgia	0.4	1.8	22%
Illinois	1.7	7.7	22%
Indiana	1.7	5.8	29%
New York	4.1	10.3	40%
Ohio	0.5	3.4	15%
Pennsylvania	1.3	5.5	24%

The distribution of State revenue according to income classes is shown in Table 18.

Table 18. Percentage of Personal Income Tax Revenue and Average Tax Per Return, by Income Ranges, in Selected States

	Adjusted Gross Income						Average
	Below 5,000	5,000 to 10,000	10,000 to 15,000	15,000 to 20,000	20,000 to 50,000	Over 50,000	
California	0.5% \$ 19	6.2% \$ 77	14.2% \$ 162	16.8% \$ 326	38.1% \$ 877	24.3% \$ 6,164	\$ 343
Georgia	2.0% \$ 11	9.7% \$ 57	19.0% \$ 162	18.9% \$ 346	32.5% \$ 827	17.8% \$ 3,615	\$ 176
Indiana [#]	0.7% N.A.	12.2% N.A.	34.4% N.A.	24.7% N.A.	21.2% N.A.	6.8% N.A.	N.A.
Minnesota [#]	2.6% N.A.	13.9% N.A.	25.3% N.A.	21.7% N.A.	26.2% N.A.	10.3% N.A.	N.A.
New York	2.2% \$ 50	14.4% \$ 157	18.4% \$ 339	13.5% \$ 607	25.8% \$ 1,592	25.7% \$10,490	\$ 434
Ohio	2.3% \$ 80	11.1% \$ 38	21.9% \$ 86	20.5% \$ 176	28.3% \$ 505	15.9% \$ 2,153	\$ 98
Pennsylvania ^{**}	7.9% \$ 42	21.1% \$ 150	28.4% \$ 245	17.8% \$ 342	17.9% \$ 536	7.1% \$ 935	\$ 188

[#] Minnesota and Indiana income ranges listed as "gross income" instead of "adjusted gross income".

^{**} Pennsylvania income ranges listed as "taxable income" instead of "adjusted gross income".

Four alternative income tax plans have been outlined by the Division of Taxation, and their details are presented on page 35. While the examples given yield varying amounts of revenue, they could be adjusted to produce different sums. A personal income tax probably would grow at a faster rate than any of the taxes mentioned earlier in this report because of its higher elasticity. The Tax Policy Committee in 1972 reported an elasticity for most income taxes of about 1.50, which would indicate a more rapid rate of growth than for any existing State tax. Estimates received by the Commission have ranged from 8% to 12% annual growth.

INCOME TAX REVENUE

A. Piggy Back Tax

1972 Federal Income Tax in New Jersey	\$ 4,380,000,000
Increase 12% Yearly	
1976 Estimated Federal Income Tax	\$ 6,892,000,000
X 10% Piggy Back Tax	x.10
Resident Liability	690,000,000
Commuter Adjustment (15%)	103,000,000
Resident Liability after Credit	\$ 587,000,000

B. Hamilton Gross Income Tax

Estimated 1976 Gross Income	\$ 44,000,000,000
Deductions	
Exemptions (7,500,000 at \$1,000 per)	7,500,000,000
Property Tax (1,159,800 at \$1,000)	1,200,000,000
Rental Deduction (891,500 at \$800)	700,000,000
Commuters (12%)	4,100,000,000
Taxable	\$ 30,500,000,000
1% tax rate	x.10
Revenue for each 1% tax rate	\$305,000,000.

C. 1-1/2 to 8% Graduated Personal Income Tax

IRS calculation Based on 1972 Returns	\$ 700 Million
Estimated increase 1972-1974	35%
1974 Resident Liability	\$ 945 Million
Estimate increases 1974-1976	24%
1976 Resident Liability	\$ 1,172 Million
Commuter Credit	175 Million
Resident Liability for 1976	\$ 997 Million

D. 1-1/2 to 8% Graduated Personal Income Tax

The value of exemptions as follows.

1st exemption	\$10,000
2nd exemption	5,000
3rd exemption and each succeeding exemption	2,500

Calculation Based on 1972 IRS model	\$ 245 Million
Estimated increase 1972-1974	35%
1974 Resident Liability	\$ 330 Million
Estimated Increase 1974-1976	24%
1976 Resident Liability	\$ 408 Million
Commuter Credit	61 Million
Resident Liability in 1976	\$ 347 Million

For purposes of projecting the possible impact of such a tax, an annual growth rate of 10% has been used in Tables 19A, 19B, and 19C. For illustrative purposes, the yield has been set at the amount which a 7% surtax would be expected to yield in 1976-77 -- \$413 million. It should be noted that imposition of a personal income tax must be at rates which will generate more than is needed for school aid alone, since the new tax on unearned income, estimated at \$65 million in 1975-76, and the permanent tax on unincorporated business, estimated at \$21 million, probably should be repealed. If such a tax were designed and implemented to finance Chapter 212 as enacted, the projection shows a balance in 1976-77 permitting about a 3% growth in State non-school costs, rising to about 4% in 1977-78, and then leveling off at about a 6% growth rate. As with the sales tax, the use of an extended phase-in would permit a more rapid growth of non-school costs in the first year, with slower growth during the rest of the phase-in period. Substantially the same results would be obtained if the tax were a flat rate tax on gross income or a graduated tax on net income, and the yield could be changed by changes in the rate structure.

Table 19A. Impact of Use of Personal Income Tax at \$413 Million Initial Yield, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$2,698						
Minus Repeal of: Unearned Income Tax	-\$ 65						
Unincorporated Business Tax	- 21						
	\$2,612	\$ 2,669	\$ 2,848	\$ 3,042	\$ 3,249	\$ 3,470	\$ 3,706
Revenue from Personal Income Tax		413	454	499	549	604	664
Minus Aid to Schools	- 798	- 1,131	- 1,270	- 1,387	- 1,511	- 1,648	- 1,795
Net Available for Non-School State Costs	1,900	1,951	2,032	2,154	2,287	2,426	2,575
Change from Prior Year		+ 51	+ 81	+ 122	+ 133	+ 139	+ 149
Percentage Change		+ 2.7%	+ 4.2%	+ 6.0%	+ 6.2%	+ 6.1%	+ 6.1%

Table 19B. Impact of Use of Personal Income Tax at \$413 Million Initial Yield, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212 If Phased In Over a 3-Year Period

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$2,698						
Minus Repeal of: Unearned Income Tax	-\$ 65						
Unincorporated Business Tax	- 21						
	<u>\$2,612</u>	\$ 2,669	\$ 2,848	\$ 3,042	\$ 3,249	\$ 3,470	\$ 3,706
Revenue from Personal Income Tax		413	454	499	549	604	664
Minus Aid to Schools	- <u>798</u>	- <u>968</u>	- <u>1,163</u>	- <u>1,307</u>	- <u>1,512</u>	- <u>1,651</u>	- <u>1,799</u>
Net Available for Non-School State Costs	1,900	2,114	2,139	2,154	2,286	2,423	2,571
Change from Prior Year		+ 214	+ 25	+ 15	+ 132	+ 137	+ 148
Percentage Change		+ 11.3%	+ 1.2%	+ 0.7%	+ 6.1%	+ 6.0%	+ 6.1%

Table 19C. Impact of Use of Personal Income Tax at \$413 Million Initial Yield, Plus Normal Growth of Existing Revenue Sources, to Finance Chapter 212 If Phased In Over a 5-Year Period

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$2,698						
Minus Repeal of:							
Unearned Income Tax	-\$ 65						
Unincorporated Business Tax	- <u>21</u>						
	\$2,612	\$ 2,669	\$ 2,848	\$ 3,042	\$ 3,249	\$ 3,470	\$ 3,706
Revenue from Personal Income Tax		413	454	499	549	604	664
Minus Aid to Schools	- <u>798</u>	- <u>932</u>	- <u>1,078</u>	- <u>1,248</u>	- <u>1,435</u>	- <u>1,650</u>	- <u>1,797</u>
Net Available for Non-School State Costs	1,900	2,150	2,224	2,293	2,363	2,424	2,573
Change from Prior Year		+ 250	+ 74	+ 69	+ 70	+ 61	+ 149
Percentage Change		+ 13.2%	+ 3.4%	+ 3.1%	+ 3.1%	+ 2.6%	+ 6.1%

Statewide Property Tax

Although New Jersey relies very heavily upon property taxes to finance local government, it has been many years since the State has imposed a general statewide property tax. This is a possibility, however. In recent years the statewide property tax base has grown rapidly, and substantial sums might be raised with a property tax of fairly moderate rates. Two kinds of property tax have been suggested: a tax at uniform rates on all forms of taxable property, and a classified tax with different tax rates on different classes of property.

If the aggregate true value of real property throughout the state, as reported in the Table of Equalized Valuations of October 1, 1975, were taken as the basis for a general statewide property tax, the rate to raise \$333 million in 1976-77 would be slightly over 35¢ per hundred dollars of true value. The value of real property, as shown in Table 20, has risen an average of 11 to 12% annually during the past five years.

Table 20. Growth in True Value of Taxable Real Property, 1971 to 1975

<u>Year</u>	<u>Aggregate True Value of Real Property</u>	<u>Annual Change</u>
1971	\$ 60,448,579,964	+ 10.9%
1972	67,750,454,699	+ 12.1
1973	76,394,318,744	+ 12.8
1974	86,517,097,261	+ 13.3
1975	94,594,298,753	+ 9.3

It is too early to say whether the drop in 1975 is a temporary reversal

of the past trend, based on the recession, or whether it is a real change. However, a future growth rate of about 9% appears on the conservative side. On this basis, the potential impact of financing Chapter 212 with a 35¢ general statewide property tax rate is shown in Tables 21A, 21B, and 21C. A growth rate of about 3% in 1976-77 for non-school State costs would be followed by a rise to about 4% the following year, with the annual growth possible then leveling off somewhat below 6%. Again, phasing the law in over a longer period would provide for more rapid growth of non-school costs early in the period, and slower growth later.

A number of bills have been introduced which provide for the classification of real property according to its use, with varying tax rates applied. Most proposals of this kind have envisioned full replacement of the local property tax by a classified State property tax. Thus, the tax rates contained in those bills would be too high if the objective is merely to cover the new cost to the State government of Chapter 212. If, however, a classified tax rate of 25¢ per hundred dollars true value were applied to residential property, which makes up 65% of the total true value of taxable property, and 50¢ to commercial, industrial, farm, and vacant land, approximately the same impact would be felt as from a uniform tax rate of 35¢.

Table 21A. Impact of Using a General Statewide Property Tax at a Rate of 35¢ per Hundred Dollars of True Value, plus Normal Growth, to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from General Statewide Property Tax at 35¢ Rate	--	331	361	393	428	467	509
Minus Aid to Schools	- 798	- 1,131	- 1,270	- 1,387	- 1,511	- 1,648	- 1,795
Net Available for Non-School State Costs	1,900	1,958	2,034	2,149	2,274	2,404	2,543
Change from Prior Year		+ 58	+ 76	+ 115	+ 125	+ 130	+ 139
Percentage Change		+ 3.1%	+ 3.9%	+ 5.7%	+ 5.8%	+ 5.7%	+ 5.8%

Table 21B. Impact of Using a General Statewide Property Tax at a Rate of 35¢ per Hundred Dollars of True Value, plus Normal Growth, to Finance Chapter 212 Over 3 Years

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from General Statewide Property Tax at 35¢ Rate	--	331	361	393	428	467	509
Minus Aid to Schools	- 798	- 968	- 1,163	- 1,387	- 1,512	- 1,651	- 1,799
Net Available for Non-School State Costs	1,900	2,121	2,141	2,149	2,273	2,401	2,539
Change from Prior Year		+ 221	+ 20	+ 8	+ 124	+ 128	+ 138
Percentage Change		+ 11.6%	+ 1.1%	+ 0.4%	+ 5.8%	+ 5.6%	+ 5.7%

Table 21C. Impact of Using a General Statewide Property Tax at a Rate of 35¢ per Hundred Dollars of True Value, plus Normal Growth, to Finance Chapter 212 Over 5 Years

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from General Statewide Property Tax at 35¢ Rate	--	331	361	393	428	467	509
Minus Aid to Schools	- <u>798</u>	- <u>932</u>	- <u>1,078</u>	- <u>1,248</u>	- <u>1,435</u>	- <u>1,650</u>	- <u>1,797</u>
Net Available for Non-School State Costs	1,900	2,157	2,226	2,288	2,350	2,402	2,541
Change from Prior Year		+ 257	+ 69	+ 62	+ 62	+ 52	+ 139
Percentage Change		+ 13.5%	+ 3.2%	+ 2.8%	+ 2.7%	+ 2.2%	+ 5.8%

Business Stabilization Tax

The "business stabilization tax" is a specialized form of classified statewide property tax. The approach was developed originally to capture for the State some of the benefits obtained by business property in communities which are sometimes known as "tax havens" -- those having very large concentrations of taxable property, but relatively little necessity to spend public funds. The tax operates by specifying a basic state tax rate, and levying taxes on the business property at the difference between the actual local rate and the state tax rate. A variety of combinations are possible, with the yield depending on the pattern selected. Some of these are shown in Table 22. An additional pattern which might be explored is a B.S.T. tax rate of 2.70, less the full local equalized tax rate. The Commission has no data on the yield of this pattern except that it would be somewhere between the first two patterns shown in Table 22.

Table 22. Selected Patterns for Business Stabilization Tax

<u>B.S.T. Rates</u>	<u>\$200 Tax Deduction</u>	<u>Rates and Amounts</u>	
		<u>Tax Yields (\$ Millions) With Apts.</u>	<u>Without Apts.</u>
\$2.45 less local E.T.R.	Yes	\$ 22.6	\$ 19.7
	No	\$ 26.3	\$ 23.0
\$2.70 less 75% local E.T.R.	Yes	\$115.7	\$ 98.7
	No	\$131.1	\$112.6
\$2.80 less 75% local E.T.R.	Yes	\$134.4	\$114.3
	No	\$150.8	\$129.1
\$3.15 less 75% local E.T.R.	Yes	\$ 87.1	\$ 75.5
	No	\$ 97.3	\$ 84.6
\$3.25 less 75% local E.T.R.	Yes	\$231.1	\$194.1
	No	\$251.3	\$212.1

B.S.T. is Business Stabilization Tax
E.T.R. is Equalized Tax Rate

Few of the patterns shown, in itself, would provide sufficient funds to cover the cost of increased State school aid. However, the tax could be used in conjunction with other revenue sources.

Payroll Taxes

The Office of Fiscal Affairs has estimated that a 1% tax on the payrolls of private, for-profit employers would yield about \$250 million in the first year, with growth projected at a rate slightly above the growth rate for total income, or about 8 to 9% annually. If the tax is projected at 9% annually, the potential impact of a 1% payroll tax is shown in Tables 23A, 23B, and 23C.

Single Business Tax

The State of Michigan has recently enacted a sweeping revision of its business taxation laws, with an effective date of January 1, 1976. Most forms of existing taxation are abolished and will be replaced by a single business tax based in the first instance on Federal taxable income. Most advice received by the Commission was that, while this approach might be desirable in New Jersey, it should be regarded primarily as a tax reform measure, rather than as an immediate source of new revenue for financing Chapter 212. The Commission was further advised that it would be desirable to observe Michigan's experience before introducing such a measure in New Jersey.

Other New Taxes

A few other new taxes have been suggested to the Commission for consideration. These include:

Table 23A. Impact of Using 1% Payroll Tax, Plus Normal Growth of Existing Sources, to Finance Chapter 212 as Enacted

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from 1% Payroll Tax	--	250	273	298	325	354	386
Minus Aid to Schools	- <u>798</u>	- <u>1,131</u>	- <u>1,270</u>	- <u>1,387</u>	- <u>1,511</u>	- <u>1,648</u>	- <u>1,795</u>
Net Available for Non-School State Costs	1,900	1,877	1,946	2,054	2,171	2,291	2,420
Change from Prior Year		- 23 + 69 + 108 + 117 + 120 + 129					
Percentage Change		- 0.1% + 3.7% + 5.5% + 5.7% + 5.5% + 5.6%					

Table 23B. Impact of Using 1% Payroll Tax, Plus Normal Growth of Existing Sources, to Finance Chapter 212 Over a 3-Year Period

Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from 1% Payroll Tax	--	250	273	298	325	354	386
Minus Aid to Schools	- <u>798</u>	- <u>968</u>	- <u>1,163</u>	- <u>1,387</u>	- <u>1,512</u>	- <u>1,651</u>	- <u>1,799</u>
Net Available for Non-School State Costs	1,900	2,040	2,053	2,054	2,170	2,288	2,416
Change from Prior Year		+ 140 + 13 + 1 + 116 + 118 + 128					
Percentage Change		+ 7.4% + 0.6%		--	+ 5.6%	+ 5.4%	+ 5.6%

Table 23C. Impact of Using 1% Payroll Tax, Plus Normal Growth of Existing Sources, to Finance Chapter 212 Over a 5-Year Period

	1975-76 Anticipated	Projection in Millions of Dollars					
		1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenue Available from Normal Growth of Existing Revenue Sources on "Working" Projection	\$ 2,698	\$ 2,758	\$ 2,943	\$ 3,143	\$ 3,357	\$ 3,585	\$ 3,829
Revenue from 1% Payroll Tax	--	250	273	298	325	354	386
Minus Aid to Schools	- 798	- 932	- 1,078	- 1,248	- 1,435	- 1,650	- 1,797
Net Available for Non-School State Costs	1,900	2,076	2,138	2,193	2,247	2,289	2,418
Change from Prior Year		+ 176	+ 62	+ 55	+ 54	+ 42	+ 129
Percentage Change		+ 9.3%	+ 3.0%	+ 2.6%	+ 2.5%	+ 1.9%	+ 5.6%

Estimated Yield

Personal property tax on passenger vehicles at the statewide average property tax rate	\$ 205. million
Tobacco products tax at 25% of wholesale price	5. million
Value added tax	no estimate

IV - Conclusions

While the members of the Commission have varying opinions as to the desirability of different financing plans, there is general agreement that the Legislature could proceed to implement Chapter 212 either:

as it was enacted, with a two-year phasing plan,

or

as it could be amended, to extend the phasing over a three- or a five-year period.

If the decision is made to implement the law as enacted, two feasible alternatives for financing State aid are a personal income tax or an increase in the sales tax.

If the decision is made to extend the phase-in period to three or five years, the range of immediate alternatives becomes greater.

In either case, the Commission emphasizes the necessity for a strong system of accountability and performance auditing in the public schools to ensure their thorough and efficient operation in the best interests of the state's children and taxpayers. ✓

State support for schools is being increased significantly by Chapter 212, with the objective of replacing local property taxes. This objective could be defeated, however, if county and municipal governments were to raise their own tax levies abnormally at the same time that school tax levies are being reduced. For this reason, the Commission unanimously concludes that some form of limitation should be placed on county and municipal tax levies when increased State support for schools is implemented.

