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BEFORE

JOINT COMMITTEE ON STATE TAX POLICY
SUBCOMMITTEE ON LOCAL GOVERNMENT
AND
SUBCOMMITTEE ON GENERAL STATE FUND
(PURSUANT TO SCR-64)

HELD:
JULY 12, 1978
WILLINGBORO MUNICIPAL COMPLEX
WILLINGBORO, NEW JERSEY

MEMBERS: SENATOR CHARLES B. YATES
SENATOR WALTER E. FORAN
ASSEMBLYMAN WALTER J. KAVANAUGH

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OTHER LEGISLATORS: ASSEMBLYWOMAN BARBARA FAITH KALIK

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WILLIAM D. ZUZZIO
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I N D E X

APPENDIX

Testimony submitted in writing by:

North Jersey Federation of Senior Citizens
New Jersey Council of Senior Citizens
December 4, 1976
Plainfield High School, Plainfield, NJ

Tax Incentives Can Pay Off: A Business View
New Jersey Business Industry Association
Sullivan Way
Trenton, NJ 08607
Presented at National Tax Association Conference, November 8, 1977

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Delran Township Council
Delran, NJ

S E N A T O R   C H A R L E S   B.   Y A T E S

This is a joint subcommittee hearing of the New Jersey State Joint Committee on State Tax Policy and today we have two subcommittees holding hearings at the same time, the subcommittee on Local Government chaired by Assemblyman Walter Kavanaugh on my far right. In addition we have a subcommittee on the General State Fund which I'm the chairman joined by Senator Walter Foran of Hunterdon County who is on my immediate right. I am Charles Yates from Burlington County. On my left is Gil Deardorff, the staff professional of the Joint Committee who makes sure to keep everything running smoothly. Let me describe the format here. I already have before me a list of people who have indicated a desire to testify today. Anyone who has come that has not already told us that you want to testify, let me suggest you come up to anyone of our staff people here seated right in front of the little partition and tell them who you are and would you welcome Mayor Schmierer of Delran, who I'm sure is going to testify. Let your interest be know, give them your name and then you will go on the list and have your chance. The testimony is all recorded, it's going to become part of the official record of the proceedings. I should perhaps mention that the basic purpose of the entire Joint Committee is to search out the impact of the major changes in our State tax structure that happened in the last year and a half largely centering on the income tax and the legislation surrounding it. We are looking for, first of all, problems that have been caused that have not been anticipated or not expected, we are looking as well for suggestions on further improvements that can be made with abute toward greater tax equity or improving our business climate, improving the basic fairness from the citizen's point of view of the tax structure. We are also looking for comments, particularly from people in local government on some of the undesirable or unforeseen impact of things like the caps, the shifts that occurred in the various State Aid formulation, so it's a pretty broad spectrum of interests that we have today and I'd like to give just an opportunity to my two colleagues to express any opening remarks that you might have.

F O R A N: I'm just here to listen.

YATES: O.K., having said that let's move on to John Tergis from the New Jersey Federation of Senior Citizens. I gather he will be joined by George Hooper.

T E R G I S: My name is John Tergis, I reside at 100 Gordons Corner Road, Marlboro, Monmouth County, New Jersey. I am legislative consultant and executive board member of both the New Jersey Federation of Senior Citizens and the New Jersey Council of Senior Citizens and I have similar duties in other organizations in Monmouth County. We wish to thank you for affording us this opportunity to comment on State Tax Policy. At the outset we wish to assure you that we are mindful of the decisive role the members of this Committee and your technicians play in securing the tax reform measures of 1976 for which we wish to thank you. We recommend that the first order of business in the new legislature should be an all-out effort to retain the ground which has already been gained by re-enacting the various cap laws which place limits on the amount by which State, county, municipal and school budgets may be increased. The element of tax reform not only involve tax rebates and increase more equitable State Aid financed by an income tax but also strict controls on local spending to assure that at least part of the increased State Aid will act as a pass-through for local taxpayers to keep property taxes down. Another important purpose is to enable the State to have a measure of control over the amount of State Aid it can afford to spend-without these controls strictly enforced it is obvious that the income tax would be just another tax on top of an exhorbitant real estate tax. The recent happenings in California show the public's concern about the ever-increasing expenditures of government. A strict application of the limits on spending, we believe, would be New Jersey's answer to this problem. In place of the precipitous action taken by Proposition 13 in California which it appears will cause indiscriminate cuts in many essential services. Although real estate tax rates decreased in all but a few municipalities in the State in the first year of tax reform we think we see a tendency toward increase this year. Of course, we would expect some change due to the effects of inflation but we find that it is impossible to conduct any meaningful study at this early date as to why this increase is occurring until all the statistics are tabulated. Inasmuch as that, we will need two or three years experience to determine whether any liberalization or tightening is necessary. We recommend that the caps be re-enacted as presently existing and that on-going studies be conducted by governmental agencies so that accurate, unbiased information would be available. We are instructing our members as well as the public in general about the importance of affirmative action at the local level. Fifty-four percent of the State budget represents money to be used for State Aid in one form or another. If we were to add together the total amount of money raised by the real estate tax at the local level and all the money raised by state taxes, we would find that approximately 70 percent of this total is spent by our counties, municipalities and school boards. A low economy at the state level is important. The public must become more involved in the budget-making process at the local level. In this way cost containment can be selective rather than the across-the-board, possibly disastrous action taken in California by Proposition 13. Another problem is that of revaluations. Many people have had an increase in valuation which is accompanied by a steep increase in taxes. To many people, the increase in taxes, has been the result of revaluation which may or may not have been true depending on whether the previous valuation had been out of line with comparable properties. Further work could be done in this area to explain revaluations to the public and to improve the methods of revaluation to allay these difficulties. We realize, as you do, I'm sure, that the tax reform measures passed in 1976 were politically necessary to get the package accepted but leave something to be desired. A platform committee report of our senior tax convention of December 4, 1976 contains our criticisms and recommendation for improvement, the more important of which I will review briefly here. Homestead and renters rebates and credits. 1. After the application of a complicated formula in each town having to do with tax rates, valuations and a time-consuming involvement of a local tax assessor, it turns out that the homestead rebate differs in each community from the average by only a small amount. Much time and money could be saved by changing the present homestead rebate to a fixed amount, possibly the average of present amounts. 2. The poor homeowner with an income of $5,000 a year gets exactly the same rebate as the well-to-do executive making $100,000 a year. Ideally, a rebate system should partially compensate for the regressivity of the property tax with the result that the rebate should be somewhat linked to income. 3. Since it is generally considered that a portion is in the nature of real estate taxes, it is difficult to justify why the homeowners applies to all homeowners whereas the renters credit applies only to those who pay an income tax. 4. Under the present system a homeowner mails his income tax payment to the State where it is processed by one set of people. At a different time, a different set of people processes his rebate form and mails him a rebate check. This extra administrative and mailing expense could be eliminated if the homeowners rebate could be taken as a credit on his or her income tax. (The contention that such procedure reduces the State's tax effort resulting in less Federal aid to New Jersey, should be taken up direct with Washington. Why should New Jersey be put to the possibility of over $1 million in administrative and mailing expense to collect this Federal aid?) And as a recommendation, we recommend that further real estate tax relief be afforded by introducing a circuit-breaker system which relates the rebates somewhat to income and affords a basis of consistency between homeowners and renters. The present rebate system would be reduced to a fixed amount. The circuit-breaker would have to be built on top of the modified present homeowners rebate and renters credit system so noone would lose money. The new procedure would operate as a rebate or credit under the income tax procedure. Revenue sharing. We believe that the correct approach to revenue sharing would be to seek out those municipal costs should be the shared responsibility of all New Jerseyans but which fall unjustifiably on local taxpayers such as the cross of county and municipal welfare and county courts, etc., we believe that the municipal overburden would be served better by having the State take over these costs rather than the per capita basis of revenue sharing now in the law. Now the landlords pass-through. The Joint Committee on State Tax Policy or other committee having jurisdiction should give serious thought to the problems arising under the landlords pass-through law. Namely, the small amount of return involved, the problems of enforcement, landlords using the pass-through as an excuse for raising rents, our platform committee report recommends cancellation of this law. Now the above paragraph summarizes our full recommendation to the homeowners and the renters rebate or credit and revenue sharing. Naturally, this full program of further relief to the property owner would require further State funding depending on the extent of each improvement. Possibly some changes could be made right away. Others, over a longer period. For example, a comparatively low-cost step could be made toward a circuit-breaker to establish the principle. The program could be made more extensive as time goes on. We would be glad to explore any ideas for phasing these improvements. I have something here I would like to, we are advised that we should also mention anything else we have concerning taxes that we have in mind, before closing I would like to mention that we are presently discussing with our executive boards three possible changes in the inheritance tax laws. A change involving contingent annuities, probably would be the most beneficial to surviving spouses at this time and could be accomplished with a rather low cost to the State. The problem may be illustrated as follows. Suppose a retiree dies leaving the private contingent annuity for his wife of $300 a month during her lifetime. The wife is age 65. The present value of the contingent annuity, as determined by a mortality table at an assumed rate of interest is taxable under the New Jersey Inheritance Tax Law. According to the mortality table the State is using, the present value of this contingent annuity is $33,500. Ignoring the general exemption applicable to the entire State this moment, the Inheritance Tax on $33,500 would be $670, which would be quite a financial drain on an estate with a modest cash position. Another retiree dies leaving the contingent annuity of the same amount for his wife who is also age 65. The only difference is that in this instance, the annuity is under the New Jersey Public Pension System which according to the present New Jersey Pension Law is not taxable. In this case, the tax is zero. In addition, the New Jersey Inheritance Tax Law itself exempts pensions of Civil Service employees of the United States Government from this tax. The exemption was further extended to military service pensions by the Legislature this year. Obviously, it is inequitable to tax persons in private employment from the Inheritance Tax and at the same time exempt those in public employment. I know you will recall that we were up against the same problem with respect to the income tax. The problem was resolved by making public pension subject to the income tax in the same manner as private pension but creating an exemption, $10,000 per family, which applies equally to each pension. We recommend that the Inheritance Tax problem be resolved in the same manner as the income tax situation, namely a change in law making public pension taxable under the New Jersey Inheritance Tax Law in the same manner as private pension but creating an exemption of perhaps $20,000 specifically to apply with respect to the present value of each contingent annuity in addition to the general exemption applicable to the entire estate. Thank you very much.

YATES: Thank you very much.

DEARDORFF: Mr. Tergis, please wait a minute.

YATES: I just wanted to see if any of our colleagues had any questions or comments. I just wanted to mention that we just handled a situation in the military pension that is very parallel to the one that you just described to the private pension. The way we handled it was simply exempt them period. So, that's another alternative to look at.

TERGIS: That's another alternative. We were trying to suggest something ...

YATES: I understand that it didn't cost much anyway.

TERGIS: We understand that it did not. And we understand that there isn't too much involved here, although all these contingent annuities were exempt across-the-board at 100 percent. We don't think that there's much loss involved.

YATES: Thank you very much.

DEARDORFF: Mr. Tergis, could I ask you a question? In your first part of your presentation, when you talked about the homestead rebates, the tax program and recommended that we go into a circuit-breaker, you realize, of course, that the tax program that was conceived and passed was considered to be not a new tax in terms that we ordinarily think of increasing revenue, but a trade-off. And for that reason the greatest amount of tax went to those people who paid the greatest amount of tax. If you're going to have a trade-off, this is the way it's going to have to be. Now, if we would follow the circuit-breaker idea, which you're speaking of, you're changing the concept completely, to one of a redistribution of income taking from those who can afford and giving to those who can't. Do you think that this would be in keeping with the whole concept of the New Jersey Tax Reform Program?

TERGIS: I don't know if I'm answering your question directly, Mr. Deardorff, but what we had in mind was something to compensate for the regressivity of the real estate tracks. It's well known they start at the top and each step you go lower in income but that person with the lower income pays a greater percentage of his income and real estate taxes.

DEARDORFF: That depends on where he lives.

YATES: I find...

TERGIS: But the lower portion of the income people pay a considerable portion of their income in real taxes and we had in mind something to compensate for this very...real estate tax is a good tax but it has this very great flaw in it that the lower income people pay greater percentage.

DEARDORFF: The primary reason for this in the majority of instances is that inflation has driven the valuation of the property so high that take a senior citizen who bought a house 30 years ago at a very modest price today finds that house in most municipalities valued at anywhere from 3 times to 10 times as much and even though the tax rate may not be any higher, the very fact that the valuation drives the taxes up.

YATES: I had one component, I'm sure you recall, Mr. Deardorff, if you will recall, one of our components in the rebate was designed to some extent to shift that regressivity burden and that was that if the rebate does not apply to the full property tax paid, in effect it's calculated on the property tax you pay on the first $10,000 of valuation. So that the difference between a wealthier guy and a poorer fellow is that one has the valuation of $25,000 and the other has a valuation of $100,000, they each get it on the first $10,000 they pay. It means that the percentage of the property tax you are paying, when you go back on the rebate, in one instance could be as high as 25 or 30 percent and the other instance might be as low as 2 or 3 percent. So it's already got some waiting in it.

TERGIS: So it's got to be almost the same. That's one of our arguments or observations in here.

DEARDORFF: One of the things you have to remember is contrary to what is commonly believed, many times the senior citizen in the center city from this point of view, is better off than the one in the suburbs because the center city valuations tend to be extremely low, whereas the valuations in the suburbs tend to be quite high. To give you an example, a comparable house in the City of Camden not at valuation but in size, and one in Cherry Hill, the taxes on that house in Cherry Hill will be three times what they are in Camden even though the tax rate in Camden in maybe twice or two and half times that in Cherry Hill, so that all of these factors we have tried to put into the rebate program...

TERGIS: Wasn't the law supposed to compensate for this a little bit and the objective was to equalize tax rates to some extent throughout the State. Put Cherry Hill in the same position as another wealthy town.

DEARDORFF: One of the things which the Taxation Committee and the people who formulated this whole thing tried to do was try to look not only at the lower income but at the middle income people because it's the middle income people who so often are being squeezed so hard and particularly the younger man who has a family and is trying to get along, of course, the argument that he can look forward to higher wages versus the older citizen who is on a fixed income is a factor but one of the big cries today is that it is so difficult for the younger people to buy a home because of inflated prices. All of these factors we tried to take into consideration and as I say, it was supposed to be a trade-off. One of the reasons why there was as little real opposition was that it was sold and sold honestly on the basis of being a trade-off and not on the basis of being a redistribution of income.

TERGIS: I realize that. Of course, one type of circuit breaker would even help the younger person since the amount of tax, out-of-pocket expense for tax, would somehow be related to his income. We have circuit breakers of this type, but just don't apply to senior citizens.

DEARDORFF: I'm talking about the people, let's say in the $15,000-$20,000 range, which is not a large income by any means, particularly if one's trying to raise a family and these are the people who are hit the hardest by Federal taxes, by every tax practically.

TERGIS: Of course, by one of the original concepts this person's tax, out-of-pocket expense could not exceed a fixed amount, too. I believe that something like $1,500, 10 percent of his income...

YATES: That was the early Byrne package #1, if I remember correctly...

TERGIS: That's right.

YATES: Thank you very much. Mayor Lorraine Schmierer of Delran. Do we have a problem hearing in the back of the room, we have the mike here for the witness. I think we're all set, Mayor.

S C H M I E R E R: Thank you, Senator Yates. I have not a prepared statement, I just want to thank you for the opportunity of being here to let you know some of the problems that I, as an elected official, come across because of the so-called five percent "cap" that we have to work with. The main area of concern is the fact that there are certain expenses that we as local officials have no control over. I would like to give you an example of that. The five percent cap for the Township of Delran last year was $66,000. That was the amount of money that we were allowed to do our total budget by. Our mandated expenses, such as trash collection, which is a contract thing that we have entered into three years ago, utilities and insurance. The increases in those areas alone came to $61,000. In the process of ending a two-year negotiation with the Police Department, that we kept with what we thought was within a reasonable amount of money, in the increase in the year of 1977 was 7 1/2 percent, and the increase that we negotiated for 1978 was 5 1/2 percent. So we certainly had a very difficult time trying to juggle the figures to take care of the increases in utilities and insurance and try to be fair to the people who work for the municipality. I am a vice-president of the New Jersey Conference of Mayors and at the former hearing that was held up in Flemington, I believe, they put a paper on the record. The mayors that I have discussed this problem with, we realize that the concept of caps, we like. We like the idea of it. And I think as responsible public officials, we know we have a responsibility to try to put some kind of a hold on the local tax rate. Unfortunately, we at the local level are the ones who get hit the hardest with any kind of a cap law. In the review of this, I would like to suggest that there be some kind of a review board, Chief John Laezza, big chief up in Trenton, who looks us all over the shoulder, that there may be a method that the five percent is not something that should be absolutely mandatory. If the municipality can come in and justify and show where these changes are and willing to present this to the people in their municipality, and if it's accepted by the people, then I think that they are the ones who have to answer. I've listened to the comments in regards to the services that are provided and I hear the complaints about the tax rate, I believe our local rate this year is 56¢ per hundred, for every $13,000 that we spend, it's a penny on the tax rate. I must tell you we provide the services that are required by the citizens of our town, trash pickup twice a week, and I would hate to think of what would happen if we said that in order to live with the cap we had to cut that to one trash pickup a week. It would be an uproar. No kidding about that. I think anybody who's dealt with trash knows it's one of the touchiest problems in your township. The other thing that I think the Committee should keep in mind is the way that we have gone about to get around the cap. Delran Township was always in the position of where if we were to buy a piece of equipment and we knew we couldn't afford it this year, we would appropriate maybe $5,000 or $10,000 and hold that so that we could pick up the money next year without financing it. This year, for the first time, I proposed to our council that we appropriate money so we may go into bond the anticipationments to buy capital equipment that never before we would have done but only because we have to provide that equipment and find a way of getting around the caps. The other thing that we did this year that we have never done in our town before was take our total Federal revenue sharing allotment and spend that for police salary and wages. We have used our money before for one time, one-shot expenditures, such as the purpose of open spaces, an alarm system that is available to everyone in the municipality, things that we think are more for the benefit of all of the people than one department within the township. I say it's dangerous. Next year Federal revenue sharing should be gone, and Delran Township has to live with the budget that is within the caps. I immediately have to cut salary and wages in the Police Department by $73,000. We have found this year with the anti-recession money that we cannot count on those allocations that are guaranteed us as of January of that year by the Federal Government. We were positively, and I think every municipality is in the same boat, guaranteed that we would receive $37,000 in anti-recession money from the Federal Government this year. We received a notice in April, well, maybe you'd better not count on that much. Because of that money being outside of the cap, we also appropriated that for police salary and wages. So, here we are in the position where we have counted on $37,000 of Federal money and we did a recap this morning and we think that total amount that we are going to receive for the whole year of 1978 is $12,000. So, somehow in our budget we have to come up with cutting the program, because the budget as it was adopted was $457 below cap. So, I can't even pull it, I have to cut something in order to make up that $12,000. So, it's serious and again I say that it's not the idea of the caps that we don't like, I think there has to be a strong review of maybe some kind of review board that would allow us to present a budget and show where the mandated costs are and look at what operating expenses are and what is the gingerbread that the Township is doing? Our recreation program was cut by $4,000 and I think that's sad. So, these are the things that I think are important for us to bring to your attention and how do you base what is done with? I just know we have a problem that has to be addressed.

YATES: Mayor, may I ask you, I think you referred in passing to, when you mentioned the possibility of a review board, that even if that meant submitting your higher-than-caps budget to your people in referendum of some sort, that that wouldn't trouble you.

SCHMIERER: It would. I'll tell you the reason why. Every time, on the local budget level, there is more done to advertise how that municipality spends their money, than in any other form of government. And it's advertised in the newspapers, sunshine law, posted in public places. Two newspapers have to have it cited. You have the preliminary reading, you have to have the public hearing on it and the people have the opportunity to speak pro or con. Usually, as everybody knows, it becomes a very political thing. Every politician gets the chance to take the shots at the other guy at the budget hearing. The people of the municipality very seldom get involved in that budget process. Under the Faulkner-type government, they not only have two shots at us when the council adopts the budget. In the month of November we also give them an additional two months. Come in, tell us to what you object to where we're spending the money. Tell us where you would like us to spend more money. In the four years that we've been doing this, I've had five people from my town come to these budget hearings. So, until they see it in the final tax bill, where it says, for local purpose tax, you're going to have an increase and this year is going to be $10, then they'll call me up and tell me, hey, why did you increase the $10. And I explain it to them. Oh, OK. They have no objection. But how many school board budgets are voted down simply because the people say, this is my chance to say no, I don't know what I'm saying no against, but I'm going to say no. I don't think for the public to vote on the budget is the answer. I think another body, other than our municipality, for a review, that may very well be. John gets them and all the criticism up in Trenton and I've bunked heads with him a lot of times but I find that he's there to make sure that we do things by the rules and regulations and I'm sure that if there was some kind of an idea that could be put forward that way, it could be worked out.

FORAN: Mayor, when you were talking about John Laezza earlier, do you have a proposition for cap that would make the comparison to what the Commissioner of Education is doing with school budgets? What you're saying in essence, is that you would like to see something changed to either give the local government in Trenton the authority to review and to extend and to make more elastic certain areas of the cap law where you're talking about mandated expenses.

SCHMIERER: I think that's one area that could be considered, yes.

FORAN: In other words, Mr. Burke can have the authority under the T & E law to refund certain budget cuts, etc., he would have to expand and would you be in favor of giving the division of local government have that sort of power, say to John Laezza, that Delran would have a two or three year contract for garbage collection and the caps came in after the salary situation, and negotiated a couple years before and now you're stuck with it, it's going to throw you out. You're going to have to cut something else down, which would be a classic example, I think, of where you could go to Laezza and if he had the power he could say yes, you can do this. Is that what you're talking about?

SCHMIERER: I don't know, my idea is this. If the municipality put the budget together, prior to presenting it to the public, and they see that with the idea of the law there, that they can't possibly live with it, prior to presenting it to the public, present it that to local board of finance, and if you can justify it to them, like I say, if you adopt it on your local level, and that should be the OK of it. It should be approved prior to the time that you present it to your local people. I'm reaching. We need help.

FORAN: We're listening to you, the purpose of this Committee is to just make some recommendations. It's not just here to deal with the caps or anything else. We're talking about the entire gammit of every tax revenue source in the State.

SCHMIERER: It's a problem for all of us. We end up with things I haven't even talked about like construction. There's a law passed by the State of New Jersey, it's fantastic.

FORAN: It's true. About legislative mandating expenditures. Should they be underneath or free from the cap?

SCHMIERER: Free from the cap.

FORAN: I want to get that on the record.

YATES: That's all fine but it doesn't help the local tax very much. What do we do in a town such as Delran, Riverside or Delanco where they have a very efficient part-time building inspector who can conform with all of the requirements, who are you paying $4,000 a year? All of a sudden, because of the law that requires so much inspection, so much paperwork, that you no longer can expect that guy to come in and do it for $4,000. Now that the certifications are coming through, and they are really great. You have a guy who's been in the building trades business 30 years and it ends up because he didn't, wasn't proficient in just one area, he's not going to be able to be certified as the whole uniform construction code official, so you're going to have to pay him to do maybe building inspector's work and zoning officer's work and you're going to pay over here on top of it to finish out the uniform construction part of it. I look at it within three years, it's costing Delran Township $25,000 just for what we used to pay a part-time building inspector to do for $7,000. Thank you.

YATES: Mayor, thank you very much.

KAVANAUGH: Next on the list is Robert Woodford, New Jersey Manufacturers.

W O O D F O R D: I'm Robert Woodford, Vice President of New Jersey Business and Industry Association, I might add that the papers preceeding are thick but that's because there's a number of papers attached to the comments I'm going to make today because I refer to it and I'd rather attach it. I'm speaking for the Committee on Taxation of the Association which met this June and discussed all of the problem areas that Business is concerned with. We are not directing our attention to the full scope of the tax reform that occurred in 1976 but we are dealing almost exclusively with those areas affecting Business. One thing that's concerned us considerably has been the impending budget gap for the 1980 fiscal year State budget which the State Treasurer indicated in the lightest bond information when New Jersey issued $100,000,000 of bonds recently was a fact that we could expect in the coming year whether we deal with through increases in taxation or through reductions in expenditures. There was expected that there would be a gap and that gap could range into fairly substantial figures as I'm sure that you're aware of. It's not possible to determine yet. We would recommend that New Jersey pay increasing attention and do more to begin (or rather do more, we already have begun) to rebuild New Jersey's economy particularly the manufacturing sector, which is so important to all of the other sectors, employment and income production in New Jersey. Therefore, there's a central generator of tax revenue with both the State and the local levels. Secondly, that every effort be made to hold expenditures in line, deal with any new requests for programs or expansion of programs with the attitude that nothing short of an emergency should produce additional budgeting. Economic growth in our estimation is the long-term answer to New Jersey's tax problem. We've gone for many years with additions of taxes by rate additions, by new kinds of taxes. Most of this problem has been caused by a shrinking economic base which has been reflected in over 100,000 loss in manufacturing jobs in the decade. In calculations, and here is where the attached paper which I've given you, deals with calculations of what manufacturing jobs does for New Jersey in taxes. We calculate that one manufacturing job this year produces in New Jersey over

$1,900 in State taxes and over $2,400 in taxes at the local level. This calculation corresponds with the appendix attached to this statement and that was a statement presented at the National Tax Association this November and that research was done in conjunction with their study of business tax incentives in general and their impact. Some of the areas of business tax problems that we would like to see modified and that we feel would have an impact on the State's tax growth in the future include the following and I list these not in specific order of priority but we have four or five areas which are particularly of great interest to us and we think particularly of great importance to the State's economy. First of all, New Jersey should end the taxation of net worth in manufacturing, that is the plant and equipment in manufacturing, research and development of pollution control facilities which is now taxed in addition to the 7 1/2 percent net income tax on corporate income. We have a very much improved situation, admittedly, with no longer a sales tax on purchases of production machinery and equipment and we no longer have a tax on items of business personal property if they were purchased after January 1, 1977 and so long as they do not become attached to realty. That we continue to be one of the few states in the country that imposes a tax on the property value of corporation at the State level and on the net income of a corporation. Most locations have alternate tax bases in which you pay either the higher on the rate of income or the higher on an alternate base, one of which is usually a property base. We recommend considering the State's budget circumstances. There's not a sweeping elimination of the net worth tax. They would recommend that the net worth tax not be applied to future acquisitions of manufacturing, research, and development and pollution control plants and equipment. From a future date, if that were to take effect on January 1, 1979, you would have an impact of several hundred thousand dollars reduction in revenue in New Jersey in the present fiscal year. It's impact would be less than a $2.4 million loss by our calculations in the 1979-1980 budget year. That amount would grow to a point in sixteen years or so, by our calculations, where it would eventually reduce the State corporate tax by approximately $30 million with today's prices, not dealing with prices of plant and equipment that may result with present inflation. But on the other side of the picture, of course, is the income that can be generated by an attractive State business climate, an attractive tax climate, which results in the production of new construction, new construction jobs, sales taxes collected on construction materials, income taxes collected on the income of individuals employed in construction and employed in the business of producing equipment for manufacturing, for pollution control on research and development. In addition, the payroll of the manufacturing operation and the impact and ripple effect on other segments of the economy produces activity which is taxable. People buy taxable products under the sales tax, build homes which are taxable under the property tax, and ultimately the expansion of the economy to include some whom now cannot find jobs produces greater yields then the kind of programs we are speaking of. In addition of a net worth tax exemption, I know you have heard us speak for a number of years about the importance of an investment credit. On the Federal level, of course, we have had sporadic investment credit. We've had investment credits and then a surge of business spying, the investment credit has been dropped and the surge of buying ended. Noone knows whether an investment credit produces permanent surge in spending because we haven't had a permanent investment credit. The purpose of a State investment credit, which would offset the corporate income tax liability at the State level by a percentage of construction and machinery purchase costs is to compete as against other locations for that investment dollar. Noone is pretending that an investment credit at the State level is capable of producing a stronger economy at a national level. What it can do is put New Jersey in a position in which the cost of operations and the cost of investments is more favorable relative to other locations and therefore attracts more investment dollars. I might add that if you'd been following some of the studies such as that the Treasurer Blumenthal, U.S. Treasurer Blumenthal has released in the last few months, you will note that the United States relative to our production does not invest nearly as much as any of the other western European industrial powers. We in New Jersey, according to studies of our own economic policy council, do not invest as much as industry on the national level. We are doing more poorly as an industry nationwide and nationwide we are doing more poorly than other industrial nations in the West. That has to have an impact on productive potential. It has to have an impact on tax yields, it has to have an impact on standard of living. What we're buying with those dollars are the tools of production that multiply the fruits of labor from the hours that we work. There's no other secret other than research and development money and money invested in plant and equipment. A third area of importance, which really handicaps newer firms in particular is New Jersey's lack of loss carryover provision. This is common in other states to permit a loss carryforward and carryback. We do not have a cost estimate on it, but we can talk about some of the costs of not having it. That is, that it creates a cash flow problem for businesses, it aggrevates a cash flow problem. It overtaxes businesses based upon the averaging of their income over a period of years. By taxing their income fully in good years and ignoring their losses in bad years, particularly in the case of a small business, an initial operation, you are likely to find that the early years of operation, are years in which an individual firm is living off of capital. It is not living off of income. It is probably taking a net loss in the initial years of its development. What we urge is a broad carryforward--carryback provision. A carryforward--carryback provision which could be limited in cost by limiting the carryback to the first tax year of the corporation following enactment of the carryover provision. If a more limited scale is sought then it could be applied, although it is less desirable, strictly to new business operations for the first period of years of their operation. The fourth area of importance is the sales tax that we impose on pollution control equipment. We are in New Jersey a very stringent state in our requirements and our enforcement of our requirements, as we should be. But we impose a penalty in the form of the sales tax on the investment that is required of businesses to comply with our stringent laws. A five percent penalty, and today when the Triple A corporate bonds are beginning to approach two-digit figures and interest rates and the smaller corporation is finding that it must borrow most of its capital. It imposes sometimes an impossible burden to ask this business to go out into the market and incur higher tax costs and to borrow to pay those tax costs as they must in order to do something which does not produce profit in which does produce a public benefit. We urge that pollution control equipment be exempted from the sales tax law as a matter of equity and as a matter of practical economics which faces the small firm in New Jersey. A much smaller problem but one which could be dealt with absolutely minimal cost is almost an oversight in the law, today a New Jersey manufacturer buying raw materials and components does not pay a sales tax on those components because they normally become a part of something which is produced for sale and that sale or a later sale becomes subject to sales tax. And we do not, effective this year, impose a tax on manufacturing machinery, equipment and apparatus. But a manufacturer producing a machine for their own use and buying components of raw materials for example, buying carbon steel and producing a dye is not buying the raw material or component for resale and therefore does not qualify for the exclusion in the sales tax act and must pay a tax on the materials and components purchased for assembling machinery and equipment used in production. It would cost very little but do away with an inequity in the law to provide what is called a use-on-use exemption covering raw materials and components for use in the production of manufacturing equipment subject to exemption under the Sales Tax Act. Another area of which is really one of equity is the problem that is met in the rather extensive audit activity in the Sales Tax Bureau, excuse me, Tax Divison, for the Division as is appropriate is conscientious in chasing after dollars of underpayment with interest costs and in many cases, with penalties imposed. When the audit turns up an overpayment of tax, today the taxpayer is forced to go through a refund procedure, there's nothing automatic as there would be in let's say a Federal income tax audit, rather a refund is issued once the audit has shown an overpayment has occurred, forms must be filed, backup information must be provided and there's generally a lengthy period of time before any of this overpayment is forthcoming. We feel that once the audit has proceeded and found an overpayment then proper review within the Division has occurred, that an automatic repayment of the overpayment should occur without the necessity of going through a detailed and lengthy refund procedure. Another area of some inequity is that of the corporation tax prepayment. We require a corporation to prepay when it pays on the prior completed tax year an additional 60 percent based upon their present tax bill. That 60 percent represents a prepayment of the then current tax year in which the corporation finds itself. In many instances when you had a change in business cycle, the prepayment represents more than the entire tax liability for that business at year's end. We feel in the interest of equity that it would be appropriate for the State to pay interest on the excess of the prepayment over the corporations total tax liability and we so recommend. Other areas of business tax concern which are not one of highest priority lists, include three areas which would expand the State Sales Tax manufacturing exemption. First to cover the installation of production equipment which is covered in Pennsylvania, secondly to cover the repair of production equipment and finally to cover small tools used in production which may often be small hand-held conventional tools and that are inexpensive, but they may also be small hand-held specially designed and exceptionally expensive tools. Connecticut and I believe Michigan are examples of states that do exempt small tools that are used in production and I believe we might recommend in the long-term these three areas of expansion of the manufacturing exemptions. Another area which falls in the category of equity is the problem faced by a business that finds itself with uncollectible amounts all of which has delivered a product which may not have come from the specs of the purchaser and then has agreed to a reduction in price, renegotiated a contract in essence when sales tax has been paid on the initial contract price. Now, the Division of Taxation will refund any portion of sales tax which exceeds total receipts under the contract that is to say if you've only collected 4 percent of the contract price, the Division will refund 1 percent if you have paid over five percent. But if you have only collected five percent of the contract price and you have paid it over in tax because the first dollars in it are regarded as tax, the Division will not permit a recalculation of total receipts based upon the uncollectible amount to consider what you actually received. In other words, we are taxing on the basis of an unenforceable initial sales agreement, not upon the total that the vendor has been capable of collecting. As a matter of fact, that should sound familiar to you, Senator Yates, because it was your bill in 1974 that attempted to deal with situation and that we recommend that you reintroduce it or that the Committee recommend its reintroduction to handle this present inequity. Another area of importance is the movement of the sales tax payment day which occurred several years ago from the end of the month to the twentieth of the month after collection of sales tax. That might seem to be a perfectly reasonable provision but since sales taxes regarding as having been collected on the date of sale even when credit is extended, there are many vendors who do not collect the sales tax until after they've actually paid it over to the State. This created a hardship and a cashflow problem for those businesses requiring additional financing to handle their capital operating problem and we recommend that the monthly date be moved back to the end of the month following collection which would be the initial date in the sales tax law. One final comment in the area of the upcoming but still indeterminate gap between the likely budget proposals in New Jersey and the likely revenues in the 1979-1980 fiscal year. We urge in the matter of the county, State and municipal expenditure caps that while a form in the scope of the caps should be a proper subject for study that you not whittle away at them through a series of exemptions. They are appropriate and appropriate part of the tax law, they may need certain adjustments but they will be a very important part on the State level of the control of budgeted expenses in the future. Secondly, we think there should be no addition of programs or expansion in the scopes or costs of programs unless these are of an emergency nature. There should be no new State positions created or filled except under exceptional circumstances and finally that any gap that appears to result when that budget is presented should be dealt with through an across-the-board cut in departmental programs. I know that's been termed meat-ax approach in many occasions. After speaking to a number of the heads of some smaller State operations our group has concluded that it is in fact a much better method of cutting the budget than some of the efforts the Legislature has made in the past. Noone is in a better position to determine where efficiencies can be found or where the priorities should be in reduction of programs. Noone is in a better position than those who manage the operation itself. We offer this as a possible alternative to what we think an unsellable alternative and that would be the increase or addition of taxes to fund that gap from the State budget if it occurs. If I may end there I would be welcome to answer any questions you might have.

YATES: I would like to make a comment about what you referred to on the sales tax on non-collectibles or uncollected receipts and tell you what happened. There was, after some discussion, the tax people suggested that really it shouldn't be their hurt if companies chose to extend credit and then find that they'd made unwise choice in doing it. That the question of whether or not a sale occurred or the company was willing to take a position if the sale occurred when they extended credit and that the granting of the tax exemption in effect for uncollected receipts really was almost putting the State in the business of being the company's partner in financing sales. So on that basis, they suggest it wasn't such a good bill and I have to admit at the time that that was the side of the issue I hadn't looked at. So on that basis I haven't reintroduced it.

WOODFORD: The question, though, is what we're taxing here. And what we are taxing is a receipt. The tax supposedly is one which falls ultimately on the purchaser. In this case the tax not only falls on the vendor but may absorb all of the revenue that vendor has received even before that vendor has made whole on their expenditures. If I can give you an example, it may be that a down payment has been made of 5 or 10 percent to a manufacturer to produce a one-of-a-kind custom item. The taxes paid, the tax may be paid on those receipts, when they are received by the manufacturer. In this instance, the manufacturer makes purchases. It does not necessarily extend credit at all. Except to the extent that it is incurring expenses, its own labor force, its material cost, its overhead, and then it finds that the purchaser has gone into bankruptcy. And the goods may never be delivered. But they may be in fact sold for adaptation or they may be scrapped because they're so much a one-of-a-kind item that they're not usable by another customer. In this case, obviously, there has been no extension of credit but still there has been a reduction in receipts, the manufacturer has taken a net loss, the total receipts have perhaps been only the extent of the sales tax collected and the question is whether or not we are going to determine the tax base upon the expectation of the business for receipts. Whether this tax falls on the purchaser and is based exclusively on those receipts that occurred, in this case the receipts that occurred, I think should be the governing factor. It isn't really a question whether credit has been extended, the question is what are the receipts that we're taxing. The Division is saying the receipts, in effect are, the contract price which has never been received and we are saying that receipts should be defined as the dollars that are actually in the hands of the vendor at the end of its collection process. Thank you very much.

KAVANAUGH: Thank you very much. John Tegley, Township Manager of Willingboro. We might at this point express our gratitude to the Township of Willingboro for making the premises available to us.

T E G L E Y: Gentlemen. You're looking at an administrator who's going grey with budget caps and I was talking to Barbara Kalik and our council members about what has occured in Willingboro as a result of the cap formula is probably and for good or bad what a large number of suburban communities in New Jersey will start to experience in four to five years presuming no major changes in the cap formula. For those of you who are not particularly familiar with some characteristics of Willingboro as a community, we have 46,000 residents, 11,800 single family homes, a commercial sector that consists of approximately 260 viable commercial establishments, less than a 10 percent vacancy rate with the net commercial sector, 100 percent county valuation of a tax rate of 388 per 100 and a local tax base of approximately $400,000,000. For local purposes this year, we raised just under $6 million with a cap of $212,000. Our cap formula is computed the same way everyone else's is, for good or ill. The increase in utility charges, water, sewer, standard kinds of charges that we have talked to both division and previous committees through information collected by the division resulted in an increase in those fixed charge amounts this year of $113,000. The increase in labor costs that we experienced within this community this year amounted to approximately $340,000. A combined total of over $400,000 and a cap growth limit of $212,000. I don't think it's magic that most communities in New Jersey with the first year of the cap quickly figured out that there was not a way around the cap but a way to deal with first's impact and that was shifting from capital investment program to a long-term debt program. That shift took one or two years depending on the municipality's problem. The second year, in fact last year, accommodations for the cap took place during that year by substantially reducing operating costs to the point that municipalities going into a third year program are going to have some very distinct problems. All of that unfortunately occurs within a very strange game of shifting rules and shifting regulations. I'd like to give you some minor examples, for example, in 1977, very early in 1977, we had a strong feeling that solid waste disposal as a contracted item involved in both PUC regulations of tipping fees at solid landfills, some other State regulations would be an exempted item and we sat back and smiled because we thought that would save us for the following year. That was the quickest dissappearing memorandum that I could see within the State of New Jersey. We started to smile again, hopefully, that it was still there in March, and it was gone. These types of shifting rules are interesting. The regulations are set up so that there is some flexibility admittedly. For example, this year, we found that with the change in the base rate for Social Security, expansion from $16,500 to $17,000, that low and behold, that increase would be considered as a cap exempt. We spent about 8 hours of time in our local treasurer's office, going over the projected impact of that and did in fact certify to the Director that we could get approximately a $4,000 cap added item. That $4,000 was helpful but in a $6 million budget hardly a great opportunity to talk to the public about not only basic delivery of services but new services. Willingboro and more and more communities in the next four to five years are going to be experiencing one major problem, that is essentially Willingboro does not have growth in its ratables. In terms of added assessment and new construction we are a completed developed community. Last year our allowable cap added item for growth and ratables was $7,200. That's the community with a $400,000 valuation. That is going to start occurring where communities are now using that additional building growth in terms of residential and commercial sectors to offset increased budget growths, that may be a unique problem for us this year, it will not statewide in the next few years. A couple of complicated problems are occuring that I think you should be aware of. For example, Chapter 329, mandated standards for local public health compliance statewide, in Burlington County, is being funded approximately 60 percent by Federal ceta funds. Federal regulations for ceta for fiscal year 1978-1979 are going to practically eliminate that type of funding activity making ceta more of a short-term hiring program by specific projects than any kind of long-term subsidy that a municipality can count on. I think you're going to start seeing that occur not only within municipalities but within county programs that have picked up state mandated tasks. I don't even want to talk about something like the Humphrey-Hawkins bill which suggests that municipalities become employer of last resort. Willingboro, for example, at the present time is providing employment opportunities under Title 6 and a special project legislation under ceta for approximately 80 positions. I only put that into perspective. We have 110 full-time employees and 82 of those are in the police department. On top of that, we are carrying that number of full-time ceta employees. Under those regulations, it's obviously a 15 percent administrative or local match that's made for logistical support materials. You cannot carry those kinds of programs. Municipalities cannot. Counties cannot without some major concern as to whether unemployment is a county problem or a State problem but the burden cannot fall on municipalities to try to resolve unemployment within that whole private sector. The Committee, I'm sure, is aware of problems that municipalities have in terms of fixed charges. I was looking at the proposed regulations dealing with public utility increases and again, somewhat smiling, for example, Willingboro has a fully established street lighting system using mercury vapor bulbs and we have an annual budget appropriation of just over $3,000 for that - it's 110 mile residential of street. The proposed regulation would allow that new rate increase by public service to be exempt from the cap. New services cannot be added and still be exempt. Unfortunately, that does a community like Willingboro absolutely no good. We can no longer continue to update services. We are frozen for that period of time where other communities in effect update since both the Division and Public Service really don't care whether you are using incandescent bulbs that are completely inappropriate or mercury vapor bulbs. A street light is a street light is a street light and your budgets go up four times, it would be cap exempt, you can expand services, and a municipality with a service in place has nowhere to go with it in terms of additional requirements. A new street light would be outside the cap. It may be that while

Township Council of Willingboro strongly advocated tax reform with the introduction of the income tax, it may be that since almost all services provided at the municipal level reflect State mandated requirements. We have no home rule in New Jersey, unfortunately, we don't invent the requirement for police services, we don't invest the requirement for municipal courts or municipal prosecution. We don't control sanitary landfills, we don't control tipping fees at sanitary landfills. We don't control our rates on basic charges for insurance, we don't control them for our basic charges for power and light. It may be that the State has to start approaching per capita floors for distribution of funds Statewide. If municipalities are forced to use local tax resources to pick up the difference under an artificial cap formula then the point might be that the per capita floors for distribution of State revenues to the municipality have removed the property tax as a source of revenue because the control on the local property tax appears to be at this point not making any sense. Tax relief--tax control, that evaluate the effectiveness of property tax as a source revenue as opposed to merely placing a control on it. Demonstrations of how inappropriate the control is on our boarders of this community, we have two communities that have no local purpose tax rate at all. One community with less than 12,000 residents has a local purpose budget in excess of $11 million. The other community with a population just over 16,000 has a local purpose budget in excess of $6 million and has no local purpose tax at all. Tax relief, it's not a question of tax relief. It's a question of tax reform. Thank you.

KAVANAUGH: Which two towns?

TEGLEY: Well, with three of them in Burlington County--Lumberton, Burlington Township and Burlington City.

DEARDORFF: Franchise and gross receipts tax.

TEGLEY: Absolutely.

KAVANAUGH: Mayor Ansaldo of Mt. Laurel.

A N S A L D O: Gentlemen, short of sounding redundant, I guess Mt. Laurel's problem also is with mandated cost of the caps. Over the short period of time that the cap law has been in existence, let me just say that we have found it to be a useful tool in some areas in the municipal budget where it has become a burden to municipalities when dealing with mandated costs that are outside our control. Mt. Laurel finds it impossible to meet the demands of the growing township and yet use prudent judgment in providing a reasonable level of services to our citizens. As an example, let me briefly describe Mt. Laurel's problems with the 1978 budget. The allowable increase over 1978 amounted to $108,762 while the 1978 budget appropriation in mandated costs amounted to $158,100. These mandated costs were as follows. 1) Liability, property protection, workmen's compensation, and other insurance costs including charity bonds was $93,000--the increase was. Street lighting was $2,000; utility costs, telephone, electric power, gas and oil, water and sewer,-$3,000. Fire hydrants, $1,500. Pension costs for public employees retirement system in the Police and Retirement System was $24,600. Emergency resolution for legal fees, $34,000, which totalled to

$34,000, which totalled up to $158,100. These additional costs over the allowable increase caused the Township of Mt. Laurel to curtail some of the services. The Township of Mt. Laurel has gone on record by notifying the New Jersey Legislature through its resolution 78 R-34 dated February 6 that relief is necessary and municipalities must be given reasonable options if they ought to provide required services that our citizens desire. As a mayor I come here today to urge all municipalities to contact their legislators and ask their immediate consideration for relief from these mandated costs. I'm certain that the Assembly and the Senate are aware of our problems but I find that positive action is slow in finding a solution. I believe the cap law can be very useful as a tool in holding down the cost for the taxpayer and provided relief from the mandated cost becomes a reality. Thank you gentlemen for this opportunity.

KAVANAUGH: Mayor, thank you very much.

DEARDORFF: Mayor, I waited until the third one. I was going to ask the same question of the mayor and the administrator of before. Is there any relief in the 3 percent provision? And the emergency provision that's in the law.

ANSALDO: As far as the referendum?

DEARDORFF: No, by two-thirds vote of council you can add 3 percent to your 5 percent. Have you considered utilizing it, or if not, why not?

ANSALDO: In this particular case it was a matter that the increase in cost did not substantiate the three percent so it would solve the problem.

DEARDORFF: Do you think the referendum provision is too tough?

ANSALDO: I believe the referendum and here again, we go with the negative attitude on budgets when you put it out for referendum should you lose that referendum, how do you cover the cost for that special election? It gets added to your budget?

DEARDORFF: Do you have any, do you really think that we should at the State level adjust the cap law by putting more exemptions or perhaps should we do it by changing the formula to perhaps one based upon the cost of living?

ANSALDO: I really don't have any answer to that question except that some kind of a study should be made before you come up with a solution.

DEARDORFF: We're in the course of conducting a study. Not only have we solicited information from every municipality in the State, as you may know, we also are doing a study in evaluating the effect in the cap in each individual municipality in order to determine is there a common problem or does one problem exist for certain types of municipalities and another problem exists for another and maybe none for another type of municipality?

ANSALDO: Right.

DEARDORFF: Of course, the ones that escape the cap through lack of a local purpose tax are in a position to make it rather difficult for the ones next door to justify why they can't do things to their constituents. I think if we can get some views from people at the local level who have to live with this everyday as to just how they feel that this should be adjusted, it would help this Committee a great deal because one of the things that you are saying and everyone else in local government is saying is that the Legislature does things without realizing the impact at the local level. Maybe what we do the next time wouldn't be satisfactory either. If we could get some recommendations that we can look at, I think it would help us a great deal.

ANSALDO: I would be glad to try to provide those recommendations. Thank you very much.

YATES: Harold Zireau from Inductotherm Industries. I would like to mention that people who come in pairs and have joint presentations, don't hesitate to come up together if that's more convenient for you. I notice that there have been some new arrivals and occassional departures, anyone here who wishes to speak or has not already made the fact known to our staff, may I suggest that you go up and say hello to the young man in the blue jacket and he'll put you on a list. We work from a list of names of people who have already indicated they want to testify here today. Mr. Zireau, O.K.

ZIREAU: My name is Harold Zireau, I am corporate comptroller of Inductotherm Industries in Rancocas, New Jersey. We are a multi-national manufacturer of goods. The area that I would like to touch on is the corporate tax structure. There are a few points in the New Jersey system of taxation that I would like to mention because they are particularly disturbing to us. It is not intended to be an in-depth study of New Jersey taxation. The first item is what we call double taxation of interest. One, for example, we lend money to our subsidiaries and we have many of them and charge interest to them. That interest then becomes interest income to us but it does not become a deduction for the receding subsidiary. That subsidiary must add it back to its income in effect is that the interest is taxed at 15 percent rather than at 7 1/2 percent. There is a slight relief in that the add-back is only required at 90 percent of the total interest. We have many small companies which need loans in order to make a go of it on their own. We have established companies that need money from time to time. In one particular instance, we were considering relocating a company outside of this State, into the State, however, it was an in-depth situation and we simply did not relocate it. We built a plant in the other state. The second item is the treatment of the western hemisphere corporations and the domestic international sales corporations, the so-called disks. The United States Congress passed laws to stimulate sales to foreign countries through tax incentives for the purpose of reversing our deficit balance of payments. These types of companies merely sell that which the manufacturer produces. New Jersey, however, does not recognize these companies as simply selling organizations. Instead the transfer of goods from one to the other are considered sales and they must be included in the allocation factor of the parent which means in effect that a certain portion of that company's income is taxed. In addition, the entire disk profit is taxed instead of 1/2 percent as per the Federal rules, it is taxed in full. This, of course, does not follow the intent of the U.S. Congress which naturally in New Jersey does not have to follow, however, what it has done to us, it has forced us to incorporate these particular types of companies in another state which does not have a corporate income tax. This is a rather stupid arrangement in our opinion in order to simply avoid paying a New Jersey tax. But we did pay thousands of dollars to the State in some previous years because we had incorporated these so-called trading companies in New Jersey. The next item is an item that I believe was already touched upon, no I'm sorry, this one was not. This is the matter of consolidated tax returns. In New Jersey, each company stands on its own, unlike the Federal law, where a group of control companies can be off-set against each other. If we did have consolidated tax returns in the State of New Jersey the interest problems, which I related earlier, would not exist because the income would be offset by the expense of the company. Another item is the area of sales tax. The sales tax is charged on products picked up by customers in our plant who could not possibly use these goods in New Jersey. I recognize the law states that it is on the passing of title. I'll give you an example of one situation that occurred to us. We once paid sales tax of $5,000 on a $100,000 sale picked up in New Jersey by a customer located in Oregon. The customer picked it up for three reasons. Time. He needed it in a hurry. His truck was coming east anyway and he wanted his own men to handle this expensive equipment. A $5,000 tax can mean a difference between a sale and no sale on the basis of the customer could have bought it elsewhere. On this size, it's equivalent to two and three quarter full-time jobs for the year. I understand, and you may correct me if I'm wrong, I understand there is a bill pending before the Legislature which would phase out the sales and use tax. At least that was according to a report I read in the CCH tax reports some time ago. Is that correct? Or have I misread it? Sometimes they are reported incorrectly in the CCH.

YATES: Let me say, it's entirely possible there's a bill of that sort. I think you have to distinguish between bills that are in there as one Legislator's lonesome dream as opposed to a bill that's likely to actually happen.

ZIREAU: I was afraid of that.

YATES: I think there may be legislation that's looking at that kind of problem. I know we've handled similar problems to that with special bills that have not passed. I think it's a clear cut injustice and distinctive incentives and frankly, ought to be changed.

ZIREAU: We have had a number of situations in that category and the customer in some of the cases said, no we're not going to pay a tax simply because we come and pick it up. Or we'll buy it elsewhere. The next item is the unemployment tax that we pay which rate is from 1.2 percent to 6 1/2 percent of the first $6,200 of each individual's pay. This is a substantial, for example, for a 500-man plant at 3 percent, it amounts to about $93,000. That's equivalent to about 10 or 12 full-time employees. Originally, unemployment payments were intended to tide people over until they obtained other employment and not necessarily in their chosen field. Now it approaches and has approached pretty closely to the welfare level. Payments now go so close to take-home pay that there's practically no incentive to obtain work elsewhere. The next item is an item that has been commented upon by someone earlier and I would like to state it anyway. Unlike the Federal taxation laws, losses incurred in one year cannot be offset against prior year's gains or future gains. Business is not such that we can measure it against neat little annual packages. It would seem to me that it is reasonable to look at it over a period of time such as the Federal taxation laws view it. The point of these various comments is that the greater imposition of New Jersey taxes on New Jersey industry, the greater the loss of business and consequently jobs and the more unemployed, the greater is the need for taxes so it feeds on itself until we lose more business to other states. Please remember that no corporation pays taxes at all. A corporation does not pay taxes. Individuals pay taxes. You and I pay these taxes. We pay them through higher prices and the prices get too high, people go elsewhere to buy or they don't buy at all. So I would ask that whatever consideration can be given to these points, be given, and I would hope that some study be made of them.

YATES: Thanks very much.

ZIREAU: Thank you.

YATES: Robert Broderick of Delran Township Council.

C I T I Z E N: He's going to submit written testimony.

YATES: Fine. Jim Moreford.

R E I L L Y: Mr. Chairman, I'm James Reilly and I'll be speaking in Mr. Moreford's place, with your permission, of course.

YATES: Whatever Jim wants.

REILLY: I'm James Reilly, Research Director of the New Jersey Education Association. I'd like to express on behalf of NJEA our appreciation for this opportunity to state our views before the Joint Committee. NJEA has worked for many years in support of a system of equitable taxation in New Jersey, I think our involvement in this process is well-known. We endorsed the concept of the income tax early in the tax crisis and worked for its passage but enactment of the income tax did not end the fiscal and taxation problems of our State. There are several troublesome questions that remain. I would like to focus on one that's of special concern to us and that's the creation of budget increase limitations, or caps, which has, in our opinion, created serious impediment to provision of adequate educational programs in our State. The intent of caps is obviously to reduce expenditures by public entities, and that of course, reduces the need to levy taxes. Caps thus become a factor to be considered in planning long-range tax policy, and we therefore bring our concerns about both caps and tax policy to you today. Our intention is to briefly review the cap experience to raise specific questions to draw some conclusions about what has happened and what is likely to happen. Finally, we would like to make some recommendations for your consideration on this and other subjects. The Original Cap Proposal envisioned that school district budget should be limited to arrange an 8-20 percent depending upon spending levels. This limitation should apply only to the first two years of the implementation of the Thorough and Efficient Law. That, of course, had to be updated as time went on. The legislation that was actually drafted reversed the original recommendations of the Joint Committee on Education and placed county and municipal caps in effect for a period of two years and placed school caps in effect indefinitely. There has been some study of the effect of the cap provision since then, the report was released in August 1977 by the Joint Committee on Public Schools. The first report on cap implementation. Several problems were noted by the JCPS which in our opinion still exist. These problems included budget reduction in subsequent years caused by appropriations for free balance, a very tight caps for high class school districts and a need for additional equalization expenditures, possible need for liberalization of the cap due to substantial drop in growth of State equalized valuations which continues. The report concluded by stating that no attempt had been made, however, to assess the budget caps effect on school quality. A study was suggested by the JCPS and was eventually carried out as a survey of chief school administrators by the State Department of Education and the New Jersey School Boards Association. This survey which was published in January 1978, I believe, provided information which indicated the caps are having a negative effect upon educational quality. Certain other responses to the survey, however, tended to suggest that caps are more or less serious in problem which left considerable ambiguity in the results in meaning of the study. The report did note difficulties involved in separating declining enrollment problems from the cap problems which is one of the difficulties we've encountered in assessing this whole situation. We could say that that survey did reveal some serious cap problem but because of some of those problems probably can't be considered a definite study on the subject. The State Department of Education has prepared a document which reportedly analyzed the effect of caps in light of the original intent of the caps on educational programs. However, our inquiries have revealed that that report has apparently been completed but is not available to us nor to other organizations outside of State Government. I'd like to look also at an important factor of cap implementation which has been the history of cap waivers. In 1976-1977, 165 school districts applied for cap waivers with a total value of over $23,093,192. Audits indicated that only 70 districts actually exceeded their caps by only about $7 million. In 1977-1978, cap waivers were minimal. The situation changed substantially for 1978-1979 and approximately $35 million in cap waivers were granted or about 63 percent of the amount requested. This is apparently in response to the increasing difficulty of living with the cap or working with the cap as the cap has grown tighter. The cap percentage has declined every year.

YATES: It wasn't intended that the cap every year should get tighter, it just happens to be an anomaly due to real estate values not increasing the way they have in the past.

REILLY: That's the effect, Senator, I don't really know.

YATES: Noone said we're going to clear the cap and then every year it's going to march right on down to what, 6 percent, 5 percent and so forth? Originally, it started up around 8 percent. It's much of our problem. At least a good part of the problem consists of the fact that unintended by this, the cap has turned into a much tighter number than it originally was.

REILLY: I think that's true. Of course, I wasn't part of those discussions, but the floor percentage talked about in the original version was 8 percent so you'd have to assume that this has been the result of unanticipated rapid decline in growth of equalized valuations. Free balances. Use of free balances also played an important role in dealing with the caps and it's often said that many districts have used free balances to avoid the damaging effect of the caps. An analysis that has been conducted by the NJEA research division on a sample of 155 1978-1979 school budgets indicates that 68 percent of those districts are appropriating from free balance, presumably, in many cases to deal with tight caps. Free balance appropriations represent approximately 2.3 percent of budget in our sample and it's extrapolated to the total population of school districts. While the percentage seems small it would represent expenditures of more than $65 million. So it's a substantial amount. However, it is difficult at this point to assess the role of free balance in dealing with the caps. Audited figures are not available, of course, for the year just closed or obviously for the year we're going into. It seems safe to assert that appropriations from free balance play an increasingly important role in dealing with the cap. We've also looked at the relationship which is discussed frequently between the cap and the consumer price index. We've compared permissible cap percentage increases for each school district for the conservatively estimated consumer price index increase of 6 1/2 percent, which I think most would say is a little low. We've discovered 409 of 599 districts would have permissible cap percentage increases less than the anticipated increase in the Consumer Price Index. So, 68 percent of school districts would lose some of their expenditure of purchasing power unless some waiver of some kind is granted to them. The trend has been for the cap to get tighter or go down as the Consumer Price Index has risen steadily from the period when the cap was first put in place. A proposal has been developed by the State Department of Education to modify the cap which calls for changing to a total adjusted current expense basis. This proposal has been modified, and of course, in reaching the Legislature, to include a three-year average of total personal income rather than the per capita personal income figure that was originally envisioned by the department. We've compared the effect, by the way, that's been introduced as S-1212, we have examined as best we can with available figures the effect of that bill and we find that it is not the improvement that it is proported to be in the statement that accompanies the bill. We find that it reduces caps for many districts in this present form and large measures simply moves cap problems around.

YATES: Doesn't it also have one of these "75 percent of" clauses in it?

REILLY: Yes, that retains the 75 percent clause.

YATES: For no obvious reason. You're saying, using actual cost-of-living indicators is no explanation to why we're saying keep your cost at 75 percent growing, in other words, a full quarter slower than the cost of everything else.

REILLY: That is correct. The .75 factor still retained for no apparent reason. There's still the hobbling effect of being 75 percent of whatever the normal rate of cost increase is.

YATES: In other words, you are not recommending that bill.

REILLY: No, we do not recommend that bill at this point, Senator. There are reports that some receiving districts have dealt with cap problems by increasing tuition. Arbitrarily, the sending districts which, of course, creates a problem from them and puts them on the Commissioner's doorstep seeking solutions for their problem. We do not, however, have detailed information on that point. We are disturbed by reports that reach us informally, of course, there's difficulty at this point at collecting hard information on some of these points that many school districts are avoiding cap problems by postponing maintenance that's really needed. This is unfortunate but sometimes unavoidable under the circumstances and this will eventually result in prices and additional costs for the school districts. The conclusions we've drawn are that at the moment it is difficult to produce conclusive unarguable evidence that the cap provision as of now has a damaging effect on public education in New Jersey. However, it appears clear that rapidly decreasing cap leeway will cause serious problems in the near future unless something is done. There are several factors which we think should be considered in evaluating these circumstances that exist. It has been difficult to obtain definitive information about the effects of the workings of the caps in local school districts. We have a long list of anecdotes that have been reported to us indicating problems that result from the cap but these tend to be intertwined with problems related to declining enrollment and separate financial problems. So what we're discovering is that assessing the damage done by the cap is a much more subtle and difficult problem than we're anticipating and we believe that the cap is doing subtle and progressive damage to educational programs in the State of New Jersey. The problems have been somewhat mitigated it appears by use of accumulated surplus and by the granting of waivers which have increased substantially over previous years by the State Department of Education in response to the problems that have been stated. We have, I guess, what you might call a subtly degenerating situation in respect to the school caps which has the effect of perhaps vitiating school programs slowly in a piecemeal manner but without actually destroying them. We are now at a point that the average cap is falling to a little more than 5 percent and that's below the anticipated inflation rate and average rate increase levels for school employees. The school situation, as I said, has been somewhat mitigated by waivers. The cap has been expected to average only about 4.4 percent for 1979-1980. Some districts then will have caps of 2 and 3 percent, which is simply not realistic. In a situation where we are now seeing some Consumer Price Index figures of 8 percent or better and noting other light statistics. It may thus be reasonably expected that the situation will deteriorate seriously unless very extensive waivers are granted or the cap provision is modified or abolished. The caps seem so far to have functioned largely as a device through which the State has assumed local expenditure decisions that were previously made by independent school boards. If present trends continue we will be dealing largely with the State-managed school system, and much less local control. It appears that public education in

New Jersey has reached a crucial point. Budget increases permitted by the caps in many districts are rapidly slipping below leeway needed to maintain an adequate program. Surpluses will not last indefinitely and the list of "expendable" programs is growing shorter as districts place economy measures in effect. The purpose of the cap outlined four years ago by the Joint Committee on Education was clearly transitional. The Committee was concerned about the implementation of Chapter 212 and substantial additional State funding. That period is now behind us. Caps have performed their intended function. The time has come to abolish caps before their full impact is felt and the resulting damage done. Caps do not even seem to have been eminently successful in equalizing per pupil expenditures which we understood would be the primary educational intent, anyway. Our observations indicate that the cap "message" of fiscal restraint has had a greater impact in low-expenditure districts which needed to increase their expenditures than in high expenditure districts which developed an appreciation for quality education. We therefore, raise again, a question of why restraints in public education must be so arbitrary? Effective control of local school districts should be returned to local school boards, with a financial review role for the Department of Education. NJEA urges you on behalf of the school children and school employees in New Jersey to adopt a position calling for immediate repeal of the school budget limitation provision. Meanwhile, we recognize that something such as that may take time but there is a pressing immediate need for modifications which would increase cap leeway in view of the rapidly tightening cap which you had mentioned. Removal of the .75 factor in the cap, which appears to have no objective rationale, it's simply a factor, is one thing that we would recommend. NJEA would, however, oppose piecemeal exemptions from the cap as not effective. We are also concerned about the unfinished business of bringing the State share of local school costs to 50 percent as envisioned in the original proposals for dealing with the Thorough and Efficient problem. Instead, we see reductions of approximately $7.5 million, which while not an immense figure, is a bad portent from our point of view which have been made in the last moment in school appropriations for 1978-1979. An effort is also underway to reduce special education funding in 1979-1980 by approximately $27 million relative to what would be available under the present system.

YATES: That's actually an increase, though, isn't it?

REILLY: No, it is not an increase.

YATES: An increase over what it is now.

REILLY: It's an increase in dollars but it anticipates $17 million for an additional program which presently does not function and which insofar as we can determine would involve a different set of children. In a resource room program we would not be served now and it also involves $6 million for a plant enrollment group which would only be paid if additional enrollments materialize. So, actually, it represents a reduction in funding in 1979-1980 over 1977-1978 figures.

YATES: If you exclude those two factors in absolute dollars, what you're saying does come to a reduction?

REILLY: Yes. Aid for existing special education programs will be about $92.5 million in 1978-1979. It will fall to about $79 million for those same programs on a continuing basis in 1979-1980 under the factors that the administration has proposed for implementation. We are also concerned about persistent talk of a serious revenue shortfall in the 1979-1980 budget which has already been mentioned in these hearings. If such a crisis is in the offing we feel it should be dealt with in a timely and forthright manner by increasing revenues to the extent necessary to meet the State's full obligations to public education and other vital public services. In conclusion, NJEA urges you to strive for secure future for the children of our State by recommending that adequate revenues be made available for quality education and other services without arbitrary financial restraints. Thank you.

YATES: Thanks very much.

DEARDORFF: Just one question, Jim. If the shortfall does materialize, has the Association taken any position as to how it might be met?

REILLY: We do not have a specific proposal at this time. Our school finance committee will be considering that problem. We have just become officially aware that such a problem actually exists from Mr. Goldman's bond perspectives. We will be taking that under consideration. Traditionally, NJEA's policy has been that the State obligation should be met through broad based and equitable taxation and with the exception of our endorsement of the income tax the proposal at the height of the income tax crisis, NJEA policy traditionally does not make specific taxation recommendations in terms of type of tax, whether it should be business or sales tax increase, or whatever.

DEARDORFF: Thank you.

REILLY: Thank you very much.

YATES: Mayor Byron of Wrightstown.

B Y R O N: Gentlemen.

YATES: Welcome, Mayor.

FORAN: It's nice to see somebody smiling.

YATES: We'll all be smiling in about five minutes. He's up to his normal form.

BYRON: Mr. Chairman and members of the Committee. Until three years ago I was a dentist by vocation. About three and a half years ago. Now I'm trying to be a politician. I got this letter of invitation and among the things I see here, oh, yes, I must say here that I'm representing the Boro of Wrightstown. So I looked over the letter and I got all the literature from the Assembly however, the topic said it would be State General Fund, General Taxes, Local Government and caps. First, I want to say that when I'm dealing with this I feel like a mouse in an African safari because with you giants up there. Many times I go from town to town and I hear people talking about, they say you have in the General Fund, first you started on taxes on cigarettes and the vehicle license and you have all these other bingo, and so on. Many people are not satisfied with the return. I'm hoping that somewhere down the line that although you have this since the income tax passed, which passed last year or the year before last, and luckily, you dedicated some funds out of that. Specifically for two things, education and property relief, which most people liked. Now there seems to be a little dissatisfaction as far as the property relief is concerned and I'm hoping that in your reviews that you will have more dedication of these funds because it seems that before it gets to the General Fund, then it's lost somewhere in administration or other things and if the gentlemen would bite the bullet and dedicate it and I think you would get more response and get more mileage out of that money. That's my assumption. I find that even in the little boro where I am they tax line items like you do up here but sometimes you would go haywire on some pet thing rather than have a proper screening. However, I plead with you in reevaluating, if it's an act you are going to put through, in regards to tax reform, that you should try to dedicate more. I understand that the bill you tried to get through some time ago had about 16 bills and was lucky to get through and so this one here was lucky to get through with just the two dedicated portions of education and property relief. So, hoping with the genius of you two gentlemen, not just you two gentlemen, but all of you, and in the Senate and in the Assembly that you will certainly bite the well-known bullet and those of you who are most persuasive and try to see if you can't have the others inchoate the philosophy that if you dedicate, the people will see it, they will appreciate it and you certainly will get your mileage. Now, the good gentleman there spoke in terms that we should tie the caps. The caps, I find out, are very helpful to us. As a matter of fact, the Governor was right here in this place here and I told him that he was very fortunate to bite the bullet to put forth this income tax and the caps at that time and I think it was only two municipalities in Burlington County after the cap was imposed had the taxes to be increased. North Hanover was one and I don't know the other, I can't recall. But in so doing, it brought about a fiscal district and I think that you gentlemen should stick to it. I'm a disciplinarian and I try to be a clown and I try to be a disciplinarian, too. So, with that in mind, I do hope that you will continue with the caps. Now, if you see the need to tie it in with the cost of living index, I think it's about 6.5 now, well, now we have the caps at 5 percent and if you put it up to 6.5, well, then, I don't know if that's enough. The caps, to my thinking, is a very good thing for many local governments and maybe counties, too. It has brought about a discipline that you didn't have before. I promised to keep this short because I'm here before you guys, as short as I know how because I don't want to get too far in the field. Those were the few things that I had in mind was that the general fund, in reevaluating, that you will dedicate more. Rather that just education, just purely education, and property relief. Those two are very important and they were good sellers and they will do good for you. But maybe other things you can include. Education is very broad and many people, you cannot satisfy us all. I do hope that and, oh, you mentioned about the 3 percent. Senator Deardorff...

YATES: Mr. Deardorff, the tax professional...

BYRON: Mr. Deardorff, now the 3 percent is an emergency amount that we are permitted to put it. We cannot just arbitrarily put it in. It has to, in an emergency, we only allow the 3 percent. It's input into our budget after the year begins as an emergency addition. And then we have to come up to you upstairs, to get permission even to do that. So, with that in mind, I don't know if that addition is a good thing, because if we have proper discipline, you see, we don't have to do that. I was just giving a good example. Out where I am, we have a theater that burned down some time ago, last year, I suggested to the people to put into their budget a bid that we could tear it down. They didn't see fit to do it. Somebody then said let's put it in as an emergency. It's no emergency. That thing existed there before and they should have put it in and sacrifice something else. But they put almost $5,000 in the line item for some foolish interpersonal stuff and they could have put the $5,000 in there so somewhere along the line we had to get some discipline and as far as that 3 percent addition, you see, you can't just arbitrarily go in and put the 3 percent in there unless it's an absolute necessity. So that's all I have to say and good afternoon gentlemen and thank you very much for giving me the privilege to appear before you.

YATES: Mayor, we have a couple of questions for you. I know Senator Foran wants to talk a little bit.

FORAN: You mentioned, Mayor, we need more dedication. I'd like to have you clarify for the record as to what you are getting at. For example, gasoline taxes. Should we dedicate those for road maintenance alone or do we dedicate those for property tax relief or do we dedicate it for public health, or mental health. What are we talking about?

BYRON: Yes, sir. Dedicate that gasoline tax just for roads.

FORAN: Just for roads?

BYRON: Yes, just for roads. You see, yes sir. And people will be happy to get that. Because they'll say, here it is, we're putting that money in there, we're using the roads and if you dedicate it there,..

FORAN: What would you dedicate for mental health?

BYRON: Well, now that you have the income tax, that's an overall.

FORAN: That's been dedicated by a constitutional amendment. The point I'm making is that you have to pass a constitutional amendment to dedicate any taxes in the State of New Jersey. That's number one. Number two, the point I'm making is that I have to agree with you in part that we should dedicate the gasoline tax to road repair because of the two severe winters that we've had. There's not a street in the State that doesn't need help. What I'm getting at though, is that if you dedicate or over-dedicate, what are you going to use for mental health? What are you going to use for State Police? What are you going to use for anything other than undedicated services?

BYRON: Well, you could put more than one line item in that. If you feel that the gasoline tax will overcompensate for roads, you could put more than one line item. Is it possible to do that? If that's possible, put more than one line item.

FORAN: You see, that's the problem. You might end up with a couple hundred million dollars in road aid in the dedicated fund, let the people vote for it, and you'd have nothing to keep the mental hospitals open. Do you see what I'm saying?

BYRON: But assuming that you collect more than 200 million or 200 thousand. You see, I'm from a small community, see I speak in thousands,..but the thing is if the tax, the gasoline tax, leads into a certain amount, naturally, your controllers know how much you're taking in.

FORAN: You're talking now of a partial dedication. Is that what you're talking about now? You have other services with the State to dedicate certain taxes for certain specifics, you'll end up with nothing for mental health, hospitals, health care, urban aid or whatever.

BYRON: Surely. But the logical one that you mentioned about the gasoline tax, I'm sure that most motorists, as a matter of fact, in the boro where I am, we had two suits, three of them, no, two suits, because we had potholes there. We scored them in the wintertime. We put some of that black stuff in there and then the cold weather knocked it out and the fellow goes out and he breaks his undersprings and the suit has put us in court. We don't have any governmental insurance to cover us. That is, like State or county. Thank you very much.

YATES: Before you say goodbye, I'd like to know if you'd give us an opinion as a dentist as to whether all this biting of the bullet that you're recommending to politicians isn't going to injure our teeth!

BYRON: Yes sir, how are you doing there Assemblywoman Kalik?

YATES: Thank you very much. The New Jersey Association of Townships represented by John Millman, Committeeman from Bordentown Township.

M I L L M A N: It's going to be a hard act to follow, I believe. The Association of Townships and myself, we thank you for your invitation to appear before this body. We appreciate this opportunity to share our thoughts with you. The first item I'd like to speak about is the State caps on municipalities in county government. Our organization, New Jersey Association of Townships, is on record approving of and strongly in favor of State caps in that they do impose a measure of restraint, which prior to their inaction was not there. I think as the evidence presented to this body in previous hearings, indicate that there are adjustments which are necessary to make it more equitable for certain particular towns or groups of towns with problems. On the other side of the coin, however, I think that there are areas where it's necessary to tighten up the caps, particularly in the field of bonded indebtedness. We try to protect the taxpayers today with the caps and I think there should be protection for the taxpayers of the future so that today we don't overbond ourselves and get into a problem later where one area of the budget, that's the capital portion of the budget is escalating over the years with no caps, perhaps, a certain percentage cap on future bond indebtedness may be considered. Also, I think that we should prohibit the transfer of service costs such as garbage or fire protection for property for special districts or transferring the cost to the individual property owner themselves.

FORAN: What do you mean transferring of costs? I don't mean to interrupt.

MILLMAN: For example, if you were to eliminate garbage collection, say that's $100,000 a year. Within your caps you can no longer afford that. You eliminate the garbage protection and the municipalities cap is there but they don't have the $100,000 they have to pay for garbage anymore and the homeowners or the property owner is going to have to take care of that particular item himself.

YATES: Also, some towns have your sewer costs in your tax bill. Other towns have it in a sewer municipal utilities authority which is a separate assessment which doesn't get involved in a municipal budget. You can shift that way also to sort of free up money in your municipal budget.

MILLMAN: Now for example, in our particular town, we've been approached to form a fire district. We donate $30,000 a year to the fire district. We have fire hydrant rentals at $6,000 and we have various other incidental costs where maybe everything adds up to say $50,000. Now, if we create the fire district, the possibility is there that we have that $50,000 to spend. If you're going to have a fire tax in addition to that.

YATES: Because they have an independent authority.

MILLMAN: Yes, they have taxing power. That will not be in our budget but we still have that $50,000 or whatever amount. I don't believe it's our intention to do that, but I'm sure people think about that and when they are trying to provide services which they are getting difficult to provide, sometimes those are the things that I thought about and implemented. On State Aid, I have our association concerned about conditions of roads and highways in New Jersey. It's a major problem and we're trying to make funds to make necessary repairs. Our association has been pressing for help in raising help for our highways. We feel that the State should reinstate Road Aid to municipalities. In 1974 we went through a budget crisis in the State of New Jersey prior to adoption of the Income Tax. Road Aid was cut out of the budget. At that time it was $28 million. Even then it was not enough. With inflation and things that had not been, $28 million has not been increased signficantly over the years and I don't want to put a number on it or anything but I think we're talking many millions of dollars, perhaps somewhere near $100 or $150 million to get our municipal and county roads back in shape again. Also, in State Aid, a particular item of concern to me, is the in-lieu of tax payments for towns with State property. We commend Bordentown Township, we commend the Legislature for restoring full funding of the in-lieu of tax payments and we would like to suggest other areas where additional compensation to municipalities and counties would provide services may be considered. The in-lieu of tax payments currently is based on the municipal tax rate.

Our municipal tax rate is about 30¢ and we have many other costs in county government but they are not reimbursed. The State does not reimburse county government. In addition to that, we have school costs. Many people think, well, the State doesn't create any school costs, for example. But that is not the case. We have employees employed by State of New Jersey living on State grounds who have children and they send their children to local schools. We have fire districts in the State of New Jersey. The State in-lieu of tax payments does not consider fire district tax for reimbursement to towns. However, if you didn't have the fire district and you provided this service out of municipal funds, the municipality would receive the money. We in Bordentown Township have two State institutions that send students to our local schools. We have Johnstone Training Center and the Chesterfield Reformatory which is in Chesterfield, but they have some houses in Bordentown Township where the employees live. The Federal Government recognizes this problem and they reimburse towns such as North Hanover and New Hanover for students that they educate in a public school system of service children. We feel that you people may want to consider reimbursing municipalities for the cost of the education for the children because coming from State-owned property. Another item concerning State Aid and also the distribution of taxes is the apportionment of taxes and the apportionment of State Aid for school costs. I believe that the income from sources of revenue, aside from the local property tax, should be capitalized to determine the true wealth of a municipality. School Aid is determined on property values. Also, school district taxes and county taxes are apportioned on the assessed value of a municipality. In order to not offend anybody in Burlington County or any members, we'll take Newark for an example, Newark has a lot of problems and we recognize their problems and we give them special aid, we give them urban aid and police and in-lieu of tax payments, but when we decide how much education aid they get for example, we strictly look at the property tax and say they have $15,000 of equalized value per student. We don't consider, though, is that they get so many million dollars of public utilities tax, so many million dollars of insurance premiums tax, bank stock tax, and all this other, and Federal aids are being included too. We don't include that and really get a basis for what they can afford to pay. For a municipality, which has no municipal tax rate, and they receive large sums of money from State Aid and Federal Aid, or taxes, I think that should be considered to determine the State Aid and also the apportionment of school taxes for a regional school district and county taxes. What we're really after is an equitable way to distribute the burden.

YATES: I don't mean to interrupt you, but on that one, I think the present system in effect does that, in that, no matter what other sources you have, it's designed to come down to this, that for an extra hundred dollars you're spending per child, the goal of the present system is if that costs 2¢ a hundred in Bernardsville, it will cost 2¢ a hundred in Newark and 2¢ a hundred everywhere in the State for the equivalent amount of additional spending per child. Where the difference is what that 2¢ per hundred brings in is made up for then by the ratio of State Aid. In other words, the whole original thrust as I recollect was that we were going to equalize taxing power.

MILLMAN: 2¢ per hundred. We'll just take the example of 2¢ per hundred that the town would raise. In a regional school district, what the municipalities have does not enter that at all. Municipalities as far as other sources of revenue.

YATES: I see. As far as gross receipts....

MILLMAN: Insurance premiums, there's a lot. Bank stock tax. Revenue sharing. Whatever source of revenue is available.

YATES: That anomaly shows up, though, not so much in school finance as in the remainder of the municipal budget, in towns that have no local purpose tax. They still have a school tax but you're saying that they're getting all sorts of benefit in their local purpose tax that our school formula isn't looking at.

MILLMAN: In addition to that, the distribution of county and joint district taxes, like school or joint court system doesn't consider these other sources of revenue.

DEARDORFF: You've struck something near and dear to my heart because I've been trying to get through something like this into the school aid formula and into the county government formula for twenty years. Capitalization, which oddly enough, we capitalize the business personal property tax for the distribution of county taxes but not for anything else. To carry it to its logical conclusion, I think you're right, John. We should capitalize all these items because theoretically at least county government support and school aid is based upon a municipality's ability to pay, ability to raise money. We know long before it became a household word I used to use Lower Alloways Creek as the horrible example. Not too many years ago Lower Alloways Creek, despite its lack of property or school tax, was getting a much larger per pupil State Aid then most any other place in the State because they had such low property values. That, under the new law, has changed, fortunately. But, in addition, the rich get richer, because franchise and gross receipts taxes and business personal property taxes are considered tax effort. So Federal revenue sharing is based upon tax effort. Even if you get handed a dollar the Federal Government thinks it's something you're raising yourself. So, these are matters which, from a matter of equity, certainly, should be addressed. You mentioned the regional school district. We had a public hearing in Hunterdon County, in Flemington, and it was the Mayor of Califon that came in with a very fine presentation on the effect of just slight changes in pupil assignment, whether it was elementary or in the regional high school, could increase a school tax for regional school purposes for pupils, could increase it by 67¢ a hundred. Something is wrong with the formula when something like that can happen.

MILLMAN: Yes, ideally the formula should be able to exclude these statistical quirks or unusual circumstances, but they don't.

YATES: Does this mean that the Newbold Island Power Plant project, I suspect, is dead in Bordentown Township?

MILLMAN: We get franchise tax. I think just about every municipality in the State does get some franchise tax. We probably get more than our fair share as it is now.

YATES: But the piece you get for the power lines is nothing like the piece you get for actually having the generator station.

DEARDORFF: You don't go above average.

MILLMAN: No. Our number one priority in the New Jersey Association of Townships is State Road Aid because we recognize the problems of certain municipalities because of social or economic circumstances such as Newark or Jersey City or Camden. They have problems and they need additional aid to help them with the problems that they have. Municipalities, which the New Jersey Association of Townships represents, has miles and miles of municipal roads which benefit the State and because of the nature of their density, cannot afford to maintain a road. We ask your help in this matter.

DEARDORFF: John, several years ago, I guess it must have been more than several, Senator Foran introduced a bill which would have dedicated, when we get back to the Mayor of Wrightstown's idea of dedication, would have dedicated one cent of the gasoline tax to State Road Aid to be divided half between the counties and municipalities. What do you think about that type?

MILLMAN: Dedication generally, I generally don't look favorably on dedication of revenue because what do you do, as Senator Foran pointed out, with an income tax, someday the income tax may grow so much greater than the cost of education, but let's just say that we have it dedicated to education, that you may be really wasting money there where it could be more well used somewhere else. Certainly one cent on the gasoline tax would never exceed the need for road improvement or maintenance.

YATES: Then the two would be likely to be related to one another anyway because the consumption of gasoline and the amount of traffic are at least indirectly related to one another. Thanks very much. The next witness will be Frank Quinn, Township Councilman of Willingboro Township, and our host today.

Q U I N N: Good afternoon. Thank you for providing me the opportunity, Charlie, or should I call you Senator Charlie in such a formal...

YATES: You better pull that mike in closer.

QUINN: I speak softly anyway. I really wanted to speak to your Committee and sort of share with you my feelings as a very very junior councilman in a town that has some problems and is pretty well run on a normal basis. You've heard different township officials complain to you about the difficulties of caps. I was elected to serve beginning in January and the budget was pretty much the first official duty that I had to serve on. At that time, I was told that we have a cap of $210,000. We have contractual salary increases of $360,000, we have increases in insurance and in utilities of approximately $114,000. No matter what you promise the public when you were running for election, you sure will not be able to do it because you don't have any money to do it with. In fact, what we have to decide is, is how we can eliminate the services from the public without really destroying the overall service that the Township of Burlington gives to the public. So that was our budget process, gentlemen. We took a look at all of the different services that we provided and tried to figure out what we could do the least amount of damage to the citizens of Willingboro by eliminating. And so we eliminated a couple of police officers from the crime prevention unit and moved them over to regular police service. I'm told by people who specialize in that that crime prevention is the first thing to go in a budget cut because you sure don't need the preventive, what you have to do is catch the people afterwards. So that's one of the things that we did. We did, however, join the New Jersey League of Municipalities in order to protect ourselves in the future. We weren't a member of that until this year. One of the things that actually came up to discussion was one specific point which I'll share with you and that was is that we have a day camp, a summer camp here in Willingboro. We spend $40,000 administrating that day camp. It is entirely self-sufficient. We get fees for every dollar that we spend on it. However, if we had to choose between eliminating that camp and eliminating a couple of the policemen that we need on the streets and as John mentioned to you, we have 110 employees. 82 of them are in the police department. The camp would have to go. Even though it doesn't cost the taxpayer $1. Because the cap is not on what you collect, the cap is on what you spend. So we have situations in our recreation department where we would have to reduce services that are self-supporting just to come under the cap line.

YATES: Would you suggest we ought to change the cap law so that self-supporting services have both the income as well as the expenditure component excluded from the cap calculation. Does that make sense?

QUINN: Yes, I think that does make sense. I'm sure there are some problems with such a simple-sounding law but simple ideas have problems.

DEARDORFF: There are other ideas which have been brought to our attention at a previous hearing. For instance, home health care, which is a fully-refundable item, in the county budget and yet it's within the cap and is restricted because of that. If a thing is fully-funded, like fees or reimbursements. It certainly is not going to destroy the concept of the cap. I think that's that.

QUINN: Well, after telling you that, that's what I want to deal with next. That is, is whether or not, in your own minds, the Legislature of the State has decided whether or nor that the township government as a whole in the State of New Jersey is too large whether or not the school systems are too large. Whether or not the county governments are too large. The present cap system, I believe, will in effect be reducing those. Whether or not, under our present laws, whether we want to or not. The present level of service is given by those government bodies will be reduced. There is no question in my mind with the exception of townships that or areas of growth, townships with special problems, like Camden and Willingboro, who are already grown and pretty much developed, have unusual circumstances that need additional help but yet, as governing body, we don't have the ability to do that because of the cap system. Maybe there should be some way that we could be held back.

The comment by a few of the witnesses is the fact that I like the cap laws because it either disciplines or restricts or keeps down the cost of local government. It certainly does do that. But I don't know if the cap law is the right vehicle. I heard one township official today mention to you that maybe we should have a reviewing body at the Department of Finance. Like the schools. If it is indeed the idea of the Legislature to hold down the cost of local government, I don't believe this particular idea would work and I'll just set one particular example and that is that in Willingboro we voted down the school budget just about every year. I'm not going to tell you that that was wise and there's a couple of them that I've taken a look at and they seem to make sense to me. But our voters have voted it down. It happens all over New Jersey. In the review that was done by the Council members in Willingboro, and I've talked to the individual council members and if you can imagine, it's almost impossible in a four-week period with very limited knowledge to review a $25,000,000 budget. To try to find some line item or some items that should be reduced. In spite of the fact that the voters have voted it down considerably and that the council, as when it had the opportunity to review it, after that voting down, have pushed some line items out, our local school budget in Willingboro has gone from $4 million to $26 million in five years, with review by a State governmental body. I'm not going to tell you that we shouldn't be spending $26 million and I don't have anywhere near the ability or nor have I spent the time to look at those budgets to tell you whether or not we should be doing that in order to educate our people. What I am telling you is that I don't believe that a reviewing body at the State is going to hold down local expenditures if you have base it on our local history in Willingboro. I just don't think it's going to happen.

FORAN: What percentage of your people come out under school budgets down there?

QUINN: We had probably around 4 percent, 5 percent.

FORAN: That's the problem, I think.

QUINN: It's one of the problems, Senator, because the people who do come are people who are genuinely interested. That's both good and bad. We had more employees of our local school district than we did voters in the last election. The Mayor of Delran told you about the number of people that come to public bodies. It just does not happen. I'm sure of that what she said is very accurate. We have council meetings in a town of 46,000 people, and unless we're going to close a road, we don't get anybody out. If we're just going to decide how much money they have to pay for real estate taxes or something not important like that, we don't get them.

YATES: Doesn't the non-participation to some extent represent a quiet vote, at least it means they have a forum, where if they really get excited about something, they can come down and let their protest known. They're not coming down and making their protest known, so they have reasonable satisfaction with the way you're carrying on.

QUINN: Our local government the year before last, under the first year of the cap law, underspent by about $70,000. We do not have a spend-thrift government. They could've spent that money and in fact, this year, I wish they had appropriated it.

FORAN: You talked earlier about the cost, the mandated cost, that you have in excess of your caps. How did you handle that in the budget this year?

QUINN: For the first time, last year, they bonded instead of paying directly out of service, we had a million dollars in street repairs that were bonded last year. That was a $200,000 annual repair bill, until that time. With the Federal revenue, we got it from the Federal government, we took a million of our money and a million of their money and we got ten years worth.

FORAN: So you went into bond indebtedness for a million dollars in order to get the job done? Is that what you are saying?

QUINN: It certainly wasn't cause to slow down by the fact that we took it out of ...

FORAN: I'm just curious to know how you handle the budget this year because you sound like you are, I think that Willingboro in itself is unique because you've expanded to where you're going. Unless it's a highrise or something like that. I guess you're limited on your tax ratables, as well, as far as growth goes, aren't you?

QUINN: We're 97 percent developed. We have some vacant land that doesn't look like it's going to be developed in the near future, however.

YATES: This is primarily a bedroom community.

QUINN: A bedroom community. We have some of the problems that other towns that are not bedroom communities have. But we do have coming before us next year some serious problems on caps. There is no question because our cap will increase next year to maybe $210,000 or $215,000.

FORAN: The State also has a problem with caps. What do we come within? Fifteen million of it in the budget?

YATES: That was only because they didn't raise the taxes the year before to get closer to the cap.

QUINN: It's an interesting thing. I'll share one thing about the State. Senator Yates put in a bill last year to appropriate money to take over a local drug abuse center that was taken over by the county. It was taken over by the county. They had two more employees and their budget this year is half of what it was last year with the same employees. It's county-run instead of State-run. I do know that, I think that if you want to restrict the growth of government at the local level, that you should take a look at the incremental factors that make up that government. And restrict it based either on the number of employees per residence or by, in other words, you can hold down the cost of government, government monies are either spent in utilities, they are spent for people to do different functions that you tell us that we have to do, and you can restrict it by just saying how many employees that we can have.

FORAN: If you're a long narrow community or if you are large...

QUINN: Recognize one thing. That is that I'm not necessarily sure that you should be doing any of this. I came here last night from a home ruled state. If we weren't a home ruled state and we had problems in Willingboro, we could create special taxing areas. We could do a lot of different things to try to solve those problems.

FORAN: You could do it now with special legislation. Atlantic City does it, Newark does it.

QUINN: Maybe it is something we should be looking into. I'm pretty much led to believe that we are not a home ruled state and that our local townships are pretty much told exactly what they can do and how to do it and what they should do. The problems of mandated new programs and then telling how much we can spend, it is a real problem. I just believe that if you take it to its simplest part, you have a better chance of being equitable. By doing it with the log-ruled law that takes care of urban aid to some towns and doesn't take care of different problems to other towns. You're not going to be able to come up with a system that would take care of all 500 and some odd towns in New Jersey. But I do believe that you can get a lot better than what you are right now with different thinking on how it can happen if indeed you want it to happen. Is our local schools and local government too big?

YATES: I think no single legislator can speak for the entire body. We rarely agree on anything unanimously. But I think in the beginning of your remarks when you described how a township government in responding to this goes back and searches every form of service being delivered and asks is this really needed as much as it once was? Is it maybe to the extent that it is? Can it be reduced without harm to the community, or should it be reduced? Is it fair to say that that is the sort of thing that the caps hope to provoke. And that by itself, I don't think is a bad thing. If you take that a step further and say that the results of that is that you conclude that services which shouldn't be cut in fact wind up getting cut. You mentioned the recreation program. That's not desirable, I don't think. I think the stability that New Jersey has had over the last two years in property taxes in general certainly to a large extent came from that broad impact happening in the 567 different towns.

QUINN: I agree with that and certainly in light of all of the big news where the California proposition is concerned and so forth, we're looking real good here because we did that two years ago. However, we're now going into the third year and in Willingboro, with the $210,000 cap, and the same types of increases coming in public utilities and with contracted employee groups, that are going to be significantly more than our expenditures or our cap for next year. I think what is happening is that this well-governed town may be made to suffer for what a few other towns that are not so well-governed have to do.

YATES: You mentioned the utility bill, that one of the things that you probably have to take a look at, considering the rising cost in electricity, in particular, will be the program of lighting, as crime prevention techniques, safety and so forth. I read a story recently of a school somewhere that as a crime prevention technique, shut off all the lights around it and found that the amount of window breaking and general vandalism decreased dramatically because if you can't see what you're breaking, the joy apparently goes out of it. So you never know -- that's progress.

QUINN: I'm sure that the entire system is a situation and that the ambition is to be is to look at it. Maybe it should be like a business credit. I heard a gentleman from the Manufacturer's Association say why don't we get a 10 percent credit all the time for capital expenditure and that's be nice except that it wouldn't do what it's supposed to and that's encouraging capital expenditures. Maybe some system where it comes on for a period when we need it is what we need. Basic free enterprise...

FORAN: I think you've touched on the reason why this Committee is in being in your testimony.

DEARDORFF: Gentlemen, could I ask a question? You mentioned home rule states. Usually with a home rule state, particularly, a home rule state that is a fairly populous or industrial state, along with that home rule goes the ability to tax and not just property taxes. New Jersey is rather unique though we have relented in the case of Atlantic City, Newark and Jersey City, in restricting municipalities property taxes in counties to strictly property taxes through the levy imposed on municipalities. Many states, Illinois, California, New York, give the counties and municipalities the right to impose a sales tax as a piggyback on the State sales tax. It's usually limited,in California and Illinois, it is limited 1 percent. If the county and municipality both want to impose it, then they have to share it at a half percent each. You'd have the same thing in Pennsylvania with the payroll taxes which are rather an insidious type of tax. That's a maximum of one percent except in Philadelphia and Pittsburgh. If the school district in the municipality want to share it, they go 50/50. Do you think that this is the direction that New Jersey should go in to allow the municipalities and counties more latitude in taxing?

QUINN: I lived in Illinois and there's no question that there are weaknesses in some of the home rule legislation in Illinois. There are also some very great strengths. In the town of Oak Park, Illinois, for example, there was a decaying commercial area. There are many decaying commercial areas in New Jersey. In this decaying commercial area, they were able through I think a 75 or 80 percent vote on the referendum of the people who lived in that decaying commercial area. To in effect, go out and spend some money, to redo that area and have a special property tax that the people there to a large extent, more than the majority voted for that special property tax for themselves. In effect, they were able to resuscitate this dying area and make it as new and attractive as the new suburban malls that have the affluent people and brought it back to life. I believe that something of that type, where the municipality makes a decision on what they need themselves would be helpful. Just whether or not...

DEARDORFF: Couldn't you do that? Under the referendum provision in the cap law?

QUINN: If indeed, in today's voter enlightenment, that they thought, I just don't see any referendum passing in the cap law. I can't tell you what the numbers are but I understand that there were five and they were all defeated, or four defeated, or something to that effect. There is a tremendous amount of citizens. One of the funniest things that happened to me as a public official was the fact that when I sat in the chair next to you was that people believed that I was inept and crooked just because I was a public official. It was amazing. People came out when they talked to you and said at the public meetings, the few people that did come out, all of a sudden I gained a measure of ineptness just because I was sitting up there and it's very easy to say I'm against taxes. It's not so easy to say I'm in favor of doing such and such. I do believe that there are some home rule powers that local municipalities should have. I do believe that they should be counterbalanced by the devoting rights of the local municipality to do that. In other words, I don't believe that I should have the ability to tax everybody down at the plaza, unless the people down at the plaza want to be taxed for a special.

YATES: Councilman, thank you very much. I have one last name but I think he left the room.

C I T I Z E N: I don't think I was called. I was with Mr. Tergis, the first speaker.

YATES: George Hooper?

CITIZEN: Yes.

YATES: George, now this is a terrible misunderstanding. I did indeed mention your name with John Tergis and I, to tell you the truth, I watched you guys listening to everybody else, and I said to myself, now that's a dedicated group. They not only came and made their own presentation, but had the interest and the courtesy to stay to the bitter end listening to everybody else. I didn't realize that we had one of you held hostage in effect. Sorry about that and anyway, please come forward. Do we have anyone else in the room that wants to speak, do let us know. We have an aide right here that's going to take your name.

H O O P E R: This is a short presentation. I'll just supplement what John Tergis said. My name is George Hooper and co-chairman of the Tax Force of the New Jersey Federation of Senior Citizens and a member of the executive board of the Citizens Coalition for New Jersey Tax Reform. The New Jersey Federation of Senior Citizens has had a 13-point program as John Tergis indicated. Since December 4, 1976, when it was adopted by over 1,300 delegates to the State's first senior citizens tax convention held at Plainfield High School. Copies of the summary of the 13 recommendations as well as the complete report have been delivered to your staff and for your information. I might point out that this program, although adopted by a senior citizen convention is by no means a senior program, it's an overall tax reform program. The program evolved from 6 public hearings at which senior citizens emphasized two primary concerns; the need for government in schools and the need to have the tax burden taxed on ability to pay, especially as to the regressive property tax. You will note that recommendation 7, regarding the treatment of cooperative shareholders, as well as recommendation 9, exempting a portion of public and private pensions, have been adopted. I will not dwell on the first three recommendations regarding utilization of zero budgeting and the observance of cap laws at all levels of government, except to say that we still consider them valid recommendations. Basically. Our present position is that the present cap laws should be kept substantially in place until a comprehensive evaluation of their operation can be made and until the present relief mechanisms can be thoroughly tested. It's implicit in the Federation's recommendations that proposed or mandated programs are extensions of existing programs relating to public service, should always be presented to the governing body or the voters along with the amount of funding required and the proposed source of funds. The present cap law procedure for municipalities presents a choice of additional taxes or a cut-back of services to local voters and this package presentation should be amplified at as many levels as possible. You might say that Nutley was one of the four towns or rather the ten towns that turned down the budget out of 14, so that we went through this process of selecting either tax raises or services. The core of the Federation's position on tax reform is the reduction of the inequitable property tax burden on senior citizens and other low-income tax payers. We don't regard that as redistribution of income, we regard it as pro-rating the inequitable property tax burden in accordance with income. This would be accomplished by a two-prong program. Under recommendation 11 and 12, a greater proportion of the costs of property tax supported Statewide functions would be assumed by the State and paid for from non-property tax sources. The resulting local school and tax rate reduction from such cost transfer relating to courts, welfare, schools, etc., would benefit all property owners, both residential, commercial and industrial. The rate reduction benefits to low-income homeowners especially renters, however, are either inadequate or in the case of renters, often non-existent. In California, for example, two-thirds of the $7 billion reductions from Proposition 13 benefits business or agriculture and it's left up to a landlord whether they reduce the rents. The second prong of the Federation's property tax relief program, under recommendation 10, is therefore focused in making effective a further property tax reduction based on ability to pay. We suggest amending the present homestead rebate system by a tax overload system under which rebates would depend to some extent on income. There are various forms of circuit-breaker relief laws in up to 30 states with a variety of benefits in costs and it's not our intent at this time to give detail recommendations but to consult with appropriate committees when the legislation may be considered. Consideration should also be given in this regard to the provision of article 8 of the Constitution of New Jersey so that the need for a constitutional amendment with it's intended delays can be avoided. Under article 8, section 1, subsection 5, the Legislature may adopt a homestead statute which entitles homeowners and tenants to a rebate or a credit of money related to property taxes paid for or out owned to them at such rates and subject to such limits as may be provided by law. Such rebates or credits may include a differential rebate or credit to senior citizens. It would appear feasible to amend the present homestead rebate at the legislative level so as to retain its present benefits to homeowners but to expand its benefits on a sliding income scale to both homeowners and renters by dealing 25 percent of the in-lieu of property taxes paid by renters. Recent legislation in New York State points out the benefit of such a concept for Federal tax purposes and New Jersey could well consider following that example. The next two paragraphs have been pretty well touched upon and we'll skip for the moment. We believe that a visible circuit breaker with property tax rebates relating to the income of both property owners and renters is strongly recommended as the most effective present approach to our most urgent tax problem reducing the inequitable tax burden particularly for low-income taxpayers. It is recognized in the Federation Tax Program that additional revenues will be required for a circuit-breaker approach and our recommendation 13 supports a progressive rate structure for the gross income tax as the best source of such revenues since a tax measured by income by definition is based on the ability to pay and the more progressive rate structure will obtain revenues from those better able to bear the burden. That's the end of the statement.

YATES: Mr. Hooper, thanks very very much. Do we have any discussion?

HOOPER: Thank you.

YATES: Unless we have any additional witnesses, and I don't see any on our list, we have some comments from Assemblywoman Barbara Kalik.

K A L I K: Thanks very much. I would like to take this opportunity to thank you for coming to Willingboro and hearing the views of this section of New Jersey. In general, everyone considers this the forgotton part of New Jersey. We have our problems, we are not North Jersey. I've sat here and listened to the testimony for and against caps, for and against exemptions, no cap exemption, cap exemption, and I think that the very purpose of the income tax and the reason that the people of New Jersey voted for the income tax and the people that support the income tax because it was a replacement and not an additional tax. I have a couple of questions that I have to ask this Committee and I have to ask how come State caps are at 10 percent, county caps are at 7 percent, school caps are somewhere in between 3 and 12 percent and municipal government is 5 percent? How can you possibly run a municipal government at 5 percent cap when the cost of living index is 4 just to begin with? It's unreasonable. I really don't know how we managed to get by with it for two years. There are various kinds of communities in this State and each one has a unique problem. Each one has its own disadvantages and advantages. You have growing communities who increase their assessment to ratables every year. That doesn't mean that they have extra money to spend because they're building extra facilities as fast as that extra money is coming in. You have towns like Willingboro, have no other source of income and the only way they can go is down. You have towns like Newark that need help desperately. You have towns that are doing so well that they're building up their surplus at a rate of $1 million a year. I believe that a formula can be accepted that will be beneficial to every community in this State. I think that one of the criteria of this formula has got to be local tax effort. If the community is getting help, State, Federal or county or other sources, certainly that help has to be under consideration of what they can raise themselves and what the caps should be. I think that a community that controls its spending, that is very conservative should no longer be punished for doing that or not having the money to provide the services that its residents want. Thank you for coming.

YATES. Thank you, Barbara. I just wanted to take up a second of your time, the discussion on municipal caps. It does appear peculiar why the numbers vary as much as they do. I hope you understand that following is in the nature of a response and I'm not disagreeing with what you said. The reason the number came out to be 5 percent in the case of municipal caps is because of the peculiarity of where you get your money from. You get automatically the better third of any growth of ratables that happened during the interim. You also get the benefit of, it's not really a benefit, of the growth of the property values just by the nature of inflation itself. When the original bill was moved, what we looked at was the question of if you apply this number to the actual situations and you find that the dollars you come up with are usually in the neighborhood of anywhere from 5 1/2, 6 1/2, 7 1/2, even in some cases, even above 8 percent because of various sources of revenues are in effect outside of the caps. The benefit of new ratables is again outside of the cap. It wasn't an arbitrary decision to say that we think that 5 percent is a right number to grow by, it's rather that we think that by saying that 5 percent here with all the mathematics surrounding us, is that in fact the number will come up to vary somewhere around 7 1/2 to 8 percent depending.

KALIK: I respect your explanation, however, the same thing holds true for counties. Just one more point please. It's usual to get one person or one acre or one thing in the cap law or any taxation to put the burden on somebody else.

YATES: I understand what you're saying. The way the school cap works is when the cap appears to be 6 percent, many times it can be a lot less than that because it's a per student cap. So in effect they are told they have to absorb the total impact of the decline in the student body apart from the outside cap. I'm saying that I think actually, my own feeling is that the county government got away with the least injury in the cap formula again because the County Board of Taxation automatically increases the assessments of all the towns by the ratio and they instantly get the benefit of inflation across the board plus wherever it happens on that new ratable. I think from everything that we've heard today, I think it's clear that a lot of people like the idea of caps and almost everybody can single out some area where it's creating an injustice or some harm and certainly changes somewhere along the way or are going to happen. I don't think we disagree on that.

KALIK: To answer Mr. Deardorff, he asked municipal officials how they feel about exemptions. I am told totally opposed to exemptions to cap law with the exception of the washout.

DEARDORFF: We, you and I have talked a great deal about this Barbara and we had a rather refreshing presentation in Flemington from a local official who agreed as you do that we shouldn't have or go into the exemptions but adjust the rate to better reflect a situation such as cost of living or something like that and then putting everything under the caps. Perhaps when we get all of the information on board and look at it we can come up with something, some recommendation that will go along those lines.

YATES: I think that concludes today's hearings of the two subcommittees of the Joint Committee on State Tax Policy. Thanks to everyone for attending.

FORAN: Thanks for letting us come.

YATES: And thanks to our two out-of-district legislators. Thank you again.

SENIOR TAX CONVENTION

JOINT PLATFORM COMMITTEE REPORT

-By The-

North Jersey Federation of Senior Citizens
New Jersey Council of Senior Citizens

December 4, 1976
Plainfield High School
Plainfield, NJ

SENIOR TAX CONVENTION-December 4, 1976 - North Jersey Federation of Seniors and New Jersey Council of Seniors.

SENIOR TAX CONVENTION

* *New Jersey's residents pay the highest property taxes in the country*
* *New Jersey's tax structure exacts a much greater toll from low and moderate income people, relative to their earnings, than it does from more affluent persons.*
* *Many seniors have been forced to leave their homes and apartments due to exhorbitant property taxes.*

Faced with this drastic situation, the two largest senior organizations in New Jersey called the State's first Senior Tax Convention. 1,300 leaders from over 178 senior groups answered their call. On December 4th, they gathered at Plainfield High School and succeeded in unanimously adopting a 13-point plan for tax reform. Reforms which would benefit both seniors and younger folks.

SUMMARY OF RECOMMENDATIONS

(Adopted by 1,300 delegates from 178 clubs in 19 New Jersey counties)

Part I - The following should be considered for immediate actions

Recommendation 1 - That the zero budgetary concept be fully utilized in all levels of government.

Recommendation 2 - That every effort be made by all levels of government to observe the "caps" set forth by the law.

Recommendation 3 - That the "caps" on spending for school boards be tightened and that limits on the discretionary powers of the Commissioner of Education be more adequately prescribed by the law.

Recommendation 4 - That the Homestead Rebate be administered as part of the income tax procedure. This will save the state and the municipality several million dollars a year.

Recommendation 5 - That in order to facilitate preparation of the Income Tax form and make for simplicity, the condition in the law providing that rebate will be less than the full rebate where the home is valued at less than $15,000 be eliminated. However, the condition that the rebate may not exceed one-half of taxes should remain.

Recommendation 6 - That the tenants rebate be administered as part of the income tax procedure in such a manner that every tenant be entitled to the tenant's rebate, regardless of income, just as every home owner is entitled to the homestead rebate.

Recommendation 7 - That shareholders in cooperatives be treated in the law as home owners and given the homestead rebate, rather than a renters credit as provided by the present law.

Recommendation 8 - *That the legislature give serious attention to the problems which will arise under the tenants pass through law and after due consideration give serious thought to rescinding the law.*

Recommendation 9 - *That $7,500 of a retiree's pension income be excludable from taxation, and that the state and private pensions be treated on the same basis.*

Part II - Following are additional recommendations which legislators should start considering now for implementation into law when the income tax expires on June 30, 1978.

Recommendation 10 - *A "tax overload" homestead rebate or credit system for homeowners and renters should be enacted in order to provide consistency and equity of treatment and to compensate for the regressivity of the total state tax system.*

Recommendation 11 - *That a study be made of whether the state should pay for those municipal costs which in good conscience belong to the state, rather than the present per capita basis.*

Recommendation 12 - *That the state's share of the cost of education be raised from the present 39 percent to 50 percent which is the national average.*

Recommendation 13 - *That in order to provide massive reductions in real estate taxes by raising the state's share of the cost of education, by providing more equitable revenue sharing payments and a more equitable direct rebate system for home owners and renters, it is recommended that the state enact a replacement income tax which will provide sufficient additional state revenue to finance these desirable objectives. We would like to work with the legislature in formulating the details of the income tax schedule so that there will be agreement that the various income levels will be treated equitably.*

WHAT CAN YOU DO?

Without the unity and the support of all the state's overburdened taxpayers, our goal of a more equitable tax structure will be impossible. With your help, however, we can make a difference! If you are interested in becoming involved in this state-wide campaign, please contact the SENIOR TAX CONVENTION at 33 WEST FRONT STREET, TRENTON, NEW JERSEY 08608 (609)-394-0001. *Complete convention reports can be obtained by sending $1 to the Convention office.*

( ) I am willing to serve on the Tax Campaign Committee
( ) I would like to be a contact person in my area for the Campaign
( ) I would like to be contacted to have a representative of the Tax Campaign visit my organization
( ) I would like to add my financial support of (   ).

NAME: ______________________________

ADDRESS: ______________________________

PHONE: ______________________________

PREAMBLE

Currently, New Jersey has the highest property taxes in the country. A situation which causes tremendous hardship for the state's 1.2 million senior citizens. On July 8, 1976 the New Jersey legislature passed a tax reform program, consisting of fifteen different pieces of legislation, aimed at correcting this situation. While such was the desire, many residents in the state felt they failed to accomplish their goal. In spite of the tax reform package of 1976, New Jersey real estate taxes will still be among the highest in the country. Thus, many retirees and senior citizens will still face the necessity of abandoning their homesteads due to prohibitive property taxes.

Both the North Jersey Federation of Senior Citizens and the New Jersey Council of Seniors found this situation to be totally unacceptable. Therefore, on August 12, 1976 together they issued a communique calling for the first New Jersey Senior Tax Convention. Only by unifying a majority of seniors in the state around a reasonable tax reform platform did these two organizations feel the treatment of seniors could be improved. As a result of the leadership of these two large organizations, representing some 300,000 seniors in the state, Planning and Platform Committees were established for the Convention. Laboring together with seniors from AARP chapters, Golden Age Clubs, Old Guard groups, and church organizations, a plan of work was developed, aimed at building a large, open, democratic, and representative convention. All state, regional, and county-wide senior organizations were invited to become part of the Convention process.

In an effort to elicit from seniors throughout the state their views on tax reform in New Jersey, five regional public hearings were held. In addition, seminars at community colleges and one state university were conducted to educate seniors about the issue. Over 520 persons attended public hearings, in East Orange, Trenton, Camden, Edison, and Hackensack; some 56 persons gave testimony to members of our Platform Committee. They told the Committee how they would like to see the current package amended. They came to say what they would like to see in its place come the legislative review of the program in 18 months. Written suggestions were also solicited, received, and reviewedby the Platform Committee.

This effort culminated in the Tax Convention in Plainfield High School on December 4, 1976, which was attended by 1,500 delegates from every county in the state.

At this meeting, the following report and recommendations were discussed and approved.

Only one state organization elected not to become cosponsor or participant; nevertheless, it was invited at all times to either endorse or write a minority report and thereby expose its views to public scrunity.

The problem was tackled from a broad point of view, so as to suggest measures we believe will result in a general improvement of the tax package for the elderly and non-elderly alike.

The Convention finally committed itself to the organizational task of making the herein stated recommendations primary issues in the 1977 legislative elections and debate, structuring a working committee for that purpose to carry on after December 4th.

Economic Position of the Elderly - Rising taxes and other costs are indeed serious financial problems for senior citizens and others on fixed incomes. According to the Governor's Task Force on the special needs of the elderly, one-fourth of all home owners over 62 have incomes of less than $4,000. Of the state's estimated 800,000 elderly, about 84 percent are living on Social Security payments alone. Even those who have a pension in addition to Social Security are finding that the purchasing power of their fixed dollars is decreasing year after year.

Real estate taxes in New Jersey, which at present are among the highest in the nation, are an extreme burden to senior citizens. It is not uncommon for senior citizens to be paying from 1/4 to 1/3 of their income in real estate taxes.

In addition to food costs, fuel, utilities, housing costs and, as of this year, automobile insurance costs, are amounting at a frightening rate.

As a result, an increasing number of the state's aged residents are finding it difficult to keep the family home and are becoming dependent on Supplemental Security Income, SSI, food stamps, and public assistance programs.

The state can no longer ignore the pressing needs of this valuable segment of its population. Since taxes are a serious drain on the limited income of the elderly, it is essential that the state take further steps to reduce the real estate tax load which is the subject of this report.

Part I of this report sets forth recommendations which we believe should be implemented immediately.

Part II sets forth those recommendations which legislators should start considering now for implementation into law when the present income tax package expires on June 30, 1978.

PART I

Economy in Government - In the past few years, we have seen a rapid increase in the cost of government. Much of this has been due to the effects of inflation. However, every new service has a price tag and adds to the burden of taxation.

The State of New Jersey has taken steps to control its expenses, but further efforts along this line must be continued and intensified to obtain maximum efficiency and productivity in government. Outside expert consultants should be brought in to analyze the structure of the state.

It may be surprising to some that seventy percent of all state and local taxes are spent in our municipalities and school districts at the local level. If we are to conserve, it is fully evident that economy must be exercised not only in the state but in our counties, municipalities, and school districts. Every effort must be made to apply to the reduction of real estate taxes the $374 million or more of additional state funds going to school districts each year, and the $50 million of revenue sharing going to municipalities.

As an aid to securing economy, we recommend that the zero budgetary concept be fully utilized in all levels of government, namely that a Department Head be required not to merely justify the increases that he or she is asking for, but that he or she be required to justify every expense in his or her budget starting from zero.

We also recommend that every effort be made by all levels of government to observe the "caps" or limits of spending contained in the income tax package and education laws.

We are particularly concerned about the "caps", or limits of spending in the education law.

The income tax law was enacted to take the weight off the real property tax and should result in a decrease in the school tax.

Despite this, we believe there will be considerable pressure on school boards for increased spending. Unless considerable restraint is used, school taxes may have a tendency to creep back to their former level.

The "cap" in the education law is not much help in this regard, because it is replete with loopholes. After setting forth an elaborate formula which controls the amount of increase which may be included in a school budget the law goes on to state that the Commissioner of Education may approve a greater increase as follows:

> "The Commissioner may approve the request of a local board of education for a greater increase having judged that (1) a reallocation of resources or any other action taken within the permissible level of spending would be insufficient to meet the goals, objectives, and standards established pursuant to this act, or (2) an increased enrollment may reasonably be anticipated in the district"

What does a "reallocation of resources, or any other action within the permissible level of spending" mean? Does this paragraph imply that a school district could, for example, reallocate its resources by granting elaborate salary increases to its employees in such a manner that the remaining resources "would be insufficient to meet the goals" set up in the law and in this event the Commissioner could grant an increased level of spending? Certainly this is not an unreasonable interpretation of the language used.

Furthermore, the law allows the Commissioner of Education to exceed the "cap" if there is an increase in enrollment. An increase in enrollment can mean one additional student.

Certainly the law does not spell out any real limits within which the Commissioner may exercise his discretion. The language of the law is too loose and too much power is left in the hands of the Commissioner of Education.

We therefore recommend that the "caps" on spending for school boards, contained in the education law, be strengthened and tightened.

Administration of Homestead Rebates - The involvement of the tax assessors in processing the homestead rebate forms and later the state in validating the forms and mailin out the payments to the home owners is an extremely expensive and cumbersome procedure.

The Newark Tax Assessor pointed out in the September 26, 1976 edition of the "Star-Ledger" that his office, which would have to process about 35,000 tax rebate forms, would be hard pressed to process and validate the claim forms in addition to their daily business. It is estimated that the process will cost the state 10 million and possibly another 5 million at the local level per year.

In addition, if the taxpayer owes an income tax, he sends his income tax to one state agency and then, eventually, receives his rebate from another state agency. It would be much simpler and much less expensive if he could take his homestead payments as a credit on his income tax form. Only in cases where the income tax is zero or less than the rebate would it be necessary for the state to mail the rebate to the taxpayer.

The involvement of the tax assessor in the process is hard to justify. Eliminating him or her from this part of the process could save an estimated 5 million per year at the local level.

This system would also save state tax dollars, since one state office would be handling both the income tax and the refund and also there would be less mailing costs. It is estimated the savings to the state could very well be 10 million per year.

One difficulty to this approach is the number of conditions of the law which must be programmed and incorporated into the income tax form. These are as follows:

a) a method by which the taxpayer can determine the full rebate for a home of $15,000 equalized value. The full rebate amount will differ for each municipality.

b) a method by which the taxpayer can determine a partial rebate where the equalized value of his home is below $15,000. This figure will have to be keyed into the assessed value amount which is equivalent to $15,000 equalized value and will differ for each municipality.

c) a method by which the taxpayer will never get a rebate that is more than half his taxes.

The above conditions will make for an income tax form which will be difficult for the taxpayer to follow.

We feel that there are comparatively few homes in New Jersey at the present time (and probably less in the future) which have equalized values of less than $15,000.

Therefore, in the interests of simplicity and accuracy, we feel that condition (b) can be safely eliminated, and that the full rebate be given where the home has an equalized value of less than $15,000 with the proviso that the rebate may never exceed half of the taxes. We have run quite a few tests on this and find there would be a minimum of loss to the state if condition (b) were eliminated.

This extra condition is not worth the agony and expense it will entail.

It is therefore recommended that the rebate be administered as part of the income tax procedure. This will save the state several million dollars a year. We understand, of course, that there is a problem with Federal Revenue sharing formulas as presently constituted which would cause a loss of revenue if the rebate is credited against either the income tax or the local property tax. However, it is difficult to justify a costly, clumsy rebate system because of a technicality in the Federal Revenue Sharing program. Steps should be taken to correct the technicality; the tail shouldn't wag the dog.

It is further recommended that in order to facilitate the preparation of the income tax form and to make for simplicity, the condition in the law providing that the rebate will be less than the full rebate where the home is valued at less than $15,000, be eliminated. However, the condition that the rebate may not exceed one-half the taxes should remain.

<u>Renters Rebates</u> - A tenant who pays an income tax gets a $65 tenant credit (additional $35 for senior citizens and disabled) but a tenant who does not pay an income tax does not receive the $65 amount. Take two tenants paying the same rent. The first is wealthy enough to pay an income tax and in effect gets a $65 homestead payment from the state. The second, who lives on social security alone and

therefore does not pay an income tax, does not get the $65 homestead payment. This provision of law is highly discriminatory against the bulk of senior citizens, the disabled, and the poor. A tenants credit or rebate is justified on the theory that part of rent is in the nature of real estate taxes. Therefore, there must be consistency of treatment between homeowners and renters.

It is therefore recommended that if the tenant's payment is to be in a fixed amount, it be administered as part of the income tax procedure, in such a manner that every tenant be entitled to the tenant's payment regardless of income, just as every home owner is entitled to the homestead rebate regardless of income.

Homestead Rebate for Shareholders in Cooperatives - It is recommended that shareholders in cooperatives be treated in the law as homeowners and given the homestead rebate, rather than a renter's credit as provided by the present law.

Landlord's Pass Through - The landlord's pass through is an awkward provision of law that may be difficult or even impossible to administer.

Many people think that the landlord gets the $190 homestead rebate and somehow divides a portion of it among his tenants. This is an erroneous concept.

Actually, it appears that the Legislature had in mind that the landlord might receive a windfall because of reduced school taxes resulting from the new education law. They had in mind that the state would somehow calculate what the landlord's property taxes were before the law went into effect and what they are now under the new law. Part of the difference would be divided up among the tenants.

Note that the landlord does not receive any payment from the state for this amount. Theoretically, he is sharing his tax savings with his renters.

Actually, it is going to be very difficult to arrive at a figure representing savings to the landlord especially after a few years have gone by.

Many tenants will not understand the provision of the law and in all probability the payments to them, if any, will be very small.

The landlords will resent the law and it will be a source of confrontation between landlords and tenants. There have even been fears expressed by some people that some landlords will use this law as an excuse to raise rents in towns where there are no rent control laws.

Although there are penalties in the law, there will be the ever present problem of enforcement.

We believe that the increase in state support of schools is quite mild (from 30 to 39 percent) so that there would be no real problem of a windfall to the landlord.

If state support were raised to say 50 percent, then there might be a problem of windfall, but it would be with respect to all business, not just landlords, and the state would have to institute some measures to take care of this problem.

It is recommended that the Legislature give serious attention to the problems which will arise under the tenants pass through law, and after due consideration give serious thought to rescinding this law.

However, we are suggesting a meaningful renters' tax relief measure in Part II of this report.

Exclusions of Pensions from Income - Senior citizens are very concerned over the fact that state pensions are deducted from gross income, but private pensions are not. This fact was brought up at every regional tax meeting and public discussion of taxes which the policy committee attended. The fact that this was not actually intended but exists because of an old law concerning state pensions, is no satisfactory explanation for senior citizens, and it appears that it will continue to be a bone of contention and an embarrassment to our legislators.

There is good reason to support the contention that both state and private pensions should receive the same treatment. In these days of inflationary pressures, most wage earners and salaried employees receive increases in pay which are meeting all or at least part of the costs of inflation. The pensioner, however, finds the purchasing power of his fixed income is decreasing year after year.

It is recommended that $7,500 of a retiree's pension income be excludable from taxation, in addition to the pension exclusions contained in the present law, and that state pensions be treated on the same basis so as to provide equity between state and private pensions.

The exclusion of $7,500 of a pension would provide equity between various pensioners. If a pensioner received $5,000 annually, all would be excludable; if $10,000 annually, 3/4 would be excluded; if $15,000 1/2 would be excludable.

PART II

Public opinion should start zeroing in on what is going to replace the income tax when it "self-destructs" on June 30, 1978. Many people see this as an opportunity to get rid of the whole arrangement.

However, an abandonment would mean collapse of the homestead rebate, the revenue sharing program, and the additional state money to meet school budgets. The result would be an immediate upward surge in real estate taxes.

New Jersey would then resume its rare distinction of being the highest real estate tax state in the country with the real estate tax meeting almost 60% of state-local costs as opposed to the national average of 39%.

Complete abandonment of the program would thus be unthinkable if for no other reason than the New Jersey Supreme

Court decision in the Botter case, which in essence said that the then existing method of financing schools is unconstitutional primarily because it relied too heavily on inequitable property taxes.

The thinking should therefore be concentrated on constructive criticism of the income tax package as enacted and what can be done to bring about long-range improvement.

<u>Critical Analysis of Homestead and Renters Rebates and Credits</u> - The Homestead Rebate system is certainly not an exemption of a portion of a home's evalution.

Furthermore, it has little to do with the tax rate applicable to the taxpayer. To obtain the amount of the Homestead Rebate, the state applies a uniform tax rate of $1.50 per $100 to the first $10,000 of equalized value (or to 2/3 the home's evaluation if less). To this result is added <u>only 12.5%</u> of the effective tax rate in the community times $10,000.

If we take the median rebate in New Jersey, we would find that most towns are at the median amount or differ from it by a dollar or two. On the very extremes the difference will be a little greater, of course, but in general the rebate is almost a uniform amount. It is difficult to determine what purpose is accomplished by this complicated formula of the law.

The Homestead Rebate has another serious flaw, that is the poor homeowner with an income of $5,000 a year gets exactly the same rebate as the wealthy executive making

$100,000 a year. We consider this to be inequitable. To our knowledge, there is no other state in the union which gives a uniform rebate to all homeowners regardless of income.

In all other states which have a renters homestead provision, it is generally assumed that a certain portion of rent is in the nature of real estate taxes and the renters tax relief program is justified on this basis. However, in New Jersey the variable homeowners rebate of approximately $190 does not appear to have any relation to the fixed tenants credit of $65. In addition, it is difficult to justify why the homeowners rebate applies to all homeowners, whereas the renters rebate applies only to those who pay an income tax.

One is hard put to it to explain why the Legislature invented this somewhat irrational homeowner's and renter's system which seems to defy logic and explanation.

One final point is that the real estate tax is a regressive tax, that is the less income a person has, the greater percentage of his or her income is paid in real estate taxes. The fixed rebate system does nothing to compensate for this regressivity.

Recommended Solution to the Homeowners and Renters Dilemma - The direct tax relief program should be revised to provide a more realistic basis for reform, a consistency of treatment between homeowners and renters, and a solution which, at least partially, compensates for the regressivity of the property tax.

After a thorough study, we have concluded that all of the woes recited above could be overcome by incorporating some form of "tax overload" mechanism in the tax system.

A "tax overload" mechanism has been adopted in 26 states in one form or another. It guarantees to the property owner that his "out-of-pocket" expenses for real estate taxes will never exceed a stated percentage of his income. The method can be applied to all taxpayers, not just senior citizens.

A typical "tax overload" provision appears in the table below:

TABLE B

If household income is*	The taxpayer is entitled to a rebate or credit for payment of property taxes (or the tax equivalent for renters) in excess of this percentage:
Under 5,000	5%
$ 5,001 - $10,000	6%
$10,001 - $15,000	7%
$15,001 - $20,000	8%
$20,001 - $25,000	9%
$25,001 and over	10%

*Household income is all income coming in to the family, including social security

For example, take the case of a senior citizen who owns a home assessed at $20,000 in a municipality with a tax rate of $4 per $100 of assessed valuation, which would produce an annual tax of $800.

For a person with an income of $6,000 "out-of-pocket" expenses to the taxpayer would be limited to 6 percent of his income, or $360. The state would provide a rebate of $440 to make up the balance of the tax bill.

For a person with an $8,000 income, the overload point would also be 6 percent. Thus, the taxpayer would pay $480 of his tax bill with the state paying $320.

It can easily be seen from the above table that a person with a much higher income could also be eligible for a rebate if he had a high enough tax bill relative to his earnings.

The "tax overload" proposal has the following advantages:

1. It partially compensates for the regressivity of the real estate tax.

2. It does not erode the tax base, as would some homestead proposals based on the exemption method. (note that in the above examples the tax collector receives full $800).

3. It can be designed to "phase out" taxpayers who have a high income relative to their property taxes, and for this reason it saves tax dollars. The main thrust of the program can be fine tuned into the middle and low income household.

4. It can provide equitable relief to qualifying renters.

For these purposes, 25 percent of rent is assumed to be in the nature of real estate taxes. For example, if a renter pays $3,000 a year rent, the above principles work in the same manner as a homeowner who paid $750 in taxes.

The home owner does not deal with the assessor, nor does the renter deal with the landlord. Both file the tax relief information as part of the state income tax procedure. If the taxpayer owes an income tax, he takes the property tax relief as a credit on his income tax form. If he does not owe an income tax, he gets a rebate from the state.

The "tax overload" concept affords an excellent method for providing a rational basis for granting tax relief to renters and a basis for consistency with the treatment given home owners, which incidentally the present law lacks.

Other methods of tax relief provide problems particularly with respect to renters. For example, our research reveals that there is not one state which applies the exemption method to renters, the problem being the enforcement problem of getting the landlord to observe the requirements.

We therefore recommend that the "tax overload" concept be worked into the 1978 law. This could be done by replacing the present system with the "tax overload" concept. However, since a system of rebates has already been established, it might be considered necessary to build the "tax overload" concept on top of that which presently exists so no one would lose money It shouldn't be a difficult matter to combine the suggested concept along with a simplified version of the present rebate (possibly reduced to a fixed $190) in one formula.

Revenue Sharing - We believe the correct approach to the revenue sharing aspect would be to seek out those municipal costs which ought to be the shared responsibility of all New Jerseyans, but which fall unjustifiably on local taxpayers, such as the costs of county welfare, municipal welfare, county courts, and payments in lieu of tax payments where state property exists within the municipality. We believe an intense study should be made of this subject to determine whether equity and municipal overburden would be served better by having the state take over these costs, rather than the per capita basis of revenue sharing now in the law.

Education Law - The present law raises the state's share of the cost of education from 30 percent to 39 percent. We believe the state should provide a massive reduction in real estate taxes by raising its share to 50 percent of the cost of education which is the national average. According to the State Constitution, education is a responsibility of the state -- the state should assume its responsibility.

SUMMARY OF RECOMMENDATIONS

Part I - The following should be considered for immediate actions.

Recommendation 1 - That the zero budgetary concept by fully utilized in all levels of government.

Recommendation 2 - That every effort be made by all levels of government to observe the "caps" set forth by the law.

Recommendation 3 - That the "caps" on spending for school boards be tightened and that limits on the discretionary powers of the Commissioner of Education be more adequately prescribed by the law.

Recommendation 4 - That the Homestead Rebate be administered as part of the income tax procedure. This will save the state and the municipality several million dollars a year.

Recommendation 5 - That in order to facilitate preparation of the Income Tax form and make for simplicity, the condition in the law providing that the rebate will be less than the full rebate where the home is valued at less than $15,000, be eliminated. However, the condition that the rebate may not exceed one-half of taxes should remain.

Recommendation 6 - That the tenants rebate be administered as part of the income tax procedure in such a manner that every tenant be entitled to the tenants rebate, regardless of income, just as every home owner is entitled to the homestead rebate.

Recommendation 7 - That shareholders in cooperatives be treated in the law as home owners and given the homestead rebate, rather than a renters credit as provided by the present law.

Recommendation 8 - That the legislature give serious attention to the problems which will arise under the tenants pass through law and after due consideration give serious thought to rescinding the law.

Recommendation 9 - That $7,500 of a retiree's pension income be excludable from taxation, and that state and private pensions be treated on the same basis.

PART II - The following are additional recommendations which legislators should start considering now for implementation into law when the income tax expires on June 30, 1978.

Recommendation 10 - A "tax overload" homestead rebate or credit system for homeowners and renters should be enacted in order to provide consistency and equity of treatment and to compensate for the regressivity of the total state tax system.

Recommendation 11 - That a study be made of whether the state should pay for those municipal costs which in good conscience belong to the state, rather than the present per capita basis.

Recommendation 12 - That the state's share of the cost of education be raised from the present 39 percent to 50 percent which is the national average.

Recommendation 13 - That in order to provide massive reductions in real estate taxes by raising the state's share of the cost of education, by providing more equitable revenue sharing payments and a more equitable direct rebate system for home owners and renters, it is recommended that the state enact a replacement income tax which will provide sufficient additional state revenue to finance these desirable objectives. We would like to work with the legislature in formulating the details of the income tax schedule so that there will be agreement that the various income levels will be treated equitably.

TAX CONVENTION COMMITTEE

Mr. Sal "Ben Franklin" Malanga - Cedar Grove Seniors
Ms. Phyllis Thompson - Plainfield Senior Center
Ms. Betty Arthur - Plainfield Senior Citizen Council
Ann Gillard - St. Francis Senior Citizens
Mr. David Campbell - East Orange Seniors
Mr. Felix Heselton - Essex County Council
Mr. Leonard McPeek - United Passaic Senior Citizens Council
Mr. Harold Tramer - Parsippany Senior Citizens
Mr. Andy Gottberg - Bergen S.C. Clubs, Inc.
Mr. Garret Fieldstra - East Rutherford Seniors
Mr. Joe Dispoto - Lodi Senior Citizens
Ms. Sarah Brown - East Orange Seniors
Mr. William Van Roth - Nutley Old Guard
Mr. James Gyle - U.A.W. Reitrees Council
Mrs. Marie Connolly - IUE Seniors
Mrs. Pilgrim - Newark Senior Citizens
Mr. Charles Manchion - Lincoln Apt. Seniors
Mr. Nicholas Bednartz - St. Nicholas Leisure Time
Mr. Daniel Fitzpatrick - Hopatcong Seniors
Mrs. Katherine Taylor - Orange Lifetime Members
Mrs. Rita Franklin - Essex County Council
Mr. Edward Sutro - Newark Day Center
Mr. Wallace Turner - Camden Gray Panthers
Mr. John Considine - Denville Senior Citizens
Mrs. Mildred Blessing - Bloomfield XYZ

TAX CONVENTION COMMITTEE'S CHAIRPEOPLE

Mr. Charles E. Dybas, Chairman - Senior Tax Convention, President, St. Philomena's Seniors, Livingston.

Mr. John Tergis, Co-Chairman - Platform Committee. Executive Board, N.J. Council of Seniors, Marlboro, New Jersey.

Mr. George Hooper - Co-Chairman - Platform Committee, Member, Nutley Old Guard, Nutley New Jersey.

Mr. Joseph Heckl - Chairman, Convention Arrangements Committee, Parsippany Golden Age Club, Parsippany, New Jersey.

Mr. David Grossman - Chairman, Credentials Committee, President Essex County Council.

Mr. Charles Dinson, Chairman, Publicity Committee, UCC, Newark, NJ.

Mrs. Marge Tramer - Chairwoman, Option Committee, Parsippany, New Jersey.

Business
Industry
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STATEMENT

to the

NEW JERSEY LEGISLATURE

JOINT COMMITTEE ON STATE TAX POLICY

July 12, 1978

The Committee on Taxation of NJBIA is happy to have the opportunity to provide you with its comments and proposals concerning New Jersey State and local taxation.

The Impending Budget Gap

Clearly there is difficulty ahead for New Jersey in matching revenue and expenditures in the 1979-1980 State budget. While it is too early to predict the magnitude of the impending budget gap, additional tax revenue or stringent expenditure restraints are likely to be required. We suggest, therefore, that additional action be taken now to induce growth in New Jersey's economic base and that maximum expenditure restraint be exercised.

formerly New Jersey Manufacturers Association

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Economic Growth

Investors respond to a state's effort to keep business costs competitive, including tax costs. New Jersey has already taken significant actions in the tax field with the exemption of production equipment from the Sales Tax and all new purchases from the Business Personal Property Tax. Other disincentives and inequities continue to require attention.

Revitalizing and expanding New Jersey's weakened manufacturing sector, thereby creating growth and jobs in all sectors of our economy, would produce significant State and local tax gains. It has been estimated that each added manufacturing job in New Jersey would produce annual tax gains of $1,900 for the State and nearly $2,400 for local governments in 1978. In addition, substantial additional revenue would be generated by plant construction and equipment purchases. (A calculation of these tax gains appears in the appendix of the attached paper presented at the National Tax Association's Conference in November, 1977.) Although the timing of these tax gains is indeterminate, it is clear that an expanding economic base produces substantial growth in tax revenue whereas an inadequate or contracting economic base requires periodic tax increases to maintain existing public services.

As part of an overall State effort to improve business costs in New Jersey, a number of modifications should be made in New Jersey's tax laws.

Business Tax Priorities

We consider the top business tax priorities to be the following:

Net Worth Exemption. A permanent exemption from the net worth portion of the Corporation Business Tax should be provided for future acquisitions of plant and equipment for use in manufacturing, research and development, and pollution control. Such an exemption would be an added incentive for the location of new, modernized or expanded facilities. S-911 (1978) introduced by Senator Perskie, and A-3504 (1977) introduced by Assemblyman VanWagner, provide variations of this important exemption.

If such an exemption took effect on January 1, 1979, it would cost several hundred thousand dollars in the current fiscal year and less than $2.5 million in 1979-1980 fiscal year.

Investment Credit. An investment credit should be provided against the Corporation Business Tax for new manufacturing, research and development and pollution control facilities and equipment.

It is estimated that for each 1% of purchase or construction costs credited against the Corporation Business Tax, the State would forgo $12 million in corporation tax revenue. On the other side of the ledger would be tax gains generated by additional economic activity. We believe that a carefully designed investment credit -- teamed with an active State development program -- would produce more, not less, State tax revenue while providing jobs for New Jersey's work force.

Loss Carryover. New Jersey handicaps businesses by failing to provide a loss carryover provision in the Corporation Business Tax. Unless losses incurred in poor years are permitted to offset earnings in other years, a business' cash flow problems are aggravated and more taxes are paid than can be justified on the basis of long term earnings. The problem is particularly acute in the case of new businesses which normally take several years to establish themselves.

We urge that a loss carryforward and carryback provision be made available to every corporation. The initial cost of this form of carryover can be reduced by limiting carrybacks to corporation tax years commencing after enactment of the provision. A less equitable but low cost version would provide a loss carryover only to new businesses, limited to losses incurred in their initial years of operation. The broader form of carryover is preferable and more beneficial.

Pollution Control Equipment. A substantial amount of capital invested in manufacturing is used for pollution control equipment and facilities. Despite the high priority New Jersey places on environmental protection, our Sales and Use Tax continues to impose an added financial penalty on the purchase of pollution control equipment. Because such equipment serves a public purpose and is not profit producing, we urge that such equipment be exempted from the Sales and Use Tax.

Use on Use Exemption. New Jersey's Sales and Use Tax does not apply to raw materials and component parts which become part of a manufactured product for sale. The law also exempts the purchase of manufacturing machinery, apparatus and equipment. Because of what is largely an oversight in the law, a manufacturer purchasing raw materials and components to produce a machine for his own use must pay a tax on them since the machine produced will not be offered for sale.

The cost of extending the raw materials and components exemption to these purchases would be negligible; yet it would accomplish a reasonable and equitable result.

Refunds After Audit. The Division of Taxation's extensive audit activity results not only in assessments of tax but in discovery of overpayment of tax as well. Where the taxpayer has underpaid, interest and penalties are assessed and the taxpayer is expected to pay promptly. Where the audit demonstrates an overpayment of tax, the taxpayer must file a refund request and suffer lengthy delays before being compensated for the overpayment. We recommend that legislation be passed requiring the automatic and prompt issuance of a refund when a completed audit discloses a tax overpayment. Assembly Bill 420 (1978) introduced by Assemblymen Snedeker and Saxton, would require this refund procedure under the

Business Personal Property Tax. We recommend that this proposal be extended to all State taxes.

Interest on Tax Overpayment. Corporations are required to include a 60% pre-payment of corporation tax with their return filed for the preceding year. Estimated tax is based upon the earnings of the last completed tax year. For many businesses this may constitute a pre-payment which exceeds their ultimate, total tax liability. In the interests of equity, we urge that the State pay interest on the excess of the tax pre-payment over a corporation's ultimate tax liability.

Other Business Tax Concerns

Other recommended changes in New Jersey's tax laws include the following:

Installation of Production Equipment. New Jersey imposes a sales tax on installation of exempt production equipment. We recommend that the exemption for production machinery and equipment be extended to cover charges for its installation.

Repair of Production Equipment. As in the case of the installation of production equipment, charges incurred in the repair of production equipment are taxable. We urge the exemption of such services.

Small Production Tools. New Jersey taxes the purchase of tools for use in production. While most of these tools are small, conventional and relatively inexpensive, others may be expensive and custom designed. All are just as important to the production process as machines. We urge extension of the Sales Tax manufacturing exemption to small tools used in production.

Uncollectible Debts. New Jersey requires that the first receipts under a contract of sale be treated as sales tax and that sales tax be collected at the time of sale. Consequently, when a vendor does not receive the full purchase price, either because the debt is uncollectible or a price adjustment has been agreed to, an overpayment of tax occurs. The tax should be based upon actual receipts not upon the unenforceable promise of an initial sales agreement.

The Division of Taxation will refund that portion of sales tax paid which exceeds total receipts. It will not permit the recalculation of taxable receipts by making an adjustment for uncollectible amounts. In other words, a vendor able to collect only 5% of the contract price pays 100% of that amount as sales tax -- a clearly inequitable result. A-1629 introduced by Senator Yates in 1974, provided a credit or refund for sales tax paid on uncollectible debts. We support that modification in the sales tax law.

Sales Tax Payment Date. When New Jersey moved the sales tax return date from the end of the month following collection to the 20th of the month following collection, businesses were faced with both a compliance burden and potential cash flow problem. Because sales tax is regarded as having been collected on the date of sale even when credit terms have been extended, forcing many businesses to pay the sales tax before they have receipts in hand, we urge a return to the end of the month schedule for sales tax returns.

Needed Expenditure Restraints

To increase the potential 1979 fiscal year surplus and close the impending 1980 budget gap, we recommend the following:

(1) State, county and municipal expenditure limits should be retained. Although the form and scope of "caps" is a proper subject of study, they should not be opened up to a host of exemptions which will whittle away at their substance.

(2) The Legislature should refrain from adding new programs or expanding the scope and costs of existing programs except under emergency conditions.

(3) No new State positions should be created or filled except under exceptional circumstances.

(4) To the extent that a 1980 fiscal year budget gap looms, we urge that across-the-board budget restraints be imposed on all departments. Although this might mean holding departmental spending at or near 1979 levels, which opponents like to term a "meat axe" approach, we believe that this method produces the best management results. An across-the-board budget cut leaves to each department the search for operating economies and elimination of non-essential functions. The Legislature can never be as familiar with program priorities and potential efficiencies as those who manage individual departments and programs.

In no case should the Legislature consider the introduction of new taxes or an increase in existing taxes. Our economy shows clear signs of tax overburden. Tax restraint is essential to ensure an economy healthy enough to produce needed private and governmental revenue.

Thank you for the opportunity to present our views.

NEW JERSEY BUSINESS AND INDUSTRY ASSOCIATION

Presented at the National Tax Association Conference, November 8, 1977

TAX INCENTIVES CAN PAY OFF: A BUSINESS VIEW

by

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"Tax incentives" include a host of measures repealing taxes or providing tax exemptions and offsets. Common forms include investment credits, sales tax exemptions for production machinery and pollution control equipment, property tax abatement for commercial and industrial real estate improvements and business personal property tax exemptions.

Nations, states and municipalities employ a variety of tax incentives to attract new investment, increase employment and expand their tax bases. Although they are not a new feature on the development landscape, their broad application in the older industrial states of the North is a recent development.

How Incentives Work

Determining the impact of incentives first requires a review of how incentives work. To be successful, incentives must influence investment decisions directly (by reducing the cost of investment) or indirectly (through operating cost reductions which improve the ability of a business to market its goods and services).

Simply put, incentives are a readily employable means of reducing business costs, intended partly to generate an in-migration of new businesses and partly to stimulate modernization and growth in the existing manufacturing base. Lower taxes, combined with the efficiency and productive capacity of modern equipment, translate into lower unit costs. Lower unit costs enable local industries to capture a larger share of the market for their goods and services. Where local industry has been on the wane, the reduction of unit costs by means of tax incentives can help to halt and reverse employment losses and generate growth from within.

While the impact of rising costs on marginal businesses is clear, many profitable businesses also operate within even the worst "high cost" states. Are tax incentives wasteful since they also will benefit these firms? The answer is that tax incentives can have just as positive an effect whether received by very profitable or simply marginal firms. Reinvested profits are a major source of capital investment in industry. A business experiencing higher profits invariably invests some portion of the increase in expanding its operations and improving its production facilities.

Who Needs Incentives?

Tax incentives are tools designed to help less developed areas as well as developed areas in decline, both of which have too few attractive job opportunities to meet their employment needs. For less developed areas (including, historically, the South and Puerto Rico) incentives have been used to offset deficiencies such as a shortage of labor skills, inadequate diversity in the manufacturing and service base and distance from major markets.

For developed areas in decline (notably Northern industrial states), incentives are a means of regaining vitality lost when rising business costs progressively priced local products and services out of the marketplace. Areas seeking to benefit from incentives have one thing in common: Businesses have found costs of operating within them too high to provide a fighting chance of retaining and expanding their share of the market.

Incentives have not been limited to the United States. Attractive incentives are available in the United Kingdom, the Dominican Republic, Provinces of Canada and elsewhere -- all competing for a larger share of investment capital.

The Appeal of Incentives

Tax incentives may be neither the most important nor the most cost-efficient state actions to bolster development. Nevertheless, the appeal of tax incentives, as a means of prompt governmental action, is apparent to anyone who has reviewed the limitations of available alternatives. For example, low cost and highly cost-efficient industrial bond programs now have a limited impact on interstate cost differentials since nearly all states offer similar programs. No state can afford to be without an industrial bond program; yet, having such a program provides no competitive advantage over others with similar programs.

Dealing with an area's basic economic deficiencies, by bolstering skill training programs, or expanding highway, port and waste treatment facilities, certainly ranks above incentives in importance. Unfortunately, each of these improvements requires a long term, costly effort which promises few immediate results. And lack of these facilities is seldom a significant problem in the North.

For older industrial states, tightening up the statutory provisions and administration of Workers' Compensation and Unemployment Compensation programs might reduce business costs more than tax incentives. Yet, cleaning up statutory benefit program abuses normally requires a confrontation with organized labor which, often, may end in a trade-off of reforms for higher benefit levels, thereby failing to produce significant short term cost reductions.

Other avenues of cost reduction include outright lowering of business tax rates, or reduction in the number or stringency of regulations. These pose political problems. Reducing business tax rates may appear to favor businesses over individual taxpayers. Reining in on regulators (other than insisting on expeditious and simplified procedures) would bring an angry response from environmentalists and consumer activists.

So it is that "quick," politically neutral tax incentives appeal to legislators. They are also highly visible evidence of a positive development program -- an important step in improving the image of a state's business climate.

Do Taxes Really Matter?

Critics of tax incentives often choose to ignore ample evidence that tax burden is an important factor in business location and growth. Studies examining the importance of incentives often ask whether businessmen view taxes as a major factor in their location decisions. The question itself is irrelevant because it ignores the fact that businesses evaluate potential plant sites based on total comparative costs. Every cost contributing to the differential in total costs is significant.

Nonetheless, there is evidence that taxes are a particularly visible cost (often seen as an indicator of government attitude) which many businesses pay attention to in location decisions. In a 1963 Fortune business survey, more than a third of the respondents indicated that local and state tax concessions were one of the five more important factors they looked for in a location.[1] A 1968 report of the Federal Reserve Bank of Boston concluded that "cases in which taxes play a role in location decisions are not uncommon and certainly not insignificant."[2] In a 1975 study, The Fantus Company, the nation's largest locator of corporate facilities, concluded: "There is ample evidence of the influence of taxation on corporation location strategy."[3]

While taxes are not the largest cost faced by industry (and are not weighed as heavily as availability of materials, market and labor in location decisions) every cost element has an impact on unit costs and the ability of an industry to market its products.

Numerous studies, including a 1967 study by the Advisory Commission on Intergovernmental Relations,[4] have attempted to determine whether industrial growth trends have responded to tax differentials in neighboring states. Since a state with high business tax costs may enjoy relatively low land, construction, labor or statutory benefit program costs, it should surprise no one that no consistent relationship has been established between industrial growth trends and tax differentials. Taxes and tax incentives should be recognized as only part of business costs. Total business costs, in the aggregate, determine growth trends.

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1. Time, Inc., 1963, A Fortune Survey on Locating Plants, Warehouses, Laboratories.

2. Federal Reserve Bank of Boston, New England Business Review, Jan., 1968.

3. The Fantus Company, Inc., Report on Tennessee Business Climate, p.26, presented to the Tennessee Franchise-Excise Tax Study Committee, Oct. 15, 1975.

4. ACIR, STATE-LOCAL TAXATION AND INDUSTRIAL LOCATION, April, 1967.

Differentiating Among Industries

Another major criticism of incentives has been that their benefits are too small to offset the cost differential between "high cost" and "low cost" states. True, tax incentives oftimes may be too small to bridge the cost differential for many different classes of industry. Nonetheless, "high cost" and "low cost" generalizations are meaningless when applied to specific industries and classifications of industry which differ substantially from one another in the nature of their costs and needs. Better studies of competing locations attempt to focus on total business costs for each of a broad selection of industries to determine relative location advantages.[5]

Measured against generally high business costs, a state tax incentive may appear insignificant; yet, based on the lesser cost differential for particular industries, that same incentive may make the state more favorable than competing locations. No matter how small an incentive may be, it may make the difference in attracting some class or classes of industry.

As an example, the 1976 Fantus study of New Jersey and competing states developed comparative operational accounts for ten industry classifications. Fantus noted that two proposed tax incentives (subsequently enacted) would change New Jersey from higher cost to lower cost location for one of the ten industry classifications. For two other classifications, profitability of the New Jersey location was greatly increased by the two incentives.[6] A broader program of incentives would have improved New Jersey's attractiveness for still more classifications. Seen in perspective, not against overly broad generalizations, the benefit of tax incentives becomes evident.

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5. A good example is The Fantus Company study (1976) entitled "A Program to Strengthen New Jersey's Competitive Position for Business and Industry."

6. Ibid. p.74.

While attention is often focused on attracting new plants, the most important role of tax incentives in the developed Northern industrial states, with their diverse industrial base, is that of lowering the cost of re-equipping industries in order to preserve endangered jobs, keep businesses afloat, aid industry retention and generate expansion from within the existing industrial base.

Can Incentives Succeed in the North?

While it has been demonstrated that tax and non-tax incentives have induced industrial growth in various parts of the country (industrial development bonds in Kentucky, subsidized loan funds in Pennsylvania,[7] tax exemptions in Puerto Rico), tax incentives have existed for relatively few years in the older industrial states. New York, for example, introduced a one percent investment credit in 1969, increased it to two percent in 1974 and to three percent in 1977. Incentives were enacted in Wisconsin in 1973 and Rhode Island in 1974.

It is not surprising that such recent enactments by Northern states have produced a mixed record of success. Any meaningful appraisal must consider the impact of two major recessions in the 1970's, which decreased industry employment nationwide, as well as the impact of local developments adverse to business.

On the plus side are the success stories of Wisconsin and Rhode Island. Wisconsin has the distinction of being one of only two Midwestern states to gain manufacturing jobs in the 1970's. A September 16, 1977 Wall Street Journal report

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7. Lawrence H. Falk, Daryl Hellman, Peter D. Loeb, Gregory H. Russell (1973) An Industrial Inducement Program for New Jersey, Rutgers Univ., New Brunswick, N.J.

credited Wisconsin's $200 million yearly tax cut for businesses, passed in 1973, with halting that state's job exodus. The Journal article also quoted a recent study which found that, because of the tax incentive program, one-third of Wisconsin's businesses expanded there while another 15 percent have canceled plans to move operations out.

Rhode Island's 1974 enactment of a two percent investment credit, net operating loss carryforward and carryback, phase out of state sales and local property taxes on manufacturing machinery and equipment, and other favorable business tax changes undoubtedly played a major role in that state's dramatic recovery from the last recession. From an April, 1975 unemployment rate of 12.5 percent (compared with an 8.9 percent national average), Rhode Island was able to reduce its unemployment rate to 5.8 percent by September, 1977 (compared with a 6.9 percent national average)!

Despite these successes, critics are quick to note that tax incentives have yet to turn around the economies of New York and Massachusetts (although incentives may well have prevented further erosion of their employment and tax bases).

Cost savings from the incentives of New York and other Northern states often have been counterbalanced by such factors as increases in other business costs (including corporation taxes), the willingness of legislators to saddle businesses with varying forms of regulatory controls and exceptionally high taxes, per capita. It should be stated emphatically that tax incentives will not blind businesses to adverse developments or a state's failure to deal effectively with major deterents to development.

For the older industrial states, incentives are part of the answer but clearly not the whole answer to uncompetitive business costs. I am reminded of the qualification the American Dental Association included in its endorsement of flouride toothpastes, that they "can be of significant value when used in a conscientiously applied program." The benefit of tax incentives to Northern industrial states may depend largely on the willingness of state legislatures to support a full scale development program, including tackling statutory benefit program abuses, restraining the urge to regulate business at every turn in the road, and avoiding over reliance on business taxes. As part of a comprehensive development effort, incentives will induce investment and stimulate the creation of jobs.

Do Incentives Cost Too Much?

The cost of tax incentives is sometimes described as requiring a tax shift to individual taxpayers or a decrease in government services. So described, only incentive costs are recognized; yet, incentives produce fiscal benefits, including tax base growth and decreased need for various governmental expenditures.

Regrettably, the extent of potential growth in tax revenue can only be estimated. As yet, there is no reliable method of predicting how many jobs a given incentive can produce or preserve. Despite that obstacle, we can estimate the impact of additional manufacturing jobs on state and local tax bases.

A New Jersey calculation[8] predicted recurring state and local tax gains of nearly $4,300 per year per job. In addition, non-recurring tax yields, created by the initial investment in plant and equipment required to create a manufacturing job, would produce New Jersey State and local tax revenue of nearly $900 per job.

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8. See Appendix.

As indicated by these calculations, an effective incentive program should bolster tax yields and permit the bolstering of governmental services, even as growing employment roles reduce Welfare, Medicaid, police and institutional service costs. New Jersey has lost well over 100,000 manufacturing jobs since 1969. If 100,000 of those jobs had been retained, State and local revenue now would be at least $430 million greater per year -- a figure that far exceeds the price tag of even the most ambitious incentive programs the State has ever considered.

The Case for Incentives

To capsulize the case for tax incentives -- they do make a difference. Business location decisions and growth are responsive to costs, because business costs determine product marketability and profitability. By reducing tax costs, a state provides increased marketability and profitability for locally manufactured products.

The change in cost differentials accomplished by means of incentives will help to retain and produce jobs as well as keep local industries viable and attract new plants.

Since each class of industry differs in the nature of its costs, even a generally "high cost" state can acquire a cost advantage or eliminate a cost disadvantage for certain classes of industry by enacting appropriate incentives. A relatively small decrease in costs can enhance a state's existing cost advantage to the point where it attracts new firms. Or it may decrease a cost disadvantage sufficiently to discourage relocation of existing firms.

When evaluating the potential impact of tax incentives, it is illogical to expect economic growth to demonstrate a consistent response to tax differentials. Business growth reacts to total costs whereas tax costs are sometimes unrepresentative of total costs.

While the question of whether tax differentials are a matter of prime concern to relocating businesses has received great attention and conflicting answers, neither the question nor its answer is particularly relevant. What is relevant is the relative merit of the alternate means available to a state of reducing excessive total business costs.

Business taxes are one of few costs which are both within the control of government and subject to prompt change. Changes in business taxes also are highly visible -- an advantage to any state attempting to offset a negative business climate.

Finally, incentives should be part of a comprehensive effort to reduce government imposed costs. As part of a concerted economic development effort, tax incentives will increase state and local tax yields, reduce welfare type expenditures and produce needed private sector employment opportunities.

In short, tax incentives can pay off!

APPENDIX

Impact of One Manufacturing Job on New Jersey State and Local Taxes

When considering business tax incentive proposals or other programs to bolster a state's economic development, it would be useful to policymakers to know the stakes involved - particularly the impact of a proposed incentive on tax revenue. While it is relatively easy to put a price tag on each proposed incentive or new development effort, great difficulty and uncertainty accompanies any effort to demonstrate revenue gains to be generated by such programs.

The following calculation attempts to predict New Jersey State and local revenue gains from the creation of each additional manufacturing job. It does not attempt to predict job gains or revenue impact from any specific program of incentives.

A generalized measure of the tax revenue impact of one industrial job must be based on industry averages, notwithstanding the fact that no particular manufacturing job will be average. Nor can averages predict the precise timing and magnitude of growth in a specific tax. What the following calculation does provide, based on very conservative assumptions, is a reasonable "ball park" estimate of the minimum impact of a manufacturing job on New Jersey State and local revenue.

The following calculations assume that each new industrial job is backed by a capital investment of $40,000,[1] broken into $9,200 per job for plant construction and $30,800 for machinery and equipment purchases.[2]

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1. Source: Chamber of Commerce of the United States.

2. Of total capital investments by New Jersey manufacturers, approximately 23% was invested in plants, 77% in machinery and equipment, as reported in the 1973 and 1974 Annual Survey of Manufacturers, U.S. Department of Commerce.

Two major assumptions underlie the calculations:

First, a relationship exists between personal income and State and local tax yields. It has been assumed that combined state and local tax revenue will experience an increase or decrease corresponding to the percentage change in personal income (an elasticity of 1.00 for the tax system).[3]

Second, using an economic multiplier, it has been determined that each new manufacturing job provided in New Jersey will result in creation of two jobs in other sectors of the economy. The manufacturer's payments for goods, services, wages and benefits result in the generation of retail, wholesale, service, transportation and construction activity. The per employee share of the manufacturer's total economic activity within the region (including employee compensation) is used to determine a multiplier. A 3.0 multiplier was selected as a conservative estimate for New Jersey (as a densely developed urban state with exceptionally diverse business economy) after reviewing previous studies of economic multipliers. For example, multipliers have been calculated for more limited geographic areas such as New York City (3.15), Cincinnati (2.70), Denver (2.54) and Witchita (2.74).[4] Based on these multipliers for smaller geographic areas with less diverse business bases, a 3.0 multiplier for New Jersey seems suitable.

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3. The New Jersey Tax Policy Committee reported in 1972 that the State's revenue structure had an elasticity of .98. Numerous changes in both taxes and rates in recent years make a more current analysis of elasticity difficult if not impossible.

   No assertion is made that variations in personal income will produce immediate and completely parallel changes in tax yields. Withdrawals from personal savings in recessionary periods and increased saving in periods of income growth affect the timing, although not necessarily the ultimate volume of tax yields. Business cycles also cause more radical variations in sales, excise and income taxes than in property taxes. Nonetheless, it is reasonable to conclude that a given amount of growth in personal income will produce, in time, corresponding growth in tax yields.

4. See review of employment multipliers for selected American communities by Smith, David M., (1971), Industrial Location, An Economic Geographical Analysis, New York, John Wiley & Sons, p.458 et seq.

Calculation of Tax Impact

I. Recurring (annual) Tax Yields.

For purposes of calculating the tax impact of one additional manufacturing job, the manufacturing employee's wage and the derivative earnings of two employees in other economic sectors must be determined.

The $11,260 average earnings of a New Jersey manufacturing worker (1976) plus $21,840 earnings from two derivative jobs (each calculated as equivalent to the $10,920 average earnings of New Jersey employees covered by unemployment insurance in 1976)[5] produces a total of $33,100 in personal income resulting from the creation of one new manufacturing job. Each $1.00 of personal income produces approximately 5.0 cents in State revenue and 6.2 cents of local property tax.[6]

The $33,100 increase in personal income, generated by providing one additional manufacturing job for one year, would have produced $1,655 in State revenue and $2,052 in local property taxes in 1976.

To update the calculation from 1976 to 1978, an average 7.5% per year growth in manufacturing and non-manufacturing employee earnings has been projected.[7] Based on estimated 1978 income levels, recurring annual tax yields generated per additional manufacturing job would be:

State..........$1,903
Local..........$2,360

Combined (recurring) State and local tax yield....$4,263

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5. Source: N.J. Department of Labor and Industry.

6. The ratio of personal income to tax revenue is based on U.S. Department of Commerce data on 1976 personal income of New Jersey residents and N.J. Department of the Treasury data on State revenue received during the 1976-1977 fiscal year and the 1976 local property tax levy. For this purpose, State taxes include major taxes, miscellaneous taxes and licenses, lottery and miscellaneous revenue but do not include Federal aid or revenue sharing or those taxes dedicated for local use which since have been repealed or made inapplicable to future purchases. Local taxes consist of the local property tax, not including other tax and miscellaneous revenue.

7. From July 1976 to July 1977, the average gross hourly earnings of production workers in New Jersey rose 8.2%. Source: N.J. Department of Labor and Industry, Economic Indicators, August 31, 1977.

II. Non-recurring Tax Yields.

Non-recurring taxes are generated by the investment in plant and equipment required to support a new manufacturing job. Sales taxes are imposed on purchases of construction materials. Payment of construction wages translates into growth in a mix of state and local taxes. Machinery and equipment purchases result in net income to durable goods manufacturers, taxable under the New Jersey Corporation Business Tax.

A. Plant Construction

(1) Construction Materials

Of the $9,200 per job invested in plant per manufacturing job,[8] approximately $3,680, (40%) would be spent for purchase of construction materials. Purchase of these materials, which are subject to the 5.0% New Jersey Sales and Use Tax, would produce the following tax yield:

State..........$184

(2) Construction Wages, Salaries and Profits

The balance of construction costs, approximately $5,520 (60% of the $9,200 invested in plant construction per job) has been treated as personal income.[9] Using the rates of 5.0 cents of state taxes and 6.2 cents of local taxes generated by each $1.00 of personal income, $5,520 of earnings by persons employed in the construction industry will result in the following tax yields:

State..........$276
Local..........$342

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8. See footnote 1 for breakdown of capital expenditures.

9. Although the application of an economic multiplier to construction would be justified at this point, no multiplier has been applied for purposes of this calculation.

B. Machinery and Equipment Purchases

Machinery and equipment purchases per manufacturing job totals approximately $30,800. For lack of a more precise method, an extremely conservative assumption was made that New Jersey capital goods manufacturers would produce and sell 8.2% of such equipment.[10] For purposes of determining state corporation tax payments generated by sales of this machinery and equipment, it was assumed that before tax net income equalled 9% of sales (the approximate average for all manufacturing industries for the 1974-1976 period). Allocated to New Jersey for purposes of the Corporation Business Tax was all net income attributable to sales by New Jersey firms plus one-third of net income attributable to sales by out-of-state firms. Imposed on this corporate income, the state's 7.5% net income tax would produce the following tax yield:[11]

State..........$81

Total non-recurring taxes would be:

State..........$541
Local..........$342

Combined non-recurring State and local tax yield..$883

III. Initial Year's Tax Yield

Based on estimated 1978 income levels, total recurring and non-recurring tax revenue produced from one additional manufacturing job for a period of one year would be:

State..........$2,444
Local..........$2,702

Combined State and local tax yield
from first year's employment.....................$5,146

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10. Corresponding with the State's share of employment in the manufacturing machinery industry, 1974 Annual Survey of Manufacturers, U.S. Department of Commerce.

11. New Jersey Corporation Business Tax owing = $30,800 sales x .09 rate of profit x (.082 domestic share + .918/3 apportioned foreign share) x .075 tax rate.

As a final comment on the preceding calculations, it should be noted that no attempt has been made to determine the amount of reductions in State and local expenditures for welfare, Medicaid, police and institutional services which could result from employing a jobless individual. Each dollar reduction in State revenue needs would have the same impact as a like increase in revenue. The real revenue impact of a manufacturing job would be the combination of reductions in government costs plus new taxes generated.

njea

STATEMENT by James P. Reilly, director of research of the New Jersey Education Association, before the Joint Committee on State Tax Policy, July 12, 1978.

On behalf of the New Jersey Education Association, I wish to express our appreciation for this opportunity to state our views before the Joint Committee on State Tax Policy.

NJEA has worked for many years in support of a system of equitable taxation in the State of New Jersey which is adequate to provide needed public services. We endorsed the concept of the income tax early in the tax crisis and joined actively with other interested parties in support of its passage.

Enactment of the income tax did not end the fiscal problems of our State, and several troublesome questions about long-range fiscal and tax policy remain.

Adequate funding of public schools is an area of vital interest to all parties concerned with the public welfare in our State. The creation of budget increase limitations, or caps, has, in our opinion, created a serious impediment to provision of adequate educational programs. The obvious intent of caps is to reduce expenditures by public entities, which reduces the need to levy taxes. Caps thus become a factor to be considered in planning long-range tax policy, and we therefore bring our concerns about both caps and tax policy to this body today.

Our intention is to briefly review the cap experience, to raise specific questions, and to draw some conclusions about what has happened and what is likely to happen. Finally, we will make some recommendations for your consideration on caps and other subjects.

ORIGINAL CAP PROPOSAL

The Joint Education Committee reported to the Legislature on the 13th of June, 1974 its analysis of measures which would be required to satisfy the constitutional mandate of the Robinson vs. Cahill decision. A concern mentioned on page 28 by the Committee is possible inefficient use of additional state funds which would be made available in large amounts to many

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school districts under its proposals. In order to avoid such inefficiencies and guarantee intended property tax relief the Committee recommended that school district budgets should be limited to increases ranging from 8% for the highest spending districts to 20% for the lowest spending districts. The limitations would apply only to the 1975-76 and 1976-77 school budgets. The Commissioner would be able to waive these limits if additional spending was required for thorough and efficient education, in his opinion.

The legislation subsequently drafted reversed the original recommendations of the Committee and placed county and municipal caps in effect for a period of two years, created State caps for a somewhat longer period, and made school budget caps indefinite. The method of calculating school budget caps was also changed from a flat percentage by expenditure level to a set of complicated formulas involving growth in equalized valuations, school district spending levels, and State average spending levels. That formula was enacted as part of Chapter 212 in September, 1975 and has remained in effect since then. A technical defect affecting districts above the state average expenditure level was corrected in December, 1976 (Chapter 137, P.L. 1976).

FIRST REPORT ON THE CAPS

On August 12, 1977 the Joint Committee on the Public Schools issued a report on the first year of cap implementation entitled, "The Fiscal Impact of Budget Caps in 1976-77." The report deals with the goals of the cap as envisioned by the Joint Committee. These goals are:

. Prevention of large and inefficient budget increases:
The Committee concluded that large and inefficient increases had been avoided but that fiscal uncertainty may have played a larger role than caps.

. Limitation of state fiscal liability:
The Committee concluded that this goal had also been met, largely by virtue of meeting the first goal.

. Property tax relief:
The Committee concluded that substantial property tax relief did take place in 1976-77.

. Equalization of expenditures per pupil:
The Committee concluded that a modest degree of equalization of per pupil expenditures took place in 1976-77.

CAP PROBLEMS NOTED BY JCPS

The JCPS noted several problems which had appeared in administration of the cap. These problems included:

. Budget reductions in subsequent years caused by appropriation from free balance;

. Very tight caps for high cost schools; e.g. vocational and regional schools;

. The need for additional equalization of expenditures;

. Possible need for liberalization of the cap due to the substantial drop in growth of state equalized valuations;

. The report concluded by stating that no attempt had been made to assess the effect of budget caps on educational quality, this function being left to a proposed study by the Department of Education.

These problems continue to exist.

CAP IMPACT SURVEY

The study suggested by the JCPS eventually materialized as a joint survey of chief school administrators by the State Department of Education and the New Jersey School Boards Association. A report was published in January, 1978.

The survey provided information which indicated a negative effect of the cap upon educational quality.

The survey drew responses from 463 chief school administrators, 76% of the total contacted. Supplementary data was included in the cap survey report by the Department of Education. The following points reveal cap problems:

. Ninety percent of the respondents indicated that their district would have difficulty in maintaining a thorough and efficient education without changes in the method of cap calculation.

. Eighteen point five percent reported program reductions in 1976-77 in their district and the percentage increased to 25% in 1977-78.

. Twenty-one percent reported that the student/teacher ratio had increased.

. Thirteen percent stated that the number of course offerings had been reduced.

. Eleven percent reported that extracurricular offerings had been reduced.

. Fifteen percent reported that summer school offerings had been reduced.

. Two hundred twelve positions were reported eliminated because of caps in 1976-77 and 339 positions in 1977-78.

. Forty-one percent (17 districts) of districts opening new school buildings reported difficulties in launching the new facility which resulted directly from the cap.

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. Twenty-eight percent of respondents indicated that contemplated new programs or program improvements in the planning stage were abandoned in view of cap limits.

. Fifty-seven percent of respondents disagreed with the assertion that budget caps have contributed to increased public support for school district budgets.

. Twenty-seven percent of respondents indicated that the 5% municipal cap had created pressure in their districts not to exceed a 5% growth rate even though a much larger cap might be available.

. Forty-seven percent of respondents agreed that the quality of their school programs has generally suffered as a result of caps. (Forty percent disagreed with this assertion and the remainder did not express a clear opinion.)

Certain other responses tended to suggest that caps were a less serious problem in 1976-77 and 1977-78, leaving considerable ambiguity about the meaning and importance of the survey.

The report notes difficulties involved in separating the declining enrollment problem from the cap problem.

The survey also revealed that:

. Fifty percent of respondents indicated that caps have had an impact upon employee negotiations.

. Twenty-one percent indicated that the caps have interfered with settlement of a contract.

. Thirty-eight percent indicated that the board has used the cap as a guide in shaping offers made to employees.

. Forty percent of respondents agreed that caps had contributed to priority setting and more systematic planning (but 77% disagreed with the assertion that caps were useful in eliminating outmoded programs).

Thus, the survey revealed extensive cap related problems but probably cannot be considered a definitive study of the subject.

SDE CAP ANALYSIS

The State Department of Education prepared a document which reportedly analyzed the effect of caps in light of the original intent and the effect of the caps on educational programs. A draft of this report was shown briefly to representatives of NJEA and several other educational organizations at a meeting held in the State Department of Education in

February, 1978. Organizational representatives were not permitted to take copies of the report out of the meeting. Follow-up inquiries revealed that the report has been completed but is not available to NJEA nor presumably to other organizations outside of State government, or to the public.

HISTORY OF WAIVERS

1976-77

- One hundred and sixty-five school districts received waivers for the 1976-77 school year with a total value of $23,093,192
- This number was reduced to 97 districts and $14,115,301 when the Legislature restored appropriations for the TPAF.
- Audits indicated that only 70 districts actually exceeded the caps for 1976-77, by a total of $7,462,493.
- Twelve school districts overran their cap by a total of $203,473 and were forced to reduce expenditure levels.

1977-78

The Commissioner was widely criticized in the Legislature and in the press for granting what were felt to be excessive waivers for 1976-77. This criticism apparently led the Commissioner and the Department to be much more stringent in granting waivers for the 1977-78 school year.

- Seventy-eight boards of education petitioned for 1977-78 cap waivers totaling $23,290,800.
- The Commissioner approved $6,778,193 or 29% of the requested amounts.
- Seven districts received full waivers, 41 districts received partial approval, and 30 districts were turned down completely.

Cap waivers for 1977-78 were thus minimal.

1978-79

The situation changed substantially for the 1978-79 school year.

- One hundred and fifty-three districts requested $56,501,553 in cap waivers.
- Sixty-six districts were granted their full cap waiver, eighty-three were partially approved, and only four were denied.
- In some cases, local surplus funds were available to cover expenditures for which waivers were not granted.

- The Commissioner granted $35,344,812 in waivers, or 62.6% of the amount requested.
- Identification of available local surplus funds raised the amount of expenditures covered by waiver or reallocation to 67.2% of the amount requested.

Thus, approximately $2 of every $3 requested in waivers were given to local school districts.

THE ROLE OF FREE BALANCE

It is often said that many districts have used free balances to avoid the damaging effect of caps. Total free balances in New Jersey schools increased by more than $10 million in 1976-77, but this effect can probably be explained on the basis of the financial confusion which existed at the time and which apparently resulted in cancellation of many programs and projects. Increases may have occurred primarily in districts with greater cap leeway. The status of free balances during the 1977-78 year will not be known until sometime in the Winter of 1979.

- An analysis just conducted by the Research Division of a nonrandom sample of 155 districts indicated that 68% of the districts in the sample have appropriated from free balance for the 1978-79 school year.

We do not yet know whether this is a significant deviation from past practice. In these districts, free balance appropriations represent 2.3% of total appropriations, which does not appear to be a large figure but actually represents approximately $65 million in actual expenditures.

It is difficult to assess the role of free balance in dealing with the cap at this point. This analysis will have to wait until audited statewide figures are available for the 1977-78 and 1978-79 school years. However, it seems safe to assert that appropriations from free balance play an increasingly important role in dealing with the cap. Available free balances appear to be declining in districts with tighter caps.

THE CAP AND THE CPI

The NJEA Research Division has compared the permissible cap percentage increase in the net current expense budget for each school district with a conservatively estimated increase in the Consumer Price Index during the 1978-79 school year of 6.5%. Recent monthly increases in the Consumer Price Index in the New York-New Jersey and Philadelphia-Metropolitan Areas have been more on the order of 7% to 8-1/2%.

. The analysis based on a conservative CPI increase of 6.5% indicates that 409 of 599 districts have statutory permissible cap percentage increases less than the anticipated increase in the Consumer Price Index.

. Thus, 68% of the school districts in New Jersey have lost effective purchasing power unless a waiver has been granted.

PROPOSED CAP MODIFICATIONS

A proposal has been developed by the State Department of Education which calls for changing from a "net current expense budget" approach to a "total adjusted current expense budget" approach. This change would bring all revenues and expenditures under the cap except those covered by federal aid and budgeted tuition revenue, and would substitute state per capita income for total state equalized valuation increase in the cap formula. Sources in the Legislature have changed this proposal to include a 3-year average of total personal income rather than per capita income and have introduced the program as Senate Bill 1212 (Feldman). This measure is proposed as an improvement in the cap situation.

NJEA has compared the effect S-1212 would have had upon permissible school budget increases for 1978-79 with increases actually permitted by the present system. Our analysis indicated that 72 districts out of a sample of 155 districts (46.5%) would have had a smaller increase under S-1212. While we realize that the factors change from year to year, we do not view as cap improvements S-1212 or other proposals which simply move cap hardships around.

The cap has tightened inexorably since its inception. The need is for relief from cap pressure, not for further arbitrary reductions in cap leeway in any district.

TUITION INCREASES

. There are reports that some receiving districts have avoided the effects of the caps by imposing substantial tuition increases upon sending districts.

This of course creates a financial problem for the sending district. NJEA does not have detailed information on this situation at the moment, a detailed analysis of changes in tuition arrangements being a complicated and time consuming project.

POSTPONED MAINTENANCE

. There are informal reports that other school districts are avoiding the effects of the cap by postponing maintenance.

This is an unfortunate but sometimes an unavoidable situation which often results in a crisis for the school district. A point arrives when the maintenance project must be carried out because deterioration has proceded to unsafe levels. Costs may be several times the original estimate at this point. Again, substantial time may be required before the results of such neglect will become apparent.

CONCLUSIONS

At the moment it is difficult to produce conclusive evidence that the cap provision has had a seriously damaging effect upon the public schools of New Jersey. However, it appears clear that rapidly decreasing cap leeway will cause serious problems in the near future unless something is done. There are several factors which should be considered in evaluating these circumstances.

DATA COLLECTION PROBLEMS

- The fact that definitive information about a problem is difficult or impossible to obtain at a particular time obviously does not indicate that no problem exists.

Collection of adequate data is one of the most difficult problems in research. Data collected on the caps has been very limited in scope.

- The Joint Committee on the Public Schools has evaluated the caps primarily in terms of resulting expenditure levels.
- The remaining data on caps consists largely of anecdotal incidents collected on an informal basis by various organizations and of a survey of school superintendents conducted by the State Department of Education and the New Jersey School Boards Association.
- Data collection problems are complicated by the fact that the effects of the cap provision are almost hopelessly intertwined with the effects of declining enrollment and financial problems which existed prior to the cap, or which have occurred independent of the cap.

Local taxpayer revolts would be an example of the latter.

- The precise district-by-district analysis needed to identify cap problems has not been carried out by the Department of Education.

NEED FOR AUDIT

- Specific changes in the program and expenditure levels of a school district are difficult to determine precisely until an independent audit has been completed and reviewed.

This process is ordinarily not completed and reports made available to the public by the State Department of Education until nearly a year after the close of the school year. Thus, 1976-77, the first year of the caps, is the only one for which audited financial information is available. There is also the difficulty that 1976-77 was an extremely chaotic year because of state aid uncertainties and initial imposition of the caps.

WAIVERS

. The moderately liberal granting of waivers for 1978-79, as discussed above, undoubtedly plays a major role in the avoidance to date of seriously negative cap effects.

All requests for cap waivers were reviewed and the Department of Education either granted waivers or identified available surpluses to cover approximately $68 out of each $100 in requested waivers. Although some districts appealed waiver turndowns to the State Board of Education, we are not aware of any districts which went to the courts after rejection by the State Board. Only a little more than $3 million was appealed to the State Board of Education.

FREE BALANCE

. There is widespread belief that school districts with tight caps have tended to maintain expenditure levels by using accumulated surpluses. This may very well be true in spite of the fact that aggregate surplus increased by approximately $10 million in 1976-77. Again, information on the status of surplus for 1977-78 will not be available until well into 1979. However, it is believed that free balances are now declining.

DECLINING CAP LEEWAY

. We are now at a point where the average cap has fallen to only a little more than 5% for 1978-79, and is thus below the anticipated inflation rate and average wage increase levels for school employees.

This situation has been mitigated by waivers. Surpluses have apparently been used to maintain programs.

. The cap is expected to average about 4.4% for 1979-80.

It may thus be reasonably expected that the situation will deteriorate unless very extensive waivers are granted, or the cap provision is modified or abolished.

INCREASED STATE MANAGEMENT

. The caps seem so far to have functioned as a device through which the State has assumed local expenditure decisions which were previously made by independent school boards.

(OVER)

This appears to be a direct result of increased state funding for public schools and increased concerns on the part of state officials for controlling expenditures required by a state aid formula which escalates automatically in response to increasing district budget levels. If present trends continue, we will be dealing with a State-managed school system which will be operated in much the same way as the State presently operates its own agencies. Local control will be limited to certain curricular and personnel matters.

SUMMARY AND RECOMMENDATIONS

To summarize, it appears that public education in New Jersey has reached a crucial point. Budget increases permitted by the caps in many districts are rapidly slipping below the leeway needed to maintain an adequate program. Surpluses will not last indefinitely and the list of "expendable" programs is growing shorter as districts place economy measures in effect.

Some appear to hope that school employees will solve the cap "problem" by accepting a situation in which their wages are not increased, or are not increased sufficiently to maintain their economic position relative to other occupational groups. This will not happen. The old adage that "we get what we pay for" is still accurate, and has never been successfully circumvented on any scale. If we choose to spend less on a service, the result is not cheaper service; the result is less service.

The purposes of the cap outlined four years ago by the Joint Education Committee were clearly transitional. The Committee was concerned about the effects of suddenly infusing large amounts of State funds into local school budgets; i.e. that the new amounts might be viewed as windfalls to be spent on special projects. This period is now behind us.

Public officials are often criticized for organizational inertia. The public complains that a problem, although easily predictable and preventable, must be allowed to inflict its full measure of mischief upon its victims before public officials will take any action. This must not happen again in such an important area.

A variety of factors have combined to produce a situation in which the full impact of the caps is apparently not being felt as rapidly as originally expected, although the trend is clear. At the same time, the transitional phase during which Chapter 212 has been implemented is now over. There is a message in this for those alert observers who are willing to listen and to act.

The message is straightforward. Caps have performed their intended function. The time has come to abolish caps before their full impact is felt and the resulting damage done. Caps do not seem to have been eminently successful in equalizing per pupil expenditures. Our observations indicate that the cap "message" of fiscal restraint has had a greater impact in low-expenditure districts which need to improve their programs than in high-expenditure districts which have developed an appreciation for quality education.

We therefore raise again a question which has never been adequately answered. There seems to be no substantial argument with the assertion that fiscal restraint is necessary in most enterprises, but why must restraints in public education in New Jersey be arbitrary? Why must school districts go through all the convolutions presently imposed upon them by the cap? How is a mechnical approach subject to many errors and conceptual flaws superior to intelligent review by trained finance experts in our Department of Education? The obvious answer is that the cap is not the best answer to the demand for fiscal restraint. Effective control of local schools should be returned to local school boards, with a financial review role for the Department of Education.

NJEA urges you on behalf of the school children and school employees of New Jersey to adopt a position calling for immediate repeal of the school budget increase limitation provision of Chapter 212. Caps should not be part of long-range tax policy in New Jersey. We recognize that total abolition of the cap may take time. In the meanwhile there is pressing need for modifications which will increase cap leeway in view of the rapidly tightening cap. Removal of the .75 factor in the cap formula is an example of such an adjustment. However, NJEA opposes piecemeal exemptions.

There is also the unfinished business of bringing the State share of local school costs to at least 50%. We continue to advocate development of revenue sources adequate for this task. Instead, we see efforts to cut back on what has been described as a minimal commitment to thorough and efficient education. Cuts of approximately $7.5 million have been made at the last moment in school aid appropriations for 1978-79. An effort is presently underway by the Administration to reduce special education funding in 1979-80 by approximately $27 million relative to what would be available under the present system.

NJEA deplores these efforts to avoid pressing obligations by hobbling vital educational programs through marginal funding reductions which vitiate programs without destroying them.

(OVER)

We are also concerned about persistent talk of a serious revenue shortfall in the 1979-80 State budget. If such a crisis is in the offing, it should be dealt with in a timely and forthright manner by increasing revenues to the extent necessary to meet the State's full obligations to public education and other vital public services. We trust that the past has taught us the inefficacy of half-measures in dealing with our fiscal problems, and that the past will not be resurrected.

The responsibility for the integrity of our State government and our system of education rests heavily upon you at this moment. Your decisions will affect generations of New Jersey children. We are confident that you will deal effectively with your charge. NJEA urges you to strive for a secure future for the children of our State by recommending that adequate revenues be made available for quality education and other services without arbitrary financial restraints.

TOWNSHIP OF MOUNT HOLLY N.J.
1677

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ROBERT F. CASEY, *Township Manager*

July 10, 1978

Joint Committee on State Tax Policy
New Jersey Legislature
Trenton, NJ

On behalf of Mount Holly Township, I would like to thank you for this opportunity to comment to this Committee on matters concerning the State revenue policy and local government.

First of all, I would like to preface my comments by emphasizing that the problems of tax revenue in New Jersey are only an effect - not a cause - of the basic concern of our residents. The basic issue today is the rampant spending of all levels of government and especially expenditures for those services which do not produce a tangible product for our residents. We believe that most citizens accept municipal expenditures since they basically relate to tangible services available to all of the residents. However, this correlation is often not perceived for other layers of government.

In specific reference to State tax policy, we are very concerned with the tendency of the legislature to make commitments without fully knowing the cost - or to make commitments with the cost being delayed to a future year. We are convinced that the State does not have an overall fiscal plan; or, if it does have one, it often ignores it due to the pressures of particular interests. The end result of these actions by the State are periodic fiscal "crunches" which often are resolved at the expense of the municipalities. For example, a political commitment to "Lifeline Utility Rates" which may be financed with revenues currently assigned to municipalities. The end result of this policy is to escalate State spending through an increase in local taxation.

A specific legislative ruling should be established that requires a 2/3 majority of each house when a new expenditure requirement is being fostered upon local government without a specific new revenue source. Likewise, this 2/3 majority should be required whenever legislation will affect the existing revenue structure of local government - whether to increase these revenues or decrease them.

Finally, one area that the State must address is the fiscal burden placed upon a few municipalities by the location of County facilities within their boundaries. The State has addressed the problem of State wide facilities being imposed upon a single community in recent legislation. In Burlington County, there is no reason for Mount Holly Township to finance the tax burden of the location of County facilities in Mount Holly. County and State facilities should pay for local services like any other facility. This would distribute the cost of these facilities among all of the benefiting parties and not just the one in which it is located.

Your concern in these matters is appreciated.

Robert F. Casey
Township Manager

Include in appendix — did not make oral presentation
July 12, 1978
Willingboro

Statement of Robert Broderick, Delran Township, before the legislature's Joint Tax Policy Committee, at the Willingboro Municipal Complex, July 12, 1978

My name is Robert Broderick, and I bring several perspectives to my testimony today. I live in what most people would call a suburb, but I have spent most of my life in Jersey City. I was a newspaper reporter for three years, and followed the activities of local and county government. I now work for the New Jersey Education Association and, in that capacity, have written and am now revising a brief history of school finance in New Jersey.. And last but not least, I am the vice-president of Delran's Township Council, and so am deeply concerned about municipal government finance.

In doing research for this testimony, I came across a book published by the Tax Foundation, a non-profit Washington-based corporation. The book, the 1977 edition of Facts and Figures in Government Finance, contained some interesting statistics, a few of which I would like to share with you.

For fiscal 1976, which was, of course, before the passage of our income tax, NEW Jersey was one of four states which raised the majority of its stATe and local general revenue by means of the property tax. Connecticut, Massachusetts and New Hampshire were the others, and, if I am not mistaken, all three now face court orders to end their overreliance on the property tax for school finance..

If miscellaneous fees and charges by state and local governments were added to direct taxes, the other three states would have more revenues from other taxes and fees than from the property tax. New Jersey, then, was the only state in the nation which relied on the property tax for a majority of the revenue raised within the stat[e]. All of this, of course, was raised locally, since there was no statewide property tax.

For the same fiscal year, New Jersey ranked 45th in the nation in terms of state aid to local school districts, paying about 30 per cent of the costs of education in the state.. Since the federal government contributes only about 5 per cent of the costs of education in New Jersey, the property taxpayer was paying about 65 per cent.

Those figures alone would lead one to suspect the property tax was overworked as a source of revenue.. But there was physical evidence as well. Jersey City began its decline when the railroads and large industries abandoned the city. With less property to tax, the city could not raise the money needed to maintain its public facilities and services.. Other cities, I'm sure, have similar histories.

Therefore, I am absolutely convinced that the legislature took a giant step in the right direction when it passed the income tax package of ~~1976~~ 1976.. And, based on the results of the last gubernatorial election, most people believe the same thing. The qquestion now is, "What's next?"

For me, that question translates into the question of whether we have done enough to reduce reliance on the property tax? And, as a corollary, have we passed enough of the burden from municipalities and counties to the state?

I believe not. When I was running for office this past spring, two comments made me pause to think. One was from an elderly man who wanted to know what I would do for people like himself, who lived on a pension and had trouble paying the taxes on his home, where he had lived for many years. And another was adamant against allowing any high-density housing in the township.

"They just don't pay their way," he said.

Governor Byrne points out, and rightly so, that property taxes have stabilized in the past two years. But for many people on fixed incomes, these property taxes were already too high. And any future increases in local property taxes will cause them even more pain.

As for the objection to high-density housing; I believe the objection is based more on fears of skyrocketing property taxes than on bigotry against low-income citizens. The Musto Commission pointed out a few years ago that, in general, the higher the density, the greater the burden on the property tax. In my own township, this is certainly true, for the large apartment complex requires heavy police service and school space.

The ~~mm~~ income tax was passed two years ago in answer to a Supreme Court decision that local property wealth should not be the determining factor in whether a child receives a good education. If local school district property wealth should not be the major factor in determining education quality, should it be the major factor in determining the quality of police protection a municipality gets? The quality of justice as administered through the county and municipal court systems?

For many years, counties have pressed the state to take over the costs of welfare and the courts. The state should heed those demands, and thus reduce the need for property taxes to maintain those systems.

The state should also examine the school funding system closely.. The recent study by the Education Policy Research Institute, claiming that the gap between rich and poor districts has not closed, should be a signal to the legislature to see if that is indeed the case. If it is, more funds should be channeled to those urban districts, where the educational needs are most critical.

The next question is where the state will get additional revenues. Referring back to the Tax Foundation book, I see that New Jersey's current corporate business tax is the 11th highest in the nation, and that most of the Sunbelt States have lower rates. Any increase in this tax, as the Office of Fiscal Affairs has suggested to close the anticipated revenue gap in fiscal 1980, must be weighed against the state's efforts to attract industry.

The state's sales tax is also among the highest in the nation, although New York's and Pennsylvania's are both higher. Fortunately, and rightly, New Jersey exempts food and prescription drugs from the sales tax, and this equalizes our tax with that of other states with nominally lower rates.

The property tax, as I have stated, is overworked.

That leaves, excerpt for nuisance taxes which do not raise substantial amounts, the personal income tax.

I am, of course, aware of the painful experience of the last decade as the legislature struggled to establish a more equitable finance system. I am aware that that fight cost the legislature some of its best members, including Sen. Wiley and Sen. Buehler. I am aware that there would be a tremendous public outcry at the very mention of an income tax increase.

But the real public outcry is for real tax reform. The voters in California demanded relief from unbelievably high property taxes, when the state, through its tax system, had built up a sizeable surplus.

But of course we have no surplus, because our income tax is a low one. In fact, and again I refer to a figure from the Tax Foundation, the 2.5 per cent income tax New Jersey levies on its upper-income residents is the third lowest upper bracket rate in the nation. Only Iowa, with a 2 per cent rate for everyone, and Pennsylvania, with a 2.3 per cent flat rate, have lower rates for their more well-to-do residents.

In fact, several states have top brackets in double figures. Delaware, for instance, taxes its richest residents at 19.8 per cent, and New York's top rate in 1976 was 15 per cent. (I believe it may be higher now.) Most states are in the 4 to 8 per cent range.

I am certainly not suggesting that we raise our rates to parallel New York's or Delaware's. But the fact remains that in one of the richest states in the nation, with one of the highest per capita incomes in the U.S., we tax higher income residents lower than almost everyone else.

Six years ago, a special commission appointed by Governor Cahill, headed by Mr. Harry Sears, recommended instituting an income tax with rates similar to those of New York, which were then much lower than they are now. Governor Byrne's original tax plan of 1974 called for rates ranging from 1.5 to 8 per cent, and a later Byrne plan called for rates up to 6, and later still, 4 per cent. In fact, the Assembly passed the original Byrne plan in 1974 and a plan with rates up to 4 per cent in 1976. Some legislators apparently saw the wisdom of more tax reform than we ultimately received.

To sum up, I believe the state's reliance on property taxes is still too great, and that residents of our state who make more than, say, $35,000 should be asked to carry a larger part of the tax burden.

One thought about "caps": my colleague, the mayor of Delran, who has been making up municipal budgets for many more years than I, will comment more fully on caps. But I believe caps, in their present form, are restricting older municipalities, especially the larger cities, from making much-needed improvements in facilities and services, and are restricting developing towns from keeping pace with increased demand for services. I also believe it is hypocritical for the state to base its cap on a measure which allows increases of 9 to 11 per cent while holding counties and municipalities to 5 per cent and some school districts to 2 and 3 per cent. Senator Yates and Senator Hamilton have [illegible] made suggestions to ease the burden of caps, and the legislature should seriously consider these changes. These include using a different measure of growth to calculate caps, and the exclusion of certain fixed costs from cap formulas. Perhaps caps should be placed only on new programs to insure than no drastic tax increases will take place.

In closing, let me emphasize that my opinions are mine alone, [redacted] They are the opinions of a lifelong New Jerseyan who wants his state to better itself. Thank your for this opportunity, and I applaud for holding these hearings to guage public sentiment.

DATE DUE
