Property Tax Commission

Report of Recommendations

to

Governor Christine Todd Whitman

Mayor Barbara Cannon
Chairwoman

September 1998

September 16, 1998

To: The Honorable Christine Todd Whitman, Governor of the State of New Jersey

The Property Tax Commission is pleased to present you with its report of recommendations.

When you appointed the members of the Property Tax Commission in December, 1997, you charged us with recommending ways to help county, school, and municipal officials ease the heavy burden of property taxes on New Jersey residents. Since then, the Commission has held 10 meetings, numerous subcommittee meetings, and four public hearings to gather data and opinions from private citizens, policy experts, local officials, and State legislators.

The Commission sought to address both the <u>cost</u> of New Jersey's method of providing local government services as well as the state's historically heavy reliance on the property tax to <u>fund</u> these government services. The Commission recognizes, and wishes to stress, that any attempt to slow the growth of, or to reduce, property taxes must address both sides of this equation. Therefore, we focused on several areas essential to balanced property tax reform.

The Commission established subcommittees to deal with three of the issues we felt were essential: school regionalization, local government shared services and consolidation; tax administration; and the "ratables chase." The Commission as a whole considered the issue of tax restructuring and the recommendations of each subcommittee.

Respectful of the public's desire for lower taxes, the Commission concluded that our recommendations should not result in an increase in the total State and local tax burden. We therefore avoided solutions that would levy new or increased taxes without also reducing property taxes and the cost of government. The Commission also operated from the belief that government, like business, must control spending before radically changing the revenue side of its operations. Finally, we sought to include not only long-term recommendations, but also recommendations whose effectiveness could be seen more immediately. State assumption of the costs of prosecutor offices and of property assessment are two examples of this type of recommendation.

This report, which was unanimously approved by the members of the Commission, is ultimately a product of the robust input we received from interested and informed people across the state. The Commission is grateful for that input.

I and all the Commission members hope that our work provides some measure of property tax relief. As I maintained throughout my tenure as the Commission's chairwoman and reiterated upon the release of the Commission's discussion papers (included as appendices in this report), we also hope to inspire an informed public conversation about the complicated issues and tradeoffs surrounding New Jersey's property tax structure. Consistent with that belief, the Commission members have asked that I convey to you our willingness to help you promote a constructive public discussion in any way you see fit.

On behalf of the members of your Property Tax Commission, I respectfully submit this report to you and to the people of New Jersey.

Sincerely,

Barbara Cannon

Barbara Cannon
Commission Chairwoman

PROPERTY TAX COMMISSION

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<u>PROPERTY TAX COMMISSION</u>

REPORT OF RECOMMENDATIONS
TO GOVERNOR CHRISTINE TODD WHITMAN

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EXECUTIVE SUMMARY

Governor Whitman asked the Property Tax Commission she created in 1997 to study the property tax problem in New Jersey and offer recommendations that would help county, school, and municipal officials ease the burden of property taxes on New Jersey residents.

Historically, property tax reform discussions have sparked debate on the issue of home rule. In studying the problem and developing recommendations, the Commission looked at home rule from two perspectives. First, the Commission acknowledged the tremendous value of home rule as a means of retaining and exerting local control over decisions about programs and services that communities determine they need. At the same time, the Commission recognized that home rule in the sense of locally administered and locally delivered services has led to an overabundance of local units of government – including 21 counties, 566 municipalities, 611 school districts, and 400 local authorities and fire districts – that has driven up the cost of local government in New Jersey. The Commission has concluded that while New Jersey citizens ought to continue holding local control in deciding which services they will receive, it is equally important for New Jersey to reduce property taxes by finding more efficient ways to provide those services.

The Commission recommends, therefore, that New Jersey implement a host of regulatory and statutory changes to encourage sharing of services and, where appropriate, consolidating or regionalizing units of local government. The Commission recommends that the State establish a large-scale program to provide financial incentives for local units of government, including school districts, to evaluate and implement new joint programs. The Commission also supports the recommendations of the New Jersey Regionalization Advisory Panel that school district central office operations be regionalized where appropriate while enhancing local control of neighborhood schools.

Furthermore, the Commission believes that the property tax problem has increased in some areas of New Jersey when local governments encourage and approve new development for the short-term revenue gains it produces, only to suffer the costs of additional services necessary to support the new development. In order to avoid the "ratables chase," the Commission recommends that the State educate local units of government on the true costs and benefits of development. Further, the Commission encourages the passage of legislation to enable municipalities to enact "timed growth" ordinances and to levy impact fees on new construction to offset the added burden of development on various forms of infrastructure, including schools and parks. And the Commission recommends that the State ensure that its own policies do not initiate a ratables chase in any municipality or county.

In the area of tax administration, the Commission believes that the current, fragmented system of local property assessment creates inequities that contribute to the property tax problem and therefore recommends a more centrally administered assessment system, funded by the State, that would ensure regular adjustments in property assessments across the state. To ease the shock of significant increases in property value for taxpayers in municipalities that have not undergone property revaluations in many years, the Commission proposes a State-funded program to phase in over three years the property tax increase resulting from a revaluation.

Finally, in public hearings and through correspondence, the Commission heard from many citizens who called for the local school tax levy – which this year amounted to approximately $7 billion statewide – to be replaced in part or fully by State funding. The Commission spent considerable time analyzing options for restructuring New Jersey's tax system to decrease local property tax levies, especially the local school tax. While the Commission recognizes that many taxpayers perceive the property tax as inequitable, the Commission concluded that a significant shift of the revenue source for local education from the property tax to a statewide tax could create serious economic consequences for the state and would require New Jerseyans to forgo a degree of local control over the education of their children. Furthermore, the Commission believes that serious consideration of tax restructuring must be preceded by a more complete public discussion of the consequences of a significant shift. It is also necessary before such a restructuring that substantial structural changes in the way that services are funded and delivered be implemented, as outlined in this report.

The 60 specific recommendations of the Commission, which are detailed in subsequent chapters of this report, are listed in summary form beginning on the next page.

SUMMARY OF RECOMMENDATIONS

The 60 recommendations listed below may be referenced in the body of the report by using the two numbers preceding each item. The first number represents the chapter in which the recommendation is made, and the second number represents the order in which the recommendation falls in that chapter. (e.g., “1.1” is Chapter 1’s first recommendation.)

Chapter I

1.1 Enact legislation that would allow municipal governments in urban aid-qualified communities to levy a parking, entertainment, or hotel room tax for the purpose of providing direct tax relief to property taxpayers.

Chapter II

2.1 Establish a State program of financial assistance and incentives to encourage local governments and school districts to consolidate, regionalize, and implement new joint services.

2.2 Link any program of incentives and financial assistance for consolidation, regionalization, and shared services directly to providing property tax relief for the communities' residents.

2.3 Continue funding for the Joint Service Incentive Grant Program, which provides "seed money" to study or implement consolidation, and regional and shared service programs.

2.4 Amend current statutes to provide, at local option, that in instances of shared or merged services involving police, firefighters, and teachers, all contractual matters shall be subject to renegotiation with the shared/merged service provider.

2.5 Permit locally funded early retirement incentives or added pension credit programs for newly consolidated municipalities or new interlocal service programs.

2.6 Permit local units to "opt out" of Civil Service for purposes of interlocal and shared service programs.

2.7 Direct all State agencies to conduct a review of their rules and program requirements to identify those that restrict local shared efforts or cooperative activity.

2.8 Administratively provide that appointment of a joint municipal court judge shall be by the Governor based upon nominations made by the municipalities operating the joint municipal court.

2.9 Enact legislation to permit county governments and approved local cooperative pricing systems to establish programs similar to the State's open-ended contracts.

2.10 Provide clear statutory authority for counties to serve as facilitators of intermunicipal joint service efforts. Along with legislative authority, provide limited financial assistance to help counties establish offices of shared service facilitation.

2.11 Statutorily require regular (at least annual) meetings between the governing bodies of adjoining municipalities, and between municipal officials and those of local school districts, authorities, and fire districts to discuss cost-saving efforts and possible shared services.

2.12 Direct State agencies, including the Local Government Budget Review Program, to make personnel available upon request to assist local officials with planning new interlocal activities and evaluating the feasibility of shared service programs.

2.13 Encourage local governments and school districts to make greater use of public-private efforts and the services available from non-profit organizations to help develop and implement regional and shared service efforts.

2.14 Establish a statutory budget cap exemption for interlocal service agreements. Provide a positive cap base adjustment to reflect a fixed amount of the interlocal appropriation as an inducement to establish shared service programs.

2.15 Revise the local budget law to permit budget transfers at any time during the budget year to fund new interlocal service agreements.

2.16 Assume the costs of the county prosecutors' offices and the costs of providing court facilities, including construction costs.

2.17 Permit additional membership representation from participants in joint meetings established under the Consolidated Municipal Services Act, N.J.S.A. 40:48B.

2.18 Condition financial assistance or State aid upon participation in shared or regional service activities.

2.19 Amend the Municipal Consolidation Act to reduce the number of petition signatures.

2.20 Amend the Municipal Consolidation Act to permit the creation of a municipal consolidation study commission by ordinance of the local governing bodies without the need for a ratifying referendum in each municipality.

2.21 Amend the Municipal Consolidation Act to lengthen the time allotted for filing the study commission's final report to at least no later than Labor Day (rather than nine months after the election of the consolidation study commission). Consideration should be given to provide for a permissive extension (up to a maximum of one year), if desired by the commission.

2.22 Eliminate the commission's six month preliminary report and the Department of Community Affairs' eight month evaluative review of that report.

Chapter III

3.1 Implement the recommendations of the New Jersey Regionalization Advisory Panel's January, 1998 report.

3.2 Revise the funding mechanism for regional school districts to eliminate cost inequities and permit equal sharing of the benefits and cost savings possible from regionalization.

3.3 Direct the Commissioner of Education to develop a program to maintain and enhance local control of individual schools when districts regionalize.

3.4 Keep authority and control over certain school-related functions now exercised by the local boards of education at the sub-regional level when school districts regionalize.

3.5 Direct the Commissioner of Education to develop regional and shared service models for administrative and support functions.

3.6 Conduct studies to identify and develop models of shared administrative and management positions.

3.7 Help the county superintendents' offices facilitate efforts to implement inter-district and joint pupil transportation services.

3.8 Direct the Department of Education and the Department of Community Affairs to work jointly to encourage interlocal efforts between school districts and municipalities.

3.9 Research and study current use of shared and regional approaches to general education and administrative services by local districts to identify suitable models.

3.10 Help increase parents' and residents' involvement in the educational process and the affairs of neighborhood schools.

Chapter IV

4.1 Prepare a guidebook for municipalities and counties to determine the true costs and benefits of development, including an "Economic Analysis Worksheet" and techniques for implementation.

4.2 Provide planning board members with tools for understanding the costs and benefits of development and land preservation and provide financial and technical assistance to strengthen local planning.

4.3 Enable municipalities to enact "timed growth" ordinances that advance the State Plan, as a tool to control property taxes.

4.4 Support the use of impact fees to mitigate the cost of new development by providing additional revenue for schools, emergency services, and parks in areas that promote compact development.

4.5 Support the State Plan's use by municipalities, counties, and State agencies as a means of holding down property taxes.

4.6 Amend Council on Affordable Housing (COAH) regulations to ensure that practices do not initiate a development cycle or a ratables chase. For the next allocation cycle, develop COAH formula consistent with the State Plan.

4.7 Support state funding for transportation, including mass transit, that meets local and regional needs.

4.8 Support a stable source of funding for open space and farmland preservation.

<u>Chapter V</u>

5.1 Establish a county-based assessment structure with strong State oversight and involvement to provide an environment conducive to ongoing assessment equity.

5.2 Mandate more frequent updates of assessment values by requiring assessors to use State-approved computer software.

5.3 Establish a schedule for property visitation.

5.4 Improve guidelines for assessment uniformity.

5.5 Create a State-funded program to absorb increases in the local property tax burden for a fixed period of time.

5.6 Guarantee the promised State incentive funding for the full five-year period, once local units agree to merge.

5.7 Provide State funding to "hold harmless" local units that experienced a reduction in overall State aid funding as a result of the consolidation.

5.8 Require municipalities participating in mergers to conduct and complete a revaluation prior to consolidation.

5.9 Provide State funding of the revaluation relief credits that municipalities are permitted to offer property taxpayers under the Revaluation Relief Act of 1993.

5.10 Use financial incentives and disincentives to encourage participation when there is only a small discrepancy between taxpayer assessments and current market values.

Chapter VI

6.1 Fund an independent statewide analysis of the equity issues surrounding "circuit breakers" established along intergenerational lines and withhold new programs until completion of that study.

6.2 Enact Governor Whitman's proposed legislation that would move local school board member elections to the November general election.

6.3 Amend state law (C. 40A:10-52) to remove the barrier prohibiting municipalities and school districts from joining together for the purpose of providing joint health insurance.

6.4 Extend the open enrollment period indefinitely for municipalities wishing to enter the State Health Benefits Program (SHBP).

6.5 Develop a mechanism which permits and encourages adjacent municipalities to share the ratables derived from new development with regional impacts beyond the borders of the host municipality.

6.6 Enact legislation that will establish a system of multiple jurisdictional bargaining for public employees on a county, regional, or statewide basis.

6.7 Enact legislation that will limit the annual growth in public employee salaries to the rate of inflation as measured by the consumer price index for the New York and Philadelphia areas.

6.8 Examine the effectiveness of existing caps on budgets that contribute to property taxes.

6.9 Examine the question of seeking voter approval of all budgets that contribute to property taxes.

HISTORICAL BACKGROUND

Over the course of more than two centuries, New Jersey has developed a system of local (municipal, school, and county) government that places high service expectations on numerous local governments authorized to use only a single primary source of revenue: the property tax.

Although they are creations of the Legislature and are regulated by the State, New Jersey's municipal, county, and school governments enjoy a strong tradition of "home rule." The liberty that constituents of these local units of government have to conduct their own affairs has been only reinforced by the State's sporadic and reluctant moves to assert control over areas of traditional local authority.

In the 19^{th} century, limited transportation and communication made local service provision the most efficient and economical means of delivering government services. As the need for services increased, however, localities simply added services or expanded existing services, often without considering the possibility of providing the services on a larger scale such as the county or the state. At the same time, for reasons of greater local control and other political and economic advantages, many local governments in the 19^{th} century broke off into smaller units and incorporated, thereby dramatically increasing the number of local units in the state.

The result is a fragmented system, often incapable of efficiently providing services demanded by the public. Service duplication and few local funding alternatives have led to high property taxes throughout the state as communities have grown and the services provided have become more complex.

The means of funding local government services, the property tax, originated in Europe and developed in America during the colonial period. From this period until the Industrial Revolution, agricultural land holdings represented relative wealth, so a tax on these properties seemed to be both reasonable and equitable. Believed to be an equal, universal tax, the property tax was implemented to avoid the class bias found in many European taxes such as the poll tax or the faculty tax (a tax on the estimated *ability* to earn, rather than actual income). Because uniform implementation required a centralized government – something many people at the time vigorously sought to avoid – instituting the tax became a local responsibility, which it remains to this day.

Today, the property tax in New Jersey is levied and spent by four types of government – school districts, municipal and county governments, and local authorities.

More than half of the statewide property tax levy goes to support *school* funding. Prior to 1966, school funding came almost entirely from the property tax. In 1966, funds from New Jersey's first statewide sales tax helped to reduce the school tax rate. However, as school enrollments increased, so did the need for school services and school funding.

In 1977, the State introduced school budget caps and enacted the Public School Education Act, funded by the new personal income tax, causing a temporary reduction in the property tax rate. A number of factors in the 1980s caused substantial increases in local school property taxes. The 1990 Quality Education Act attempted to curtail this rise with significantly increased State funds and budget caps. The Act was able only to briefly delay the rapid rise of school property taxes.

The *municipal* property tax levy is used to fund government services in individual municipalities. Like the local school tax, New Jersey's average municipal property tax rate increased in the 1980s. This was influenced by a number of factors, including increased insurance and solid waste disposal costs, and decreased federal revenue sharing. The rate of growth in municipal tax rates slowed in the early '90s, and local elected officials deserve a large degree of credit for continuing this trend into recent years.

The *county* portion of the property tax has remained relatively stable over the past 45 years. Increases in the 1970s and 1980s can be attributed to increased services in areas such as higher education and health. Similarly, as State and federal aid programs decreased, the county tax increased. The county tax rate declined recently when the State assumed health and welfare costs and took control of the county courts. Governor Whitman's commitment to increase county college funding should also have a positive impact on county budgets.

The final portion of the property tax consists of taxes for other *special taxing districts*. This portion provides funding for fire districts and other local taxing purposes that are not provided for in municipal budgets.

New Jersey's continued reliance on the property tax is tied to one of the chief forces that led to so many units of local government -- the desire for local control and home rule (see Appendix B for an analysis of the cost of home rule). This fact complicates proposals for property tax reform in that shifting the means of funding local services to a statewide tax cannot be accomplished without a simultaneous shift of control over spending decisions to the State. Without additional control, the State obligates itself to fund programs and services over which it has no control and creates a system of "local mandate, State pay" (For a more thorough analysis, please see Chapter I and Appendix C).

While many today vilify the property tax, some national experts are reluctant to call for its elimination. According to Glenn Fisher, author of *The Worst Tax? A History of the Property Tax in America,* "The property tax survives not because it results in equal taxation of property but because it remains the only tax capable of producing the revenue needed to provide funds to the various semiautonomous local governments that play such a large role in providing services to American communities." This is especially true in New Jersey, with its large number of local units of government. Furthermore, the property tax provides a relatively stable source of revenue capable of weathering economic downturns.

Calls for property tax relief in New Jersey have been around for most of this century. In fact, commissions to study the issue are documented to have been assembled as early as 1929. The most recent statewide commission was the State and Local Expenditure and Revenue Policy (SLERP) Commission, which issued its report in 1988.

SLERP concluded that many services provided by local governments would be more efficiently provided at the State level. The SLERP report stated that local provision of these services "results in an undue reliance on local governments, an inequitable distribution of burdens between State and local taxes, and a serious imbalance between local government responsibilities and the resources available to these jurisdictions to finance those responsibilities." While the SLERP Commission recognized the importance of home rule, it pointed out the resultant need for continued high levels of local funding or a State assumption of local services.

CHAPTER I

TAX RESTRUCTURING

The Commission recognizes that any study of long-term property tax reform in New Jersey must examine both the cost of local governments – be they municipalities, counties, or school districts -- and the present system of funding local services. Support for the latter was reinforced by citizens who contacted the Commission through correspondence or at the Commission's four public hearings, where the topic of tax restructuring was a major issue of public comment. Accordingly, the Commission considered several alternative means of taxation, including (1) establishing a greater reliance on statewide taxes to fund the school portion of the property tax; and (2) authorizing some municipal governments to establish new taxes, as a means of providing relief to property taxpayers in their communities. This chapter will focus on the Commission's concerns and recommendations regarding these alternatives.

SHIFTING THE LOCAL SCHOOL PROPERTY TAX TO A STATE TAX

The local school tax levy accounts for more than 50 percent of the average New Jersey property tax bill, by far the largest portion. Believing the property tax to be an unfair means of funding public education, many citizens came forward at the public hearings to urge that the Commission recommend fundamentally restructuring the tax system by shifting school funding from local property taxes to statewide taxes. The personal income tax and sales tax were perceived as more equitable funding sources. Additionally, a number of people cited the experience of the State of Michigan, which restructured its system of education funding with significant shifts from local to statewide taxes. (See Appendix D for more information)

The Commission certainly acknowledges the need to reduce the property tax burden on the citizens of New Jersey. Moreover, the Commission recognizes that significantly reducing or altogether eliminating the local school tax is a compelling option for reducing property taxes in New Jersey. In response to the clear desire for change from many property owners throughout the state, the Commission devoted many hours to discussion and analysis of tax restructuring.

After careful consideration, the Commission concluded that even the most promising proposals to restructure the combined state-local tax system to reduce property taxes had two factors in common: each had the potential to create serious economic consequences for the state, and each would require New Jerseyans to forgo a degree of local control over the education of their children. Understanding the frustration of citizens faced with burdensome property tax bills, the Commission nonetheless considers it imprudent to recommend a solution that would jeopardize the state's economic well-being. Similarly, the Commission is not prepared to recommend a radical departure from New Jersey's tradition of local control in educational matters without first allowing the citizens of this state to fully understand and discuss the implications of broader State support for public schools.

The Commission also believes it imperative that significant structural changes first be made in the way that services are funded and delivered in the State of New Jersey, and that local units of governments first pursue a number of the cost-saving measures outlined later in this report.

These proposals include: making it easier and more appealing for local governments to merge or share services; aggressively pursuing regionalization of school administrative functions; creating a more centrally-administered system of property assessment; curtailing the pursuit of development for the sake of short-term ratables gains that often lead to long-term property tax increases; and using State funds to ease the shock of significant property revaluations.

The Commission is, however, willing to recommend limited, targeted revenue-producing options for local governments that qualify for urban aid. The Commission makes this recommendation with the stipulation that these new revenue sources be dedicated exclusively for property tax relief, and must not hamper economic development, infringe on the State's ability to increase a statewide tax, or create economic competition between municipalities.

The Commission believes it is premature to recommend a major, statewide shift in the means of generating revenue for local government purposes; a wider and more informed discussion of the issue must take place before any dramatic change can or should occur. The Commission believes it necessary, therefore, to present its analysis of the implications of a fundamental shift in school funding to the State in order to initiate that debate.

Discussion: State funding of public schools and local control

The school budget process in New Jersey closely follows a tradition of local control over education. That is, local school boards, with the approval of voters, determine how much they will spend and which programs they will provide beyond those required by the State. They also negotiate and set salaries for their employees. This freedom allows some wealthy districts to spend substantially more per pupil than other districts and to provide services that other districts do not provide.

Currently, State education aid accounts for about 43 percent of total public education expenditures in New Jersey. This 43 percent is not a fixed relationship, however, for after State aid is provided, each individual community is free to decide how much to spend each year. The effect that such local decision making has on the proportion of State money in public education is this: If total State dollars remain constant from one year to the next, the percentage of State support will decrease if local spending increases. Similarly, the percentage of total education expenditures provided by the State may decrease if total State dollars increase but local spending increases by some larger amount. The percentage of State support, therefore, is very much dependent on the level of local spending.

The Commission was asked to recommend a substantial increase in the State's share of total school spending. Some have argued for full State funding for all school costs. Most, however, have asked for the Commission to recommend that the State pay a fixed percentage of total statewide school costs higher than the "floating" 43 percent it currently contributes.

The Commission stresses that establishing a fixed percentage of State contribution toward public education – whether that fixed amount is 50 percent or 100 percent of total public education expenditures -- would necessitate radically changing statewide school funding policy. In order to guarantee that the State provide a fixed percentage, a total spending level would need to be established and districts would need to be prohibited from spending over that level. (The State cannot guarantee that State aid represents even 50 percent of total spending, for example, without applying strict controls on the total amount that is spent statewide.) Without such controls in place, the State would have to constantly dedicate more money to education based on local funding increases determined each year by hundreds of New Jersey school districts.

In addition to leaving local communities virtually no say over the bottom line in local school spending, these necessary controls include: forbidding future local tax contributions that are greater than the allowable local contribution, replacing district-by-district or regional (as recommended by the Commission elsewhere) salary negotiations with statewide collective bargaining; and freezing or reducing average per-pupil spending of districts that currently spend well above the state average. Communities would, therefore, be unable to establish programs that increase local contributions, even if the political and financial support to fund such programs existed locally. (See Appendix C for a more detailed analysis of the impact of such State funding on local control of education.)

When discussing a fixed State contribution scenario, the only difference between full State funding or partial State funding is how much money communities contribute to their local school district and how much the State contributes. In either case (full or partial), fixed State funding requires additional State control.

Another critically important fact to consider is that fixed State funding short of 100 percent funding would continue to be only an average. In order to continue fulfilling the Constitutional mandate for reasonable spending equity in a system funded in part by local taxes, the State would have to use State aid to equalize spending, providing aid to districts in proportion to the wealth of their communities. Therefore, regardless of the average proportional State support, under current state law the wealthiest districts would continue to receive little State aid while, for others, State aid would continue to represent most of their spending.

One point of clarification is in order: Elsewhere in this report, the Commission recommends that school districts regionalize administrative functions to reduce costs, but insists that communities retain local control over educational decisions. The Commission would like to reiterate that it recognizes and respects the value of local control over educational matters, especially to preserve the close connection between communities, parents, and their schools. Therefore, while believing that administrative efficiencies can be realized through consolidation or sharing without threatening local control, the Commission argues that the loss of local involvement in educational matters that would result from full State funding of public schools would not be in the best interests of the state or its public schools at this time.

Discussion: Shifting school funding to a statewide tax

For all the reasons presented above, the discussion of shifting the property tax portion of school funding entirely or partially to a statewide tax must assume that the spending controls have been put in place for total education spending and for local share of education spending.

Of the more than $13 billion New Jersey public schools will spend in 1998, approximately $7 billion was raised through local property taxes. If the total school spending level remains static, eliminating the local school tax altogether would require the State to raise an additional $7 billion annually through the income tax, sales tax, or a combination of the two.

Obviously, a lesser shift to statewide taxes would require the State to raise a smaller amount in additional revenue. To fund 50 percent of public school costs in 1998, for example, the State would have to spend approximately $6.568 billion, or $920 million more than it does today.

The Income Tax

Most people who contacted the Commission regarding an increase in State support for public schools suggested using the income tax to do so. Therefore, the Commission extensively considered this option.

The Commission heard from many people throughout the state who saw the income tax as a more equitable tax, one dependent on ability to pay rather than on property value. The Commission recognizes the benefits that a shift to the income tax would hold for many citizens who own valuable property and lack high incomes. However, given the current economic situation in the state and region, the economic and political effects of such a shift could be substantial.

The state income tax generated $5.59 billion in Fiscal Year 1998. As indicated above, the income tax would have to yield an additional $7 billion per year to compensate fully for the elimination of the local school tax. To reach this increase, the State would have to generate 221 percent of the current amount raised by the income tax. If the rate schedules were simply increased proportionally, the lowest rate would increase from 1.4 percent to 3.09 percent, while the top rate would increase from 6.37 percent to 14.08 percent.

This increase would give New Jersey an income tax rate higher than any other state, and easily the highest income tax rate in the region.

State	**Top Marginal Rate**
Connecticut	4.5%
Delaware	6.9%
New Jersey	14.08% (under full funding scenario)
New York	7.125%
Pennsylvania	2.8%

As mentioned above, the State would have to spend an additional $920 million in 1998 to fund 50 percent of public school costs. In order to raise this through the income tax, the top marginal rate would have to increase to 7.358 percent, again the highest in the region. And, once again, this 50 percent funding could only be guaranteed through additional State control of local education spending decisions.

Businesses considering relocation from one state to another weigh the income tax as a major factor in their decision. New Jersey would put itself at a competitive disadvantage by establishing a significantly higher income tax.

The Commission also recognizes the positive effects of the State's income tax reductions of recent years. Before Governor Whitman's income tax cut took effect, New Jersey trailed the nation in several key economic indicators, including employment growth, Gross State Product, and durable goods sales. By 1997, the state matched the nation in employment growth, growth of the Real Gross State Product exceeded the United States Gross Domestic Product growth rate, and the percentage change in durable goods sales in the state pulled ahead of the national rate. New Jersey has also experienced a net increase of nearly 300,000 jobs since the income tax cut plan was introduced in 1994. The Commission believes that the income tax cut has benefited New Jersey and hesitates to undermine what has been an important source of economic growth.

Finally, as mentioned earlier in this chapter, a significant shift of school funding to the State would require additional State control. Therefore, the Commission has concerns about even a partial increase in the income tax to further fund school costs through the State.

The Sales Tax

To raise the additional $7 billion required to replace the local school tax solely through the sales tax, which generated $4.75 billion in Fiscal Year 1998, the State would have to increase the tax from 6 cents per dollar to more than 14.5 cents per dollar – more than double the current sales tax rate. This increase would give New Jersey a higher sales tax than any other state in the nation and would make New Jersey's sales tax by far the highest among all states in the region. (New York's state sales tax is 4 cents, Pennsylvania's is 6 cents, Connecticut's is 6 cents, and Delaware does not have a sales tax.) The Commission therefore believes that relying on the sales tax for complete State school funding would not be in the state's long-term economic interest.

Similarly, any partial increase in New Jersey's sales tax (already among the highest in both the region and the nation) to fund education could also send consumers and vendors out of the state to other, less expensive markets. For example, in order for the State to raise the additional $920 million necessary to fund 50 percent of public school costs in 1998, the sales tax would have to be increased to 7.1 cents, the highest rate in the region. This 50 percent, of course, would not be guaranteed without additional State control. New Jersey's sales tax, the Commission believes, is therefore not competitively positioned to accept the burden of full or increased funding of the state's public schools.

The Commission is also concerned about the effect a significant sales tax increase would have on New Jersey families. Some observers see the sales tax as a regressive tax. As such, a massive increase such as the one described above could have an inequitable and detrimental effect on low-income families. Another sales tax proposal, to broaden the base of the tax to additional, currently untaxed consumer goods, would also make the sales tax more regressive. After some discussion, the Commission concluded that increasing the regressivity of one tax (in this case the sales tax) to alleviate the burden of another is not a satisfactory solution.

It should also be noted that sales tax payments – unlike property tax payments – are not deductible from federal income taxes; thus, the net effect of restructuring in this way would be negative for taxpayers overall.

Finally, unless the State were to assume complete control over all spending decisions, the sales tax would likely have to increase still more in future years as school costs across the state continued to rise. School expenditures under our present system of local control have increased from $7.25 billion to more than $13 billion since 1988.

The corporate net income tax

The Commission also considered the use of the State corporate income tax, which generated $1.27 billion in Fiscal Year 1998, as a means of increasing the State share of school funding. Again, however, New Jersey's current rate makes the Commission hesitant to endanger the state's economic well-being. Any increase in the corporate net income tax would threaten New Jersey's economic competitiveness in the region. A comparison of current corporate net income tax rates in the region is shown below:

State	**Corporate Net Income Rate**
Connecticut	10.50%
Delaware	8.70%
New Jersey	9.00%
New York	9.00%
Pennsylvania	9.99%

Discussion: Adopting the Michigan model

At the time Michigan shifted its school funding source, the Michigan state sales tax stood at 4 cents per dollar, one of the lowest rates in the region and the nation. By increasing the sales tax to 6 cents, Michigan was able to compensate for the elimination of the local school property tax. Three very important differences between New Jersey and Michigan must be noted:

1) Combining state and local funding sources, Michigan spends an average of $6,500 per student each year. New Jersey spends nearly $10,000 per student each year, more than any other state in the nation. Adopting the Michigan model would place a far greater burden on the state sales tax in New Jersey than occurred in Michigan.
2) Even though it raised the sales tax to 6 cents, Michigan kept this tax in line with other states in the region. Adopting a variation of the Michigan model would cause New Jersey's sales tax to become by far the highest in the region, severely affecting the competitiveness of the state's economy.
3) Michigan's plan increases State control over school spending. Districts can only increase local taxes to return themselves to pre-reform spending levels.

The Commission believes that for these reasons, it would not be in New Jersey's best interests to adopt the Michigan model. As illustrated above, New Jersey's already high levels of statewide taxes make a significant shift like Michigan's a difficult solution to recommend. (See Appendix D for a more detailed analysis of this issue.)

ESTABLISHING LOCAL OPTION TAXES

1.1 Enact legislation that would allow municipal governments in urban aid-qualified communities to levy a parking, entertainment, or hotel room tax for the purpose of providing direct tax relief to property taxpayers.

The Commission recommends that certain municipal governments be statutorily empowered to levy local option taxes. While any new tax alters political and economic considerations within a community, the Commission believes that a limited local option tax, enacted under strict guidelines and in a limited number of communities, would take pressure off the property tax without significant harm to the local economy or the taxpayer.

The Commission recommends that any local option tax established pursuant to this recommendation adhere to the following three restrictions:

1. It must be dedicated exclusively to direct property tax relief and therefore be revenue-neutral;

2. It must not usurp the ability of the State of New Jersey to levy its own taxes (eliminating the sales and income taxes from consideration); and

3. It should not severely hinder economic growth within the community (eliminating payroll and business taxes from consideration), or engender economic competition between municipalities.

Given these restrictions, the Commission limits its recommendations to parking, entertainment, and hotel room taxes.

It is the intent of this Commission that all revenue raised by a municipality under this provision be used to offset property tax payments and not merely be added to the municipal budget. The Commission therefore suggests two alternatives to consider which should ensure that revenue generated through these options truly provides property tax relief.

- The revenue raised by the local tax could be allocated by the county tax boards when they strike the tax levy as a property tax credit toward the <u>total property tax rate</u> in an individual municipality.

- Alternatively, the option could be extended only to those municipalities that hold their spending growth from year to year at one-half the municipal expenditure cap in place under the Municipal Budget Law.

CONCLUSION

The Commission believes it is unwise to recommend a major, statewide shift in the means of generating revenue for local government purposes. Before such a shift in the way New Jersey funds services can occur, the Commission maintains that two things must happen: First, structural changes in the way services are delivered in New Jersey must be made, as outlined in this report, and should be the primary focus of property tax reforms in the near future; second, a wider discussion of local government spending and the implications of tax restructuring must take place among the voters and officials of New Jersey.

CHAPTER II

LOCAL GOVERNMENT SHARED SERVICES AND CONSOLIDATION

INTRODUCTION

New Jersey has too much local government, and too much of it is small. There are 566 municipalities, 611 school districts, over 400 local authorities and fire districts, and 21 counties. A third of our municipalities have 5,000 or fewer residents. Twenty percent have 2,500 people or fewer. We have four communities with fewer than 100 people. For school districts there are similar numbers: two-thirds of the districts are classified as "small," 64 districts have fewer than 400 students, and 24 districts do not even operate schools, but still support a board of education.

The cost of funding this patchwork of overlapping local units of government is staggering. Annually, over $12.5 billion is raised by the local property tax -- $6.7 billion for schools, $3.3 billion for municipalities, and $2.5 billion for counties. If only a small fraction of these local units were to consolidate into more optimally sized units, or to make greater use of regional and shared service opportunities, there could be significant savings in the costs of running their operations. The economies of scale and the operating efficiencies possible with larger service areas and populations would bring about substantial cost reductions that could be passed along to the taxpayers.

There are already a great many shared and regional services in place among local government and school districts. Cooperative purchasing programs, joint insurance funds, interlocal service agreements, and informal equipment and personnel sharing all reflect that local officials recognize the value and practicality of joint efforts. The fact is, however, that much more can and should be done. Public safety services, police and fire, and pupil transportation services are major components of municipal and school budgets, yet are the least likely services to be addressed on a joint basis. Full consolidation of local units is even rarer in our state.

The benefits of home rule need to be balanced by economic reality. There needs to be greater acceptance of joint efforts as the better way to provide services. New Jersey taxpayers cannot continue to pay ever-increasing property taxes to support increasingly expensive services. If economies can be found and services improved by consolidating, regionalizing, or sharing with neighboring jurisdictions, local officials must evaluate such options based on what is best for the taxpayers. It is time that independence at any cost be replaced by common sense in deciding the best way to deliver public services.

Summary of Recommendations

The Commission recognizes that New Jersey must remove a number of statutory and regulatory impediments to regional and shared services. At the same time, state government must provide more effective incentives to encourage more joint efforts. In the area of incentives, the Joint Service Incentive Grant Program, administered by the Department of Community Affairs, has provided over $1 million in shared service development grants over the past two years, with an additional $500,000 in grants scheduled to be disbursed in Fiscal Year 1999. The Commission finds merit in this approach and recommends that the State establish a more formal program to provide financial incentives to help local units evaluate and implement new joint service programs. The State should also use incentives to encourage municipal consolidation and school regionalization.

The taxpayers of such jurisdictions should also receive direct benefits. The Commission supports the concept of linking local government shared and regional service efforts to direct property tax relief for taxpayers (Assembly Bill No. 1874, Roberts/Lance). Further, it supports the Regional Efficiency Aid Program being developed by the Department of Community Affairs. Building on the concept of the Roberts/Lance bill, this program would provide a comprehensive, direct, and permanent property tax relief program for New Jersey taxpayers, based on the savings municipal governments and school districts achieve through consolidation, regionalization, and shared services.

The Commission also supports the recommendations made by the New Jersey Regionalization Advisory Panel in its January 1998 report regarding regionalization of school districts. That panel recommended school district central office operations be regionalized, while continuing and enhancing local control of neighborhood schools. The Commission strongly agrees that while educational matters are and must remain under local control, opportunities to regionalize administrative, office, and support functions should be pursued and implemented. The Commission's recommendations on regionalization relate only to the administrative and support aspects of education.

Finally, the Commission wishes to stress that local governments and school districts should invest scarce financial resources as efficiently as possible. The Commission recommends that, where appropriate, they pursue cost-effective solutions such as privatization which may yield savings that could be used to enhance services, improve education, or reduce property taxes.

FINANCIAL INCENTIVES TO SHARE SERVICES

2.1 Establish a State program of financial assistance and incentives to encourage local governments and school districts to consolidate, regionalize, and implement new joint services.

Local officials need financial assistance to develop and implement new regional and shared service programs. The costs to study, design, and implement a new joint or regional venture can be substantial. Funding these costs from the local budget could impose a hardship on the communities' taxpayers. It is in the public interest for the State to provide financial assistance for such efforts.

Such assistance should be limited in both amount and duration. State assistance should be limited to the extraordinary costs associated with planning or implementing a new shared program. State funds should not develop into a subsidy or replace local investment in services. It should be State policy to assist with the start-up and transitional costs where such costs would be an excessive burden on the communities and their taxpayers.

Likewise, as mentioned in chapter five of this report, it should be a matter of State policy to hold harmless any consolidating municipalities or school districts from any loss of State aid occurring because of the consolidation.

2.2 Link any program of incentives and financial assistance for consolidation, regionalization and shared services directly to providing property tax relief for the communities' residents.

The benefits of regional and shared services should be returned to the taxpayers who support local government. Cost reductions and other economies realized by these efforts should go directly toward reducing the property taxes paid to support local government and education.

The Commission applauds the concept of Assembly Bill No. 1874 (Roberts/Lance), which would provide five-year State grants equal to a community's net savings from shared services with other local units, while restricting use of the grant funds to reducing the county or municipal purpose property tax levy. Building on this concept, the Commission supports the proposal for a Regional Efficiency Aid Program (REAP) being developed by the Department of Community Affairs. This effort would provide tax relief based on the number and type of shared and regional services provided by the municipal government or school district. It would also create a grant program to provide start-up and planning grants (up to a fixed percentage of costs) for new joint ventures. These grants would be know as Regional Efficiency Development Incentive (REDI) grants. A summary of the REAP proposal is included as Appendix E to this report.

2.3 Continue funding for the Joint Service Incentive Grant Program, which provides "seed money" to study or implement consolidation, and regional and shared service programs.

Until a shared service incentive/property tax relief programs such as REDI and REAP are in effect, local governments still need State financial assistance to help them identify shared service opportunities and to implement new programs. Continued funding for the Joint Services Incentive Grant Program will provide the necessary assistance. This program would be phased out upon enactment of the incentive/property tax relief program.

An example of how this program produces results is found in Hudson County. Encouraged by the success of their five-town regional fire dispatching service, five Hudson County mayors applied for and received a Joint Service Incentive Grant to study the feasibility of merging their fire departments as well. The completed study shows that it is economically and practically feasible. The mayors are now working on implementation. No layoffs or firehouse closings are planned, early retirement incentives are being developed, and each community will be compensated for the equipment and property acquired by the regional service. Most important, the residents of the communities will continue to receive professional, full-time fire protection at reduced costs.

LEGISLATIVE AND REGULATORY CHANGES TO ENCOURAGE SHARED SERVICES

2.4 Amend current statutes to provide, at local option, that in instances of shared or merged services involving police, firefighters, and teachers, all contractual matters shall be subject to renegotiation with the shared/merged service provider.

Current statutes contain mandates regarding police and teacher tenure, retirement, and salaries in instances of shared or merged services. These mandates eliminate local flexibility in structuring interlocal and regional ventures. Civil Service and statutory restrictions regarding reductions-in-force, seniority, payscales, and position qualifications restrict the development of more efficient staffing and service programs. The Commission recommends that these impediments be removed. Where necessary, the State could provide mediation services to resolve conflicts or impasses in local negotiations.

2.5 Permit locally funded early retirement incentives or added pension credit programs for newly consolidated municipalities or new interlocal service programs.

Local governments and school districts that consolidate or merge service programs should have the ability to offer incentives to reduce their workforces by voluntary separation and early retirement. Veteran employees (those with 20+ years of service) could elect early retirement with enhanced benefits, and the localities would be freed from a major personnel consideration. A further inducement would be created if the State absorbed the costs of these benefits.

2.6 Permit local units to "opt out" of Civil Service for purposes of interlocal and shared service programs.

Civil Service rules that require a joint service program to be under Civil Service, even if only one participant is a Civil Service community, inhibit interlocal efforts. By opting out, the communities can structure the program in a more efficient, locally acceptable manner. The Commission recommends enactment of legislation to permit this, at local option.

2.7 Direct all State agencies to conduct a review of their rules and program requirements to identify those that restrict local shared efforts or cooperative activity.

As noted previously regarding Civil Service, State agency administrative rules can have the unintended effect of impeding interlocal efforts. The Governor should direct all rule-making agencies to review the impact of their rules and eliminate those that restrict or prevent interlocal and regional activity.

2.8 Administratively provide that appointment of a joint municipal court judge shall be by the Governor based upon nominations made by the municipalities operating the joint municipal court.

Some view the Governor's appointment of the judge in a joint municipal court as an inhibiting factor to merging municipal courts. Municipal officials prefer that this be a local appointment. Therefore, local involvement in this appointment is desirable. By providing a mechanism for local input into the process, the State could eliminate this factor as an impediment to merging municipal courts.

Additionally, the State should promote greater use of a current statute that permits the simultaneous appointment of court personnel by two or more municipalities. This process allows economies through shared personnel and facilities, without sacrificing local authority to appoint the judge and other personnel of the municipal court.

2.9 Enact legislation to permit county governments and approved local cooperative pricing systems to establish programs similar to the State's open-ended contracts.

Cooperative purchasing and pricing activities have demonstrated their effectiveness in lowering unit costs via volume purchases. Non-member local units should be permitted to make use of the lower unit costs available through contracts established through their county's bid process or through pre-existing contracts of a cooperative pricing system.

The Local Public Contracts Law should thus be amended to permit county-government-issued contracts to contain a provision that the successful bidder would extend the same items and prices to any underlying local unit (municipality, authority, or school district) within the county. Similarly, contracts established by approved cooperative pricing or joint purchasing systems should permit new members to access pre-existing contract commodities and prices.

COORDINATION, COMMUNICATION, AND TECHNICAL ASSISTANCE

2.10 Provide clear statutory authority for counties to serve as facilitators of intermunicipal joint service efforts. Along with legislative authority, provide limited financial assistance to help counties establish offices of shared service facilitation.

County government is well-situated to play a direct role in the provision of area-wide services and to serve as a catalyst and coordinator of new municipal shared service programs. The Commission recommends specific legislative authorization to clarify and authorize such a role for county government. The State should also provide limited financial assistance to support counties in fostering interlocal efforts.

2.11 Statutorily require regular (at least annual) meetings between the governing bodies of adjoining municipalities, and between municipal officials and those of local school districts, authorities, and fire districts to discuss cost-saving efforts and possible shared services.

Local government units operate virtually independently of each other, resulting in a lack of opportunities to discuss the benefits of sharing services. Legislatively mandating joint meetings will foster interlocal communication and help local officials to more readily recognize common problems and the need for cooperative action.

Such meetings could be made a part of the annual budget process, where possible, for all local units. Reports of these meetings would be included in the annual budget message of each local unit.

As part of their efforts to facilitate shared services, counties should convene additional meetings on a regular basis with all the local units within their boundaries to identify and discuss potential cooperative and cost-saving efforts.

Appendix F to this report contains a listing of services and functions suitable for sharing between and among municipalities, counties, and school districts. The Commission recognizes that while a number of joint programs are in operation for these functions, many localities have yet to consider them.

2.12 Direct State agencies, including the Local Government Budget Review Program, to make personnel available upon request to assist local officials with planning new interlocal activities and evaluating the feasibility of shared service programs.

Local officials have indicated repeatedly that unbiased, professional expertise is needed to help evaluate and develop potential shared service programs. The Governor should direct State agencies that regulate local activities or conduct program analyses to provide staff assistance upon request to localities that wish to use such personnel to explore potential joint ventures. In addition, consultant services should remain an eligible expense for the Joint Service Incentive Grant Program.

Where appropriate, county personnel should also be made available to assist municipalities, authorities, and school districts in evaluating new shared service efforts.

The State should review the Local Government Budget Review Program to align its goals and activities with the results of the Commission's work. This includes ensuring that its activities support the work of the Departments of Education and Community Affairs, the primary State agencies charged with helping local units improve efficiency and reduce costs. The Program should also find ways to address its backlog; engage local officials and the public in the review process to improve the "buy-in" of recommendations; focus its resources on those local units in greatest need of its services; and ensure that its recommendations both are practical and can be readily implemented by local officials. As part of this review, the Program's organizational location in the Department of the Treasury should be examined to determine if that is the optimum location for its activities.

2.13 Encourage local governments and school districts to make greater use of public-private efforts and the services available from non-profit organizations to help develop and implement regional and shared service efforts.

The expertise available from the private and non-profit sectors is a largely untapped resource to which local units could turn for additional assistance when considering shared programs. Local officials should reach out to their non-profit and private sector counterparts to explore what help is available.

2.14 Establish a statutory budget cap exemption for interlocal service agreements. Provide a positive cap base adjustment to reflect a fixed amount of the interlocal appropriation as an inducement to establish shared service programs.

With certain exceptions, New Jersey law prohibits municipalities from increasing their "final appropriations" by more than 5% over the previous year, or by the index rate, whichever is less. The previous year's total expenditures serve as the cap base for the next year's budget. Removing interlocal service agreement appropriations from the cap amount reduces the local unit's budget cap base. This reduces the amount the municipality can appropriate for "inside cap" purposes in its next year's budget. In effect, the municipality is penalized for using a shared service agreement.

Currently, appropriations for interlocal service agreements are allowed outside the municipal budget cap under a Local Finance Board interpretation of N.J.S.A. 40A:4-43.3(aa). The State should enact legislation to provide the exemption on a statutory basis. In addition, the legislation should permit a positive cap base adjustment, based on the amount appropriated for interlocal service agreements. Similar legislation should be enacted to provide the same exemption for interlocal service agreements entered into by counties.

It is appropriate that the municipality receive a cap base credit in its adjustment by adding a percentage of the interlocal appropriation to the cap base. This would provide an additional incentive for local units to establish shared and interlocal service.

2.15 Revise the local budget law to permit budget transfers at any time during the budget year to fund new interlocal service agreements.

The local budget law allows transfers only during the final two months of the budget year. Allowing such transfers at any time to fund new interlocal service agreements would give municipalities and counties added flexibility in budgeting for interlocal ventures that develop during the budget year.

COST SHIFTING

2.16 Assume the costs of the county prosecutors' offices and the costs of providing court facilities, including construction costs.

When the State assumed the costs of the county courts, it did not assume the costs of the county prosecutors' offices. The prosecutors' offices are an essential part of the state justice system. As such, they should also be the responsibility of the State. The costs of providing the court facilities, including construction of courts, should also be a State responsibility. The State should take the necessary steps to assume funding responsibility for both of these functions as soon as possible, while mandating that county governments pass the savings directly to taxpayers through county levy reductions.

2.17 Permit additional membership representation from participants in joint meetings established under the Consolidated Municipal Services Act, N.J.S.A. 40:48B.

Current statute permits each participating local unit to appoint one representative to serve on the joint meeting's management committee. Under some circumstances it could be advantageous to have more than one representative from each participant, such as a member of the governing body and an administrative or technical representative. The Commission recommends that legislation be enacted to provide, at the option of the establishing local units, the ability to appoint more than one representative, but no more than three, from each participant, or a variable number from each participant based on their financial commitment.

DISINCENTIVES

2.18 Condition financial assistance or State aid upon participation in shared or regional service activities.

Without any sort of penalty for failing to work toward sharing services, local governments may remain reluctant to pursue these arrangements, thereby denying property tax relief to their taxpayers.

The State should establish a policy of disincentives as a means to foster greater consideration of regional and shared services by local units. Eligibility criteria could be established to support applicants that show greater use of joint programs, and to consider lack of joint effort as a negative criterion in the award process.

TECHNICAL AMENDMENTS TO THE MUNICIPAL CONSOLIDATION ACT

2.19 Amend the Municipal Consolidation Act to reduce the number of petition signatures.

The number of petition signatures required for candidacy as a consolidation study commission member is too high (5 percent of the total vote in the last election for members of the General Assembly). This threshold can discourage residents from candidacy. To facilitate candidacy a lower figure should be used, i.e., the lesser of 25 signatures or one percent of the total votes cast in the last election for members of the General Assembly. A lower threshold will encourage greater participation in the process.

2.20 Amend the Municipal Consolidation Act to permit the creation of a municipal consolidation study commission by ordinance of the local governing bodies without the need for a ratifying referendum in each municipality.

An approving referendum is currently required to initiate the study process for municipal consolidation. By permitting the commission to be created by ordinance, the study process can be started earlier.

2.21 Amend the Municipal Consolidation Act to lengthen the time allotted for filing the study commission's final report to at least no later than Labor Day (rather than nine months after the election of the consolidation study commission). Consideration should be given to provide for a permissive extension (up to a maximum of one year), if desired by the commission.

The time frame for study of municipal consolidation is too short -- approximately nine months in total, with only six months to the filing of its initial report and recommendations with the Department of Community Affairs. Providing additional time would allow greater community input into the study phase and give the study commission time to complete its work.

As an alternative, the State should amend the statute to permit the option at the approving referendum of one or two election cycles to pass between the election of a consolidation study commission and the filing of its final report.

2.22 Eliminate the commission's six month preliminary report and the Department of Community Affairs' eight month evaluative review of that report.

The intermediate reports and deadlines in the consolidation study process serve to reduce the actual time available to consider all issues. A consolidation study commission must present a preliminary report to the Commissioner of the Department of Community Affairs within six months of its election. This effectively cuts three months from the nine month study period called for in the statute.

The State should eliminate the six month preliminary report requirement. An alternative approach would be to change the preliminary report to preliminary "findings," making it a less detailed report. This report would be used to gain public input and reaction from the municipal governments. The final report could then reflect these comments.

CHAPTER III

SCHOOL REGIONALIZATION AND SHARED SERVICES

INTRODUCTION

The cost of maintaining 611 school districts as separate administrative structures has a tremendous impact on New Jersey property taxes. The tax-supported costs of education must be lowered, either by regionalizing districts or by increasing their efficiency through regional and shared services.

Discussions of school regionalization quickly focus on two issues: equitable cost and savings distribution, and local control of school and instructional matters. The merits of regionalization are often lost in the perceptions that one district will be subsidizing another, or the fear of losing control over local schools and the decisions affecting those schools to a distant, unresponsive administration. These fears and perceptions must be addressed before values inherent in regional approaches to education can earn serious consideration.

Summary of Recommendations

The Commission recognizes the enormous potential for savings in the recommendations put forth by the New Jersey Regionalization Advisory Panel in its January 1998 report and recommends implementation of the panel's report.

The Commission recommends revising the funding mechanism for regional school districts to make sure that cost inequities among merging districts are eliminated. The Commission also strongly urges that the State develop mechanisms to maintain and enhance local control over individual schools when districts regionalize, and to strengthen the involvement of parents and residents in their neighborhood schools. Other recommendations address various shared service opportunities and the actions needed to pursue these opportunities.

The Commission makes a clear distinction between instructional and school-related matters, and management and support functions. Instructional and school activities are rightly addressed and controlled at the local level. Local control of these matters should be retained and enhanced. Management and support functions, however, are more suitable to area-wide efforts.

FOLLOW-UP ON EXISTING RECOMMENDATIONS

3.1 Implement the recommendations of the New Jersey Regionalization Advisory Panel's January, 1998 Report.

The potential for regional and shared services among boards of education was studied extensively by the New Jersey Regionalization Advisory Panel. The recommendations of that group should be fully explored and, wherever possible, implemented by the State of New Jersey. These recommendations include directing and empowering the Department of Education to finance studies of regionalization for:

- All K-8 and K-6 school districts with 300 or fewer students
- All limited school districts
- Any district completely surrounded by another district
- All districts participating in sending-receiving relations

In addition, the Panel also recommended directing the Commissioner of Education to prepare an information program for the public on the advantages of school regionalization.

The Commission also supports the Panel's recommendation to legislatively eliminate all non-operating districts without students by merging them with another district.

Finally, the Commission agrees with the Panel recommendation to direct the Department of Education to offer financial incentives for voluntary regionalization within a set time period if studies demonstrate substantial educational or efficiency benefits, and to authorize the Department to require regionalization if districts do not merge voluntarily within the time period, unless the districts can justify why regionalization is not educationally or economically in the best interest of the students.

REGIONAL SCHOOL FUNDING

3.2 Revise the funding mechanism for regional school districts to eliminate cost inequities and permit equal sharing of the benefits and cost savings possible from regionalization.

Unless regionalization provides equal potential for savings to all constituent municipalities, there is no incentive to merge school districts. Under present funding requirements it is possible that taxpayers may not save anything by regionalizing, and, in some cases, could actually pay more if the school district were to regionalize. The current system provides for taxes to be apportioned among the constituent municipalities in proportion to their property tax bases. This results in wealthier municipalities subsidizing less wealthy municipalities. The fiscal inequities and increased tax burden this produces can eliminate any educational efficiencies and improvements available from regionalizing.

The Governor should direct the Commissioner of Education to develop a funding formula for regional school districts that eliminates the current inequities and provides that each constituent municipality's local property and income wealth be used in the calculation of costs in the same manner it would if the municipality maintained its own local school district. Once the calculation is made, each municipality would be responsible for the portion of the regional district's local tax levy necessary to support its share of the regional budget that is not supported by Core Curriculum State Aid. This formula should also address the potential for loss of State Aid due to the effects of regionalization and hold the communities harmless from any such loss.

LOCAL CONTROL OVER EDUCATIONAL MATTERS IN REGIONAL DISTRICTS

3.3 Direct the Commissioner of Education to develop a program to maintain and enhance local control of individual schools when districts regionalize.

Regionalization efforts are viewed as inimical to local control over the educational program and the continuation of neighborhood schools. The State must address these legitimate concerns about the loss of local control.

Local and community representation and decision-making must remain a part of the educational process when school districts regionalize. This could be accomplished by instituting a plan of site-based management, establishing school advisory councils or boards to work with the neighborhood school administrators, or retaining some form of local or sub-regional board of education with redefined responsibilities.

The Commission recommends that the Governor direct the Commissioner of Education to review the options and create models to maintain local control of educational matters while regionalizing central office support functions, such as by establishing school advisory councils and/or redefining the role of local boards of education upon the creation of regional boards of education. Once such a model or models are designed, legislation should be enacted that enumerates the powers and responsibilities of the councils or boards so their purpose, powers, and role in the educational process are uniform.

3.4 Keep authority and control over certain school-related functions now exercised by the local boards of education at the sub-regional level when school districts regionalize.

Instructional and school related matters are best addressed at the local and school level. Maintaining local control over the instructional aspects of the educational process when districts regionalize is essential. When school districts regionalize, the neighborhood schools that remain within those districts should remain under local control over education-related matters. The following functions should remain under the control and direction of those locally responsible for the schools:

- Instructional and classroom operations
- Curriculum design and delivery
- Hiring of teachers and other school staff
- Student support services (health, guidance, speech, media)
- Extracurricular and co-curricular activities
- Educational technology
- Selection of textbooks and other instructional materials
- Class scheduling
- Before and after school activities
- Professional development.

REGIONAL CENTRAL OFFICE SUPPORT FUNCTIONS

3.5 Direct the Commissioner of Education to develop regional and shared service models for administrative and support functions.

The central office functions performed at the school district level, including management, administrative, and support services, present significant opportunities for cost reductions through shared and regional efforts. The State's 294 elementary school districts spend more than a half billion dollars annually on central office activities. By moving these functions "up" to a larger service area, economies of scale can be achieved, duplication of functions and effort eliminated, and coordination improved. An example of this is the merger of central office functions, including the Superintendent's position, of the Bergen County Special Services School District and the County's Technical School District.

The Governor should direct the Commissioner of Education to develop models of regional or shared services for central office functions such as:

- General management and coordination of district-wide affairs
- Fiscal services (budgeting, accounting, payroll, inventory control, purchasing, fund and cash management, and internal audit)

- Insurance and risk management
- Operation and maintenance of facilities, including grounds and security
- Child study team services
- Contract negotiation and personnel matters
- Pupil transportation services.

MANAGEMENT SERVICE POSITIONS

3.6 Conduct studies to identify and develop models of shared administrative and management positions.

A number of management positions lend themselves to being shared by school districts. These include: school business administrator, chief school administrator, curriculum supervisor, and special education supervisor. Where the full merger of school districts is not feasible, a shared approach to educational administration and management should be explored. For smaller districts especially, this would make available expertise that might not be otherwise affordable.

The Governor should direct the Department of Education to provide assistance to districts to develop such shared positions and to provide incentives for their adoption by districts. School districts should also be eligible for equal participation in any program of State shared service incentives developed for municipal government.

TRANSPORTATION SERVICES

3.7 Help the county superintendents' offices facilitate efforts to implement inter-district and joint pupil transportation services.

Pupil transportation services are an area that could benefit from regional approaches. It has been reported that a sizable percentage of school districts (25%) is interested in pursuing some consolidation of transportation services, and a number of districts have indicated that they are looking to provide such services to other districts. The county superintendent of schools offices should serve as brokers to bring together those seeking such partnerships. The Governor should direct the Department of Education to develop a system of incentives to foster joint action among districts for pupil transportation.

COORDINATION AND SHARED SERVICE MODELS

3.8 Direct the Department of Education and the Department of Community Affairs to work jointly to encourage interlocal efforts between school districts and municipalities.

Many districts recognize the value of sharing services with each other or with municipalities, but need a coordinating mechanism to identify and facilitate contact with potential partners. At the Governor's direction, the departments of Education and Community Affairs should work together to identify likely areas of municipal-school district cooperation and models of successful joint ventures. The county superintendent of schools offices and the previously recommended county-level shared service coordinating office should work together at the local level to identify and bring together potential joint service partners.

3.9 Research and study current use of shared and regional approaches to general education and administrative services by local districts to identify suitable models.

School districts need to observe models of regional and shared services by other school districts. The Department of Education should identify and publicize successful efforts and provide technical assistance and financial incentives to encourage adoption of similar programs by other districts.

PARENT-TEACHER PARTNERSHIP IN EDUCATION

3.10 Help increase parents' and residents' involvement in the educational process and the affairs of neighborhood schools.

In districts where central office functions have been regionalized, parental involvement at the local level must be maintained, as it is essential to successful local control of educational matters. The regionalization of central office activities must not discourage or dilute the involvement of parents in their local neighborhood schools. As previously recommended, the State should establish a mechanism to continue this involvement when school districts regionalize. In addition, the State must do more to promote awareness of the parent-teacher partnership in educating children. The Department of Education should publicize successful programs and examples of effective parent-teacher efforts in New Jersey and elsewhere for implementation in other districts.

CHAPTER IV

ENDING THE RATABLES CHASE

INTRODUCTION

In her second inaugural address, Governor Whitman described a major problem for municipalities in controlling property taxes – the chase for tax ratables that eventually cost taxpayers much more than the short-term revenue they were intended to generate. As Governor Whitman stated, "Too many towns bend over backward to pursue development, hoping it will help balance their budgets. In the process, they strain not only their backs but also the services needed to support this development. The result is a double whammy: less open space and higher property taxes."

The Commission recognizes that the ratables chase often occurs when development is proposed and approved mainly for the tax revenue it generates. Regional, state, and federal infrastructure such as highways and sewers can also lead to the ratables chase when it encourages development in places that lack the schools, parks, or other infrastructure necessary to handle the growth. The problem also occurs when builders cite market needs and seek approvals that exceed the amount of allowable development. Often, these commercial or residential developments provide jobs and increase property values in a municipality. Just as often, though, these offices, stores, or homes require public facilities or services that increase local property taxes.

For example, in order to raise additional money to finance a new school or additional police services, local governments face the choice of increasing property taxes, cutting spending, or expanding the revenue base by attracting new development. Choosing higher taxes can drive out existing businesses and homeowners. Prioritizing programs and cutting spending without careful preparation and a public consensus can be difficult for all elected officials. Some citizens come to expect and demand more, not fewer, services. Thus, local governments often opt to attract new development, which requires more services, which begets more development, and so on.

The Commission recognizes that new growth initially brings new revenues to a town. After a certain point, however, service costs rise while revenues remain stable, because the growth requires additional facilities or programs. This exacerbates the ratables chase, which is especially troubling for built-out municipalities that have little open land left for development.

During the 1980s, the average property tax bill <u>doubled</u>, in spite of record construction of commercial buildings and homes. In fact, 80 percent of all office space in New Jersey was built in the 1980s. This fact contradicts the belief of some local officials that additional ratables will automatically lower property taxes. The Commission further notes that during the recession of the early 1990s, local costs continued to increase with existing buildings losing value while school costs were rising.

The Commission recognizes that real estate experts indicate the next wave of commercial development is beginning, during which 2 million square feet of office space will be added statewide each year. New home construction will continue at a pace of approximately 25,000 units per year, according to the New Jersey Council of Economic Advisors. And the retail industry continues to grow, increasing the number of strip malls and "big box" discount stores along state, county, and local roads. Unchecked, these trends are expected to result in more traffic congestion.

At the same time, the Commission notes that New Jersey's population is increasing by one-half percent per year, a rate similar to its average growth rate for the 1980s, and continues to decentralize into suburban and rural counties. A 16 percent decline in school age population during the 1980s will be reversed by 2010, with a 13 percent projected increase of 189,000 students.

These trends indicate that local costs for schools and roads will increase, putting additional pressure on property taxes. Currently, municipalities lack the ability to time and phase growth according to available infrastructure, and cannot charge developers for the burden that new homes, stores, or offices place on most existing public facilities and services.

In areas without adequate infrastructure, New Jersey's growth will demand more investment in roads, wastewater systems, and other public facilities, driving property taxes significantly higher. This, in turn, will increase the price of undeveloped land, making it more difficult to produce affordable housing. In places where a court-ordered "builder's remedy" results in five or more housing units for every low- or moderate-income home, many more units are built than ever planned for. This increases the amount of land developed and the need for higher and higher property taxes.

In reaction to the negative effects of the ratables chase, some communities have begun preserving open space. Using fiscal impact analysis, local governments, non-profit organizations, and private individuals have advocated purchasing open lands or the attached development rights to preclude future facility or service needs.

A number of studies confirm that, while open space generates less property tax revenue per acre than developed land, privately held farmland and other open lands provide tax revenues that average 3-1/2 times more than their costs. As an example, a study by the American Farmland Trust shows that for every dollar raised by local governments, open space and farmland require 29 cents for services, compared to the $1.16 that residential development and the 30 cents that commercial and industrial lands cost in services. A Burlington County Office of Land Use Planning study of Mansfield Township indicates that residential development requires $1.48 in services for every

$1.00 of property tax revenue generated. In Morris County, a study commissioned by the Great Swamp Watershed Association, concluded that the addition of commercial ratables in the 39 towns within the Great Swamp Watershed has failed to result in lower taxes.

Summary of Recommendations

The Commission believes it necessary to provide local leaders with the information they need to analyze the potential costs and benefits of a proposed new development. Thus, the Commission urges that the State educate planning board members and other members of local government on the true costs and benefits of development. As Governor Whitman called for in her second inaugural address, the Commission advocates the dissemination of a guidebook to help local leaders conduct an accurate economic analysis of a development proposal.

Further, the Commission encourages the passage of legislation to enable municipalities to enact "timed growth" ordinances and to levy impact fees on new construction to offset the added burden of development on various forms of infrastructure, including schools and parks. The Commission also recommends that the State ensure that its own policies do not initiate a ratables chase in any municipality or county, and that the voters of New Jersey support a stable source of funding for open space and farmland preservation.

DETERMINING THE COST OF DEVELOPMENT

4.1 Prepare a guidebook for municipalities and counties to determine the true costs and benefits of development, including an "Economic Analysis Worksheet" and techniques for implementation.

Local governments do not have ready access to a concise method of weighing the long-term impact of a new development. The Commission supports Governor Whitman's call for the production and distribution of a guidebook to determine the true costs and benefits of a developer's proposal.

The Commission further recommends the inclusion of an economic analysis worksheet similar to the worksheet attached as Appendix H to this report. Appendix I provides a hierarchy of land uses and fiscal impacts, showing which land uses are more fiscally profitable than others for municipal government and school districts. Both the worksheet and the hierarchy are illustrative of the issues to be considered, and are not intended to provide definitive answers to development proposals.

In addition, the Commission recommends that the handbook include the findings and recommendations of local officials who presented information to the Commission on how the ratables chase affects their communities, and how they respond to the pressures to keep property taxes as low as possible.

4.2 Provide planning board members with tools for understanding the costs and benefits of development and land preservation and provide financial and technical assistance to strengthen local planning.

Some of the most important decisions affecting a property tax bill are made by local planning boards. Yet many planning board members lack the information they need to assess the ultimate costs and benefits of development and land preservation.

The Commission recommends that the State provide this education through the guidebook proposed by Governor Whitman in her second inaugural address, as well as through additional technical and financial assistance where necessary. In addition, the Commission recommends adequate, stable funding for planning at all levels of government to guarantee up-to-date plans, reduce regulatory burdens, and achieve long-term infrastructure savings. This can ensure lower property taxes.

TIMED GROWTH ORDINANCES AND IMPACT FEES

4.3 Enable municipalities to enact "timed growth" ordinances that advance the State Plan, as a tool to control property taxes.

The courts have ruled that an ordinance enacted by West Windsor Township to time its growth is unconstitutional. In response to increased development and rising infrastructure needs, the municipality enacted an ordinance that would have required developers to phase growth consistent with available infrastructure capacity. If a developer wanted to fund the upgrade of sewers, roads, or other infrastructure, he or she could then build a larger project. The courts have ruled this ordinance unconstitutional, arguing that the Municipal Land Use Law does not allow for such municipal ordinances.

The Commission recommends enactment of pending legislation that would enable municipalities to time and phase growth. The Commission agrees with Governor Whitman that this tool should be available to towns that are planning in a manner consistent with the State Plan to further help them control costs. If a timed growth ordinance does not promote compact development in areas with sufficient infrastructure capacity, it will result in "timed sprawl," saving some money in the short term but increasing the costs to local taxpayers in the long term. Municipalities with timed growth ordinances and plans that promote compact development will reap the benefits of coordinated planning and hold down property tax increases.

4.4 Support the use of impact fees to mitigate the cost of new development by providing additional revenue for schools, emergency services, and parks in areas that promote compact development.

While it is clear that new development creates the need for additional services, local governments are prohibited from asking developers to absorb the costs of those services; thus, property taxpayers foot the bill.

The Legislature is considering a bill that would allow municipalities to levy impact fees on new construction to offset the added burden placed on various forms of infrastructure, including schools and parks.

The Commission urges the enactment of legislation allowing impact fees to be levied in municipalities that promote compact development.

STATE PLAN

4.5 Support the State Plan's use by municipalities, counties, and State agencies as a means of holding down property taxes.

The State Development and Redevelopment Plan is a growth management document that can ensure beneficial growth and lower the cost of services. New Jersey's State Plan provides goals and policies that guide State agency investment and regulatory decisions to promote compact development. The State Plan does not, however, require conformance by municipalities or counties.

An independent Impact Assessment of the State Plan, conducted by Rutgers University in 1992, indicated that municipalities, counties, and school districts could save money by using the State Plan. These savings could be applied to reduce property taxes. According to the Impact Assessment, following the State Plan would provide an average annual operating cost savings of $380 million to municipalities and school districts by the year 2010. Over 20 years, the cumulative savings would be $3.8 billion. By encouraging more compact development, the State Plan will save New Jersey citizens $1.44 billion in infrastructure costs -- $700 million for roads, $562 million for water and sewers, and $178 million for school facilities.

The Commission recommends that State agencies and local governments work together to meet the goals of the Plan. The Commission recognizes concerns that the State Plan would restrain growth in municipalities that need the ratables to stabilize the tax rate. However, the Commission believes that the State Plan fosters sustainable development and can reduce the growth of property taxes. The Commission further urges municipalities and counties to use the infrastructure savings that result from using the State Plan to provide property tax relief.

4.6 Amend Council on Affordable Housing (COAH) regulations to ensure that practices do not initiate a development cycle or a ratables chase. For the next allocation cycle, develop COAH formula consistent with the State Plan.

Some local officials have argued that the State's affordable housing program increases sprawl and forces increases in property taxes. In particular, they argue that the COAH formula to allocate affordable housing needs places too much growth in rural areas, where the infrastructure is not adequate to support such growth. At the same time, policies such as regional contribution agreements and inclusionary development require local tax dollars, which can also drive up the property tax rate. The Commission recognizes the importance of providing affordable housing but recommends that the State revise the COAH formula and practices to be consistent with the State Plan so that in solving one affordability issue, New Jersey does not exacerbate another one.

OPEN SPACE AND INFRASTRUCTURE

4.7 Support State funding for transportation, including mass transit, that meets local and regional needs.

Local officials have asserted that State funding for roads can increase sprawl and fuel the ratables chase by encouraging development where the necessary infrastructure is not in place. The Commission recommends that State funding for transportation, including mass transit, should meet local and regional needs. Further, the Commission recommends that roads should not be built or widened if they exacerbate the ratables chase.

4.8 Support a stable source of funding for open space and farmland preservation.

While studies have demonstrated the benefits to taxpayers that come with preserving open space and farmland, local governments are often unable to purchase these acres or development rights on their own. The two State programs that support preservation – the Green Acres program and the Farmland Preservation program – are nearly depleted.

The Commission endorses Governor Whitman's proposal, which the Legislature has sent to New Jersey voters for approval, to preserve 1 million acres of open space and farmland by establishing a stable source of funding for farmland and open space purchases.

The Commission acknowledges the preservation efforts that many counties and municipalities have already made. Thirteen counties and 54 municipalities have some source of funding for open space. For example, Montgomery Township voters recently approved a 4 cent increase in their property tax rate to establish a stable fund for farmland and open space purchases. According to one local official, for every acre that is preserved in the township, Montgomery will save what it would spend to support new housing stock, schools, roads, and expanded municipal services. Many other local officials told the Commission that preservation provides a way to slow the growth of property taxes while preserving the quality of life in New Jersey.

CHAPTER V

TAX ADMINISTRATION

INTRODUCTION

Bringing property taxes under control is a source of continuing frustration for citizens and the local officials who serve them. Some municipal governments have forestalled long-overdue property revaluations because they fear the tremendous burden that may be placed on taxpayers who would suddenly face dramatically higher tax bills. Other local governments have studied and considered consolidating with each other to cut costs, but can't overcome the concern that disparate property values will force taxpayers from one of the merging towns to subsidize taxpayers in the other. And across the state, local governments have struggled to maintain adequate and up-to-date methods of assessment leading to inequities in the tax burden and higher property taxes.

Current practices and policies at state and local levels of government have not encouraged the kind of assessment and consolidation that could keep property taxes as low as possible.

Analyses over the years have detailed a host of problems in the administration of the property tax in New Jersey. These problems include a fragmented administrative structure with a concomitant blurring of accountability, failure to take full advantage of computer-aided mass property appraisal technologies, and difficulties in accurately valuing commercial and industrial property.

As is documented elsewhere in this report, New Jersey has an unusually large number of political subdivisions for such a geographically small state. Under current laws and policies, local units find it extremely difficult to consolidate because of the likelihood that the property tax effect across the combining jurisdictions would be unequal. It doesn't make sense for citizens in a community to support a consolidation that actually would result in a property tax increase.

The Commission also recognizes that some New Jersey jurisdictions have not performed property valuations in decades, despite a Constitutional mandate to perform them yearly. This is largely due to local political and economic factors that have militated against comprehensive property revaluations in such municipalities. As a consequence, the property tax base in these jurisdictions is skewed. As more and more time passes and the imbalances remain uncorrected, the potential remedial action would appear to have ever more dramatic consequences, and revaluation is deferred on that account. The result is an ever-spiraling inequity.

To date, New Jersey has had insufficient fiscal mechanisms in place to cushion the shock of revaluation. For instance, no municipality has taken advantage of a law passed in 1993 to allow municipalities undergoing revaluations to offer "revaluation tax credits" to certain property owners, since the money for these credits must come from the municipality's own tax base.

Summary of Recommendations

More than a decade ago, in a study called "Equity 21," a major accounting firm analyzed for the State the implications of these problems and proposed several strategies to create a fairer, more efficient structure for property tax assessment. The Commission finds merit in many of this study's recommendations and employs them as the underpinning for several of its own proposals. Ultimately, the Commission recommends a more centrally administered assessment system that would ensure regular adjustments in property values across the state.

As an incentive to consolidation, the Commission proposes that the State establish a program to absorb, for a fixed period of time, property tax burden increases that are the result of municipal consolidation.

The Commission believes the missing ingredient in the 1993 “revaluation tax credits” law is State funding and therefore recommends enactment of a State-funded program to phase in over three years the property tax increase directly resulting from a revaluation. It should be noted that this program would be implemented only as a transition strategy until the Commission’s property tax assessment reforms are fully in place.

The Commission believes that following these recommendations would improve property tax administration in New Jersey and help local governments implement responsible reform.

ADMINISTRATION OF ASSESSMENT

5.1 Establish a county-based assessment structure with strong State oversight and involvement to provide an environment conducive to ongoing assessment equity.

The current structure of property assessment, which is based in the state's municipalities, has many shortcomings that hamper the effort to make certain that New Jersey property owners are not unfairly burdened with high tax bills. These shortcomings include non-uniform assessment of commercial and individual property; fragmented data services; local influence over what has always been intended to be an independent function; the limitations of part-time, multiple-district assessors and of part-time commissioners performing what has become an almost full-time activity; and a lack of accountability and of centralized, uniform direction and training.

The Commission believes strongly that a favorable organizational environment is necessary to promote and maintain uniformity and equity, and that the current structure lacks the necessary lines of authority and accountability to provide such an environment.

The Commission recommends that New Jersey adopt a county-based system with State assessment of commercial and industrial properties and a centralized data services area. Funding for this structure should be provided by state government.

While a fully State-administered program, or an autonomously administered program, could accomplish the same efficiencies and economies of scale, the Commission believes that much of the direct administration should be assigned to the highest level at which the tax is paid, that being the county level.

A. A county-based system.

Under this proposal, municipal tax assessors would no longer be appointed and paid locally. Assessors would be hired and supervised by a County Assessment Office, and paid with State funds. Tenured assessors would be given absolute preference for full-time positions. Non-tenured would be given the next preference.

County tax board commissioners would continue to be appointed by the Governor, but would come under the supervision (and payroll) of the Tax Court and perform only their current quasi-judicial duties. Each of the 21 county tax administrators would head a County Assessment Office, with its own budget.

The county tax administrator would be a county employee hired by the county with approval of the Director of the State Division of Taxation, and would be supervised by the Local Property Branch in the Division of Taxation. Current administrators would be retained.

B. Strong State oversight.

The Commission proposes that the State Division of Taxation, through enhanced statutory authority, assume responsibility for general administration of assessment practices. Regional supervisors in the division’s Local Property Branch would directly supervise county tax administrators.

The Local Property Branch would be responsible for establishing standards and policies, administering a State-based data processing system to be used in all counties, and conducting assessments of certain commercial and industrial properties, along with many of its current activities (including sales ratio, the certified tax assessors exam, and Farmland Assessment).

5.2 Mandate more frequent updates of assessment values by requiring assessors to use State-approved computer software.

New Jersey law calls for the annual assessment of every parcel in the state. In reality, this practice is not generally followed. In failing to update assessment values, the gap widens each year between the property's assessed value and its true market value. As a result there are inequities in assessment values that eventually increase over time. Owners in neighborhoods that have not kept pace with the general market bear the larger share of the tax burden, if assessment values are not properly adjusted.

In recent years more and more counties and municipalities have relied on technology (computer assisted mass appraisal, or CAMA, systems) to maintain values annually. However, in most municipalities assessors simply file the prior year's assessment rolls. Further, as municipalities fail to update assessments they also delay revaluations. This delay only concentrates the tax burden shift to the year of the revaluation. Correction would have occurred over time if annual updates had been performed.

The Commission recommends requiring annual updates using State-approved software, which will minimize the need for, and impact of, total revaluations and will be more easily understood by taxpayers.

5.3 Establish a schedule for property visitation.

To ensure data on property is current and accurate, all sales must be inspected, and every parcel not sold should be inspected within a five-year period. Interior inspections of other than sale properties could be limited to only those structures that are inconsistent with others in the defined neighborhood or area. This would reduce the cost of the current practice of interior inspection of all property during a revaluation.

5.4 Improve guidelines for assessment uniformity.

The Coefficient of Deviation (COD) is a widely accepted measure of assessment uniformity. CODs are generally used to measure the range of assessment ratios (assessment value divided by sales price). New Jersey's standard COD measure is currently 15%. This means that if a municipality has a COD of greater than 15%, its assessments are not within the acceptable limit of uniformity. The Commission believes that by using current technology (the CAMA system mentioned earlier) it would be reasonable to expect that the COD standard be 10% in New Jersey.

INCENTIVES FOR CONSOLIDATION OF LOCAL UNITS

5.5 Create a State-funded program to absorb increases in the local property tax burden for a fixed period of time.

In addition to concern about home rule control, a major impediment to the consolidation of local units is the variation in local property taxes between neighboring entities. Historically, when a merger of two separate entities was proposed, the new local tax structure created would have resulted in a higher property tax burden for one of the merging entities.

In some instances, for example, one of the municipalities involved has a significantly higher property valuation and a lower relative tax rate than the adjoining units. Although the new tax rate for the consolidated entity is lower than the average rates of the separate components, it may be higher for the residents of the municipality with the higher relative property valuation. These residents experience an increase in their property tax burden as a result. As long as this is the case, it is not reasonable to expect voluntary consolidation.

The Commission recommends that the State establish a new formula aid program to cover the full costs of any tax adjustments occurring as a result of consolidations in the first year. Subsequent to the first year, the State funding would be provided on a declining basis for a fixed period of time, such as five years, during which the new equalized tax rates would be phased in. This would give the local units an incentive to consolidate and allow time for long-term savings for all taxpayers to take effect.

Those constituencies of local units who experienced a net increase in taxes would be made whole as a result of this proposal. It should be clear that as a result of consolidation, no resident experiences a net decline in their current property tax at the expense of other residents of the new local unit. In instances where some components of the surviving local unit would experience a net surplus as a result of maintaining the same tax rate, the additional funds should be used to resolve issues related to cost avoidance.

5.6 Guarantee the promised State incentive funding for the full five-year period, once local units agree to merge.

Municipalities or school districts cannot be expected to consolidate if the promise of State funding to ease the transition is a hollow one. This guarantee would enable the consolidating entity a steady, predictable source of property tax relief during a critical period of adjustment.

5.7 Provide State funding to "hold harmless" local units that experienced a reduction in overall State aid funding as a result of the consolidation.

Another disincentive to consolidation that creates a higher property tax burden is the loss of State aid. Often the State aid entitlement of a consolidated municipality or school district is less than the amount of total aid received by the former constituents as separate entities. Because of a higher overall assessed valuation resulting from the consolidation, local units find that they actually lose aid after various State formula calculations are made. As a result of the lower State aid amount, the local effort (i.e. property tax levy) required by the newly consolidated entity is increased, creating a disincentive to consolidation.

The Commission recommends that the State remove this disincentive by holding the merged entity harmless from a loss of State aid as a result of consolidation.

5.8 Require municipalities participating in mergers to conduct and complete a revaluation prior to consolidation.

The New Jersey Constitution requires all real properties in the state to be assessed under the same standard of value and taxed at the same rate within each taxing jurisdiction. If the combined municipalities have different assessment ratios or levels, it would violate this uniformity/same standard of value clause.

The Commission recommends that the State require the participating entities to conduct a State-funded revaluation before consolidating. An alternate scenario would be to equalize all assessment ratios for purposes of local tax calculations.

REVALUATION SHOCK RELIEF

5.9 Provide State funding of the revaluation relief credits that municipalities are permitted to offer property taxpayers under the Revaluation Relief Act of 1993.

For a host of reasons – from rapidly changing real estate markets to excessive tax assessor workloads to the technological obsolescence of certain local assessment practices – municipalities have found it extremely difficult to maintain current market value assessments for all properties within their boundaries. This creates an unfair tax burden as a wide discrepancy develops in taxpayers' assessment-to-sales ratio within the municipality. It then becomes necessary to revalue all parcels of real property within the municipality in order to reestablish fair and equitable taxation. Municipalities have been reluctant to undergo revaluations, however, because they result in politically and financially shocking increases to some property tax bills, particularly for homeowners. Thus, while revaluations are necessary to maintain tax equity, municipalities are reluctant to order and undergo them.

To address this problem, Governor Florio signed into law the Revaluation Relief Act of 1993, which allows certain municipalities to mitigate extreme property tax increases resulting from revaluations by phasing in the increase over three years through the use of "revaluation relief credits" for certain property owners. A revaluation relief credit is an exemption equivalent to the amount deducted from the tax liability of an eligible property.

The Commission has found that municipalities have been reluctant to apply the law because they must finance the revaluation relief credits solely through their own property tax base. In fact, in five years, no municipality has taken advantage of the law's provisions and provided property taxpayers with revaluation relief credits. Thus, the law has failed to provide an incentive to municipalities to undergo voluntary revaluations.

The Commission recommends that the State improve upon the Revaluation Relief Act by establishing a program to provide State funding of relief credits to municipalities that voluntarily undergo revaluation. State funding will provide the necessary incentive for municipalities to take advantage of the 1993 law and to undergo long-overdue revaluations without saddling homeowners with immediate and dramatic tax increases.

5.10 Use financial incentives and disincentives to encourage participation when there is only a small discrepancy between taxpayer assessments and current market values.

The State should structure any funding of revaluation relief credits to reward those municipalities that strive to keep property valuations as close to market value as possible.

At the same time, it should set limits on the ability of municipalities excessively delinquent in conducting revaluations to benefit from the program.

Therefore, the Commission recommends that State funding provide credit for a higher percentage of the tax increase in the first and subsequent years for municipalities with a relatively small discrepancy between taxpayer assessments and current market values.

The program should also allow only a one-year window of opportunity for participation among municipalities that suffer very wide discrepancies or have been ordered by their County Tax Board to conduct a revaluation.

It should again be noted that this program would be implemented only as a transition strategy until the Commission's property tax assessment reforms are in place.

A detailed outline of this proposal is included as Appendix J to this report.

CHAPTER VI

ADDITIONAL RECOMMENDATIONS

INTRODUCTION

A wide range of factors influence property taxes, and the Commission attempted to address as many suggestions for relieving the burden on New Jersey property taxpayers as possible. In addition to proposals for tax restructuring and those recommendations generated by its subcommittees on local government shared services, consolidation, regionalization, tax administration, and the ratables chase, the Commission considered several other ideas related to property tax relief.

The Commission's additional recommendations include an examination of State-funded direct property tax relief programs, often called "circuit breakers," such as the State's recently enacted property tax freeze for certain senior and disabled citizens.

Other recommendations include providing local units of government additional options for controlling the cost of compensation for public employees, encouraging the sharing of tax ratables when new development generates a need for government services beyond one community, exploring the usefulness of current budget caps, and examining the efficacy of requiring voter approval on budgets that contribute to property taxes

In addition, the Commission supports Governor Whitman's proposal for moving school board member elections to the November ballot.

CIRCUIT BREAKERS

6.1 Fund an independent statewide analysis of the equity issues surrounding "circuit breakers" established along intergenerational lines and withhold new programs until completion of that study.

While the Commission recognizes the value of and need for property tax relief programs targeted exclusively at senior citizens, it remains concerned about the equity of such programs for low-income and young homeowners struggling to pay their property tax bills.

In order to ensure that State property tax relief money is most equitably and effectively distributed, the Commission recommends that the State fund an independent statewide analysis of the benefits and equity of all existing age-based "circuit breakers." This study should also seek to examine potential new programs that could increase benefits for seniors and other segments of the population in an equitable way.

Until such a study has been completed and reviewed, the Commission recommends that the State not implement any new or expanded relief programs based on the criteria of age.

MOVING SCHOOL BOARD MEMBER ELECTIONS TO NOVEMBER

6.2 Enact Governor Whitman's proposed legislation that would move local school board member elections to the November general election.

Voter turnout in recent spring school board elections confirms the growing fear that decisions affecting public education and local school taxes are being made by an increasingly small segment of the voting population in New Jersey.

The Commission believes that broader participation in the election of local school officials will encourage greater scrutiny of school district budgets and property tax rates, thereby engendering greater efficiency and improving public education in New Jersey.

The Commission therefore recommends that the Legislature pass, and Governor Whitman sign, a bill moving school board member elections to the November general election.

HEALTH BENEFIT PLANS

6.3 Amend state law (C. 40A:10-52) to remove the barrier prohibiting municipalities and school districts from joining together for the purpose of providing joint health insurance.

Current law forbids municipal governments and their constituent school districts from entering into joint health insurance agreements. In the interest of allowing governments to shop for the most efficient health insurance plan possible, the Commission believes that the health insurance field for public employers should be an open market, subject only to the limitations of individual health plans.

The Commission therefore recommends that state law be amended so as not to inhibit any effort to save money, and Health Insurance Funds (HIFs) between school districts and municipal governments that create efficiencies should be allowed and encouraged.

6.4 Extend the open enrollment period indefinitely for municipalities wishing to enter the State Health Benefits Program (SHBP).

While there is not currently a surcharge for re-entry, in the recent past the State has imposed such a fee on municipalities seeking to return to the SHBP after experimenting with independent health plans or Joint Insurance Funds. This fee acts as a disincentive to local governments that seek to shop around for the most efficient health plan for their public employees and their families.

Such fees and surcharges should be eliminated to allow local government to shop freely among the State Health Benefits Program and other individual health plans.

REGIONAL RATABLE SHARING

6.5 Develop a mechanism which permits and encourages adjacent municipalities to share the ratables derived from new development with regional impacts beyond the borders of the host municipality.

Growth and development have costs, not only for the town experiencing the changes but often for adjoining towns as well. Approval of a regional shopping center or a large residential development in one community can have a direct and significant impact on the level and cost of municipal services in a neighboring community.

While one municipality enjoys the revenue benefit of new ratables (and improvements installed by the developer), neighboring municipalities may be left with additional, unanticipated costs. For example, an adjacent community may find itself with altered traffic patterns and road congestion, an unanticipated need for roadway improvements, increased demands for police and public safety services, and residents' concerns about quality of life issues. The host town gets the ratables, while the neighbor gets the costs of dealing with the spill-over effects.

A mechanism is needed to allow adjoining municipalities affected by such development to share a portion of new ratables. The Commission recommends enactment of legislation to permit equitable compensation proportionate with the revenues needed for the affected municipality to cover reasonable additional costs associated with the development. An example of this is found in the intermunicipal tax sharing by the Hackensack Meadowlands Development Commission among the towns within the Meadowlands District.

COLLECTIVE BARGAINING AND SALARY CAPS

6.6 Enact legislation that will establish a system of multiple jurisdictional bargaining for public employees on a county, regional, or statewide basis.

Currently, each local unit of government negotiates its own contracts. Creating broader bargaining units for public employees will bring about significant efficiencies and property tax relief.

Creating a county, regional, or statewide system of bargaining would eliminate the need for each public employer to hire professional negotiators and other professionals to negotiate contracts and prepare salary guides. It would also eliminate the leverage gained by public employees when other local governments settle contracts earlier at higher rates of increase than the governing authority was otherwise willing to offer.

Additionally, it would create more uniformity in fringe benefit packages, such as health benefits, thereby giving public employers greater leverage in negotiating the cost of fringe benefits with providers through joint purchasing arrangements, such as Joint Insurance Funds (JIFs).

6.7 Enact legislation that will limit the annual growth in public employee salaries to the rate of inflation as measured by the consumer price index for the New York and Philadelphia areas.

Employee salaries constitute the largest proportion of local government and school spending in New Jersey. For example, over the past 20 years increases in New Jersey teachers' salaries have outpaced both the rate of inflation and increases in the private sector.

The imposition of reasonable salary caps tied to the Consumer Price Index could save as much as $167 million each year both in salaries and in the State's contribution for public employees' pensions and social security.

6.8 Examine the effectiveness of existing caps on budgets that contribute to property taxes.

The Commission recognizes that existing statutory budget cap provisions have not been as effective in preventing significant long-term increases in New Jersey’s property tax burden as voters had wished.

The Commission, therefore, urges the State to examine cap restrictions on local units of government and to consider whether those caps should be strengthened or replaced with another mechanism for controlling property taxes.

6.9 Examine the question of seeking voter approval of all budgets that contribute to property taxes.

New Jersey citizens in most communities have an annual opportunity to vote directly on one of the three chief components (county, municipal, and school) of the property tax: the school tax levy. Governor Whitman has proposed expanding voter input in the property tax process by subjecting municipal budget increases above the rate of inflation to a vote of the municipality’s residents. The Commission also received suggestions for subjecting county budgets to a direct citizen vote.

The Commission encourages the State to study whether it would be in New Jersey's best interests to seek voter approval of all budgets that contribute to property taxes.

June 26, 1998

The Honorable Christine Todd Whitman
Governor
State of New Jersey
PO Box 001
Trenton, NJ 08625

Dear Governor Whitman:

As chairwoman of your Property Tax Commission, I respectfully submit this letter to you as an update on the Commission's deliberations.

Since you appointed the Property Tax Commission in December of 1997, the Commission has held six monthly meetings and four public hearings to gather facts, opinions, and options regarding the issue of property tax reform. The Commission has heard numerous presentations from policy experts, local officials, state legislators, and the public in order to familiarize itself with the issues surrounding property taxes m New Jersey.

To address the issue, the Commission established three subcommittees to focus on the areas it perceived to be the most fundamental for property tax reform: School Regionalization, Local Government Shared Services and Consolidation; Tax Administration and Restructuring; and "The Ratables Chase." In identifying the areas of focus, the Commission recognized that no discussion of property tax relief would be sufficient if it failed to include both the need to control municipal, county, and school district spending as well as the historically heavy reliance on the property tax by those local units of government for the generation of revenue. Therefore, the recommendations included in the final report will address both of these issues, as well as the unique problem of the Ratables Chase, which you asked the Property Tax Commission to consider in your State of the State Address.

While the Commission continues to work toward August's deadline, the Commissioners feel that several pieces of legislation currently pending before the Legislature require comment before consideration of them has ended. To that end, the Property Tax Commission respectfully submits the following position statements:

- The Commission supports 'Timed Growth Ordinance" legislation which would enable municipalities to pass ordinances that direct and plan development consistent with the State Development and Redevelopment Plan. Because it has been documented that new development rarely provides revenue consistent with the additional costs it imposes on the community, it is in the interest of property tax reduction to allow municipalities to employ timed growth ordinances which limit uncoordinated development.

- The Commission recommends opposition to Assembly Bill 179 and Senate Bill 618, which would amend the New Jersey Employer-Employee Relations Act to prohibit public employers from implementing the "last best offer" during contract negotiations. The Commission feels that this bill is in contradiction with the goal of lowering property taxes, for it weakens a local government's ability to resolve impasses during contract negotiations with public employee unions. Furthermore, the infrequency of its use, combined with the fact that "last best offer" may be used only during a genuine impasse, makes legislative change unnecessary.

- The members of the Commission support creating incentives and removing impediments to encourage shared services among local governments in New Jersey. Assemblymen Lance's and Roberts' proposal (A-1874) to provide $50 million in matching aid to local governments is a useful beginning for encouraging shared services and consolidation. However, the Commission is working to develop even more comprehensive approaches to encourage shared services which will build on the Lance-Roberts model.

- The Commission will continue to study the implications of impact fee legislation, and hopes to report a recommendation for your consideration of Senate Bill 60 and Assembly Bill 494, which would enable municipalities to enact certain impact fees on new development.

Additionally, it has become clear during our deliberations that several subjects surrounding the issue of property tax reform merit particularly thoughtful exploration. To that end, the Commission will release three papers during July and August to clarify these subjects and educate decision makers and citizens about the inevitable accommodations which must accompany true property tax relief. These documents will address the following issues: the cost of Home Rule; the benefits and disadvantages of increasing the state share of school funding through a statewide tax; and the implications of Michigan's “Proposal A" property tax reform measure for New Jersey.

The Property Tax Commission will continue its work through the summer and would be happy to receive any suggestions, comments, or requests for further information that you might have. We look forward to issuing our recommendations and to beginning a public discussion of this very important issue.

Sincerely,
Barbara Cannon
Chairwoman

THE COST OF HOME RULE
DISCUSSION PAPER
GOVERNOR'S PROPERTY TAX COMMISSION
AUGUST 1998

<u>Introduction</u>

With property taxes among the most important issues to the people of the Garden State, the benefits and consequences of New Jersey's strong affinity for home rule have increasingly been the subject of public discussion and debate. In light of this, Governor Whitman's Property Tax Commission staff prepared this report about home rule, which is presented with the hope of more fully informing the public debate on this issue.

In addition to defining home rule, this report offers a brief review of the proliferation of local units of government in New Jersey -- be they counties, municipalities, or school districts. This report also contains a survey of observations about home rule dating back to the 1920s, as well an attempt to demonstrate the economic effect that certain cases of home rule have on the cost of locally-delivered public services, particularly for specific municipalities and school districts.

The commission staff members do not intend for this cost discussion to cast home rule in a positive or negative light, or to provide the definitive estimate of the statewide cost of home rule. Rather, the cost illustrations are provided simply to inform taxpayers and local and State officials of the kinds of financial consequences attached to decisions about home rule. There is no doubt that some may find the benefits of home rule to be well worth its costs.

<u>Home Rule</u>

Home rule, which is practiced to varying degrees and in slightly differing forms in states across the nation, generally describes the practice of making certain decisions about government services and business operations at a local level and free from the interference of the state government. A local unit of government can receive the authority to practice home rule in many ways. The authority can be granted through a state's constitution, established by case law, or outlined by state statutes. It can also be the product of tradition.

Statutes and decades of case law recognize New Jersey municipalities as creations of the State Legislature with no inherent right of self government beyond the control of the State. Despite this, New Jersey has a strong home rule tradition, with home rule thought of as the natural order of business and the best way to govern and deliver certain services. The result is that most people believe that certain areas of discretion and responsibility are reserved to local units of government, though the State government actually sets the ground rules for, and monitors, many areas in which home rule is believed to be practiced. For example, it is generally accepted that property tax assessment for the purpose of taxation is solely a function of municipalities without the intrusion of the State government. In reality, however, the local assessment function is at least partially controlled by county boards of taxation with additional oversight by the State Division of Taxation.

Proliferation

Throughout New Jersey's history, there have been periods of time when the creation of a municipality required either no approval or only pro forma approval from the State Legislature. Our strong tradition of home rule and this occasionally easy process by which a local unit of government could be created helped cause the number of local governments in New Jersey to spiral upwards through the years. The number of New Jersey municipalities, for example, increased from 104 in 1800 to 270 by 1880. Spurred by disagreements over liquor laws, land use, road maintenance, and other local issues, municipalities continued to fracture and divide. The result of this history is this: Judged by land area, New Jersey's present 566 municipalities are, on average, the smallest municipalities in the nation.

AVERAGE MUNICIPAL LAND AREA

This chart presents the 10 states with the smallest municipal land areas. This information was obtained by dividing each state's total land area by the total number of municipalities and townships in each state. Land area figures were obtained from the US Geological Survey and include unincorporated and federal lands. The total number of municipalities and townships for each state was obtained from the US Census Bureau.

State	Avg. municipal land area (mi^{2})
New Jersey	13.17
Pennsylvania	17.34
Ohio	18.22
Illinois	20.45
Massachusetts	22.30
Indiana	22.79
Rhode Island	27.03
Connecticut	27.22
Wisconsin	29.43
Minnesota	30.04

Municipalities aren't the only units of local government that have proliferated. The number of counties in New Jersey increased from 13 in 1800 to the present 21 by the time of the Civil War. Similarly, New Jersey's 389 school districts in 1900 became the 611 school districts we have today – more than Pennsylvania, Delaware, Maryland, and West Virginia combined. Add to the counties, municipalities, and school districts New Jersey's 300 local authorities and 188 fire districts -- all with tax- or fee-levying authority -- and it is easy to understand why some assert that New Jersey has more government per capita than any other state.

Survey of Past Observations

The costs and effectiveness of this much home rule have been the subject of much discussion. As the information below will show, the observations about New Jersey's practice of home rule have been remarkably consistent over the decades.

- In 1929, the Legislature established the Commission to Investigate County and Municipal Taxation and Expenditures for the purpose of reducing the cost of local government in New Jersey. That Commission's preliminary report found that the "rapid increase of tax rates and of tax burdens in recent years has given rise to a general spirit of unrest" and other problems.
- In his First Annual Message to the Legislature in January, 1948, Governor Alfred E. Driscoll observed that, "It may well be that one of the reasons why so much dissatisfaction has been experienced by the operation of local government in our State is that we expect municipal governments to perform services which would better be performed by larger units, either Counties or the State itself."
- In 1988, the State and Local Expenditure and Revenue Policy Commission found that "New Jersey's excessive reliance on local government and local taxation pervades the delivery of public services," and that the "current assignment of service responsibility between the state and local government does not always promote accountability, equity, and efficiency."
- In his 1994 State of the State speech, Governor James J. Florio said that, "When home rule means people make decisions on matters close to them, that's great, and we never want to lose that. But when it means wasting money and overburdening people with property taxes because we cling to outmoded, expensive ways of thinking, and we refuse to tell the truth, then there has to be a better way."

Prior Research

While there are, no doubt, distinct benefits to having what almost amounts to "neighborhood governance," such an arrangement can be expensive. Property taxes, which are levied, collected, and expended by New Jersey's local units of government, are the nation's highest. New Jersey spends more on education per pupil than any other state in the nation and more than any nation in the world.

The fact that many municipalities and counties have successfully regionalized certain services – whether these be libraries, health services, emergency services dispatching, or other services -- illustrates that discrete services can be less expensively, and often more effectively, delivered by units of government larger than many of New Jersey's present municipalities and school districts. In addition to the regionalization, consolidation, and sharing of services already happening, several studies indicate that it would be economically sensible for New Jersey's small municipalities to seek partnerships for -- or get out of -- some business operations.

One such study, called "Somerset 21" and drafted by Bridgewater Mayor James Dowden, suggests a way to save millions of property tax dollars annually. Under the plan, Somerset County's 21 municipalities would consolidate into five regional centers. While each municipality would maintain its own identity and would still elect a mayor and council, the 20 or so senior-level municipal employee positions responsible for managing the delivery of key services would be regionalized. Each regional center would have an elected executive. Policing, school boards, tax assessment, school transportation, planning, and purchasing are among the functions that would be regionalized. Loosely applying this model to one of Mayor Dowden's proposed regional centers – comprising Bridgewater Township, Raritan Borough, and Somerville Borough – found that costs could be reduced by $1.824 million annually.

A New Jersey Treasury Department update of the 1986 State study called Equity 21 suggests that the State could remove $70 million annually from municipalities' property-tax funded budgets simply by assuming the cost of performing residential property assessments and shifting the responsibility for this function to the county level. The State would also assume the cost and responsibility for commercial and industrial assessments under this study. This shift would replace the current assessment method in which municipally-appointed assessors are responsible for all assessment.

Cost of Home Rule

The remainder of this report seeks to illustrate the cost of home rule as it relates to the proliferation of many small municipalities and school districts. To make these illustrations, staff examined the estimated cost differences that would result from 1) delivering municipal services through larger municipal jurisdictions and 2) delivering all education through complete kindergarten to 12th grade school districts. In estimating the cost of home rule, this report does not explore the potential cost differences associated with transferring responsibility for service delivery from municipalities to other levels of government, nor does it examine the statewide economic effect of making certain decisions at a local, rather than regional, level.

Municipal

As mentioned before, many of New Jersey's municipalities are among the smallest municipalities in the nation. In order to establish the possible cost reductions from delivering municipal services through municipal jurisdictions that are larger than some in New Jersey today, this report compares the aggregate per capita costs of municipal services in groups of contiguous small municipalities with the estimated municipal services costs if those municipalities were administered as a single jurisdiction.

The groupings of the contiguous small municipalities into larger hypothetical municipal jurisdictions were arbitrarily based on New Jersey's municipal boundaries of 1877, when there were 270, rather than 566, municipalities. The aggregate per capita cost of local government in these "1877s" were compared to the per capita costs of present day municipalities that are similar to the 1877s in various ways. The difference between these per capita costs is the cost of home rule. A more thorough explanation of the methodology is attached.

The attached spreadsheet presents the 24 most comparable matches between an 1877 municipality and a present day municipality. Of these, 22 cases show cost differences – that is, a cost of home rule -- as high as $500 per capita. The average cost of home rule among these 22 cases is $205 per capita.

Only 2 cases – 1877's Cinnaminson and Howell Townships -- show an increase in cost if the small present day municipalities consolidated into the larger 1877 jurisdiction. While this does not preclude the possibility that another comparison based on something other than historical precedent may show a reduction in per capita costs, these two cases might rather illustrate that consolidation of local governments is not always cost effective. Such situations could be expected to arise because of, among other things, significant variations in the qualities and types of services provided between municipalities, or because of significant administrative differences.

COST DIFFERENCES

The 10 cases with the most significant cost decreases are presented in the chart below. The left column lists the 1877 municipal jurisdiction that was used to determine how to group a series of contiguous small present day municipalities. The middle column shows the present day municipality against which the 1877 jurisdiction is being compared. The final column presents the difference in the per capita cost of local government services.

1877 Municipality	Comparable 1998 Municipality	"Cost of Home Rule"
Harrington Twp.	Mount Laurel Twp.	**$509** per capita
Morris Twp.	Sayreville Borough	**$465** per capita
Upper Freehold Twp.	Shamong Twp.	**$452** per capita
Rahway Twp.	Willingboro Twp.	**$398** per capita
Burlington Twp.	Deptford Twp.	**$366** per capita
Warren Twp.	Evesham Twp.	**$363** per capita
Rockaway Twp.	Howell Twp.	**$311** per capita
Bernards Twp.	South Brunswick Twp.	**$251** per capita
E. Brunswick Twp.	Brick Twp.	**$242** per capita
Westfield Twp.	Edison Twp.	**$144** per capita

Municipal Summary

The municipal portion of this report used 24 case studies to illustrate the cost that may be added to the operation of municipal government because of the small size and large number of New Jersey municipalities. This increased cost may be funded through property tax revenue or through State aid. This exercise found that in 22 of the 24 cases examined, the per capita cost of municipal government went down when municipal jurisdictions grew. The greatest cost difference among the case studies was over $500 per capita, while the average cost difference among the 22 cases was $205 per capita.

It should be noted that the data used for the case studies has not been adjusted to reflect regional differences in the value of a dollar or for significant differences in service quality within municipalities. This is one reason that these figures should be viewed as illustrative of the cost of home rule, rather than as a definitive statement of these costs.

Education

For the purposes of calculating the cost of home rule as it relates to education, the Property Tax Commission staff sought to determine the total cost of delivering education in school districts that are elementary level only and are not complete kindergarten to 12^{th} grade districts.

Of New Jersey's 611 school districts, 294 are elementary level only and do not operate kindergarten through 12^{th} grade: 67 serve kindergarten through 6^{th} grade (K-6); and 227 serve kindergarten through 8^{th} grade (K-8). Another 23 districts do not operate schools at all. These 317 districts are called sending districts because they send their students to a different district for at least a portion of their education. The districts to which the students are sent are called receiving districts. In order to have some perceived increased level of influence in their children's early education, residents in sending districts support through their property taxes duplicative, non-educational services at both the sending and receiving districts.

The Property Tax Commission asked staff at the Department of Education to identify 1) the duplicative non-educational costs incurred by the state's sending school districts, and 2) areas in which regionalization of the sending districts, or better coordination, might provide significant economic benefits. The Department staff identified seven areas and the amount of money budgeted by these 317 districts for each of these seven areas.

- General Administration includes the costs of establishing and administering policy for operating the school district and costs associated with the board of education, superintendent, and other executive staff. This area is duplicative of costs incurred in the secondary receiving districts.
- Business and Support Services includes the costs of running the business office, data processing operation, warehouse and distribution services, information services, and risk management. This area is duplicative of costs incurred in the secondary receiving districts.
- Improvement of Instructional Services includes the costs associated with supervision of teachers, curriculum development, and other administrative activities. These services could be delivered more efficiently on a district-wide basis in larger districts.
- Other Support Services - Child Study Team includes the costs of evaluation and classification of students for special education. These services could be delivered more efficiently on a district-wide basis in a larger school district.

- Operation and Maintenance of Plant includes the costs associated with keeping schools open, clean, and safe and keeping the grounds, buildings and equipment in effective working condition. This is a prime area for economies of scale and better coordination.
- Student Transportation includes the costs associated with conveying students between home and school and from school to other school activities. This is a prime area for economies of scale and better coordination.
- Employee Benefits are costs associated with the employees in the above categories.

The Department staff estimate that the State's sending districts spend over $500 million a year for these services. The amount of money budgeted in the 1997-1998 school year for each of these services is listed in the chart below.

Category	1997 Appropriated
General Administration	$71,806,100
Business and Support Services	$38,922,300
Improvement of Instructional Services	$12,049,700
Other Support Services-Child Study Team	$54,743,700
Operation and Maintenance of Plant	$173,303,000
Student Transportation	$115,303,000
Employee Benefits	$40,519,500
TOTAL	$506,647,300

Education Summary

The education portion of this report found that duplicative, non-educational expenses incurred by elementary-only or non-operating school districts cost over $500 million each year. While money is certainly not the primary issue one should be concerned with when considering the education of our children, there is evidence that the fractured delivery of education not only incurs duplicative, non-educational costs, it also incurs very real educational costs. For example, New Jersey schools tend to spend more of every educational dollar on administration than many other states. In addition, because of a general lack of coordination in curriculum development between K-6 and K-8 districts that send to a single high school, it can often be the case that students from one district may be less prepared for the high school curriculum than students from another district. When considering the cost of many small school districts, in other words, one should be sure to consider the educational, as well as the monetary, costs of delivering education in the way it delivered here in New Jersey.

The Cost Of Home Rule Conclusion

In addition to providing some general information about home rule and the proliferation of local units of government in New Jersey, this report sought to provide illustrations about the cost of home rule. These illustrations were constructed by examining the per capita cost of local government services in particular municipalities and by examining the duplicative, non-educational costs incurred by a particular type of school district.

As stated before, the commission staff members do not intend for this report to cast home rule in a positive or negative light, or to provide the definitive estimate of the cost of home rule. Rather, the members hope that this report will be seen as illustrating that there are consequences attached to the ways in which we choose to deliver services. In New Jersey, we choose to deliver many services through many small municipalities and many small school districts. With these illustrations in minds, the commission staff members hope that the public engages elected representatives at all levels of government in a conversation about whether the costs of home rule as practiced in New Jersey are worth its benefits.

Attached:
- ⇒ Municipal methodology.
- ⇒ 1877 municipal boundary map.
- ⇒ 1998 municipal boundary map.
- ⇒ Comparison of municipal costs.

MUNICIPAL METHODOLOGY

The methodology for the municipal section of this report was designed to examine whether dividing an area of land into many small political jurisdictions causes administrative and service delivery costs to be more expensive than they would be with larger jurisdictions. To do this, the report presents the aggregate per capita cost of municipal government in several small, contiguous municipalities. This cost is then compared against the per capita cost of municipal government in a single municipal jurisdiction that has characteristics similar to the characteristics of the aggregated small municipalities. The difference in these costs is attributed to the difference in the size of the municipalities.

The groupings of the contiguous small municipalities into larger hypothetical municipal jurisdiction were arbitrarily based on New Jersey's municipal boundaries of 1877, when there were 270, rather than 566, municipalities. For example, Middletown Township, Atlantic Highlands Borough, and Highlands Borough were all part of Middletown Township in 1877. The costs of municipal government in each of those three present day municipalities were added together and divided by the total population of the three municipalities to determine the current per capita cost of delivering municipal services.

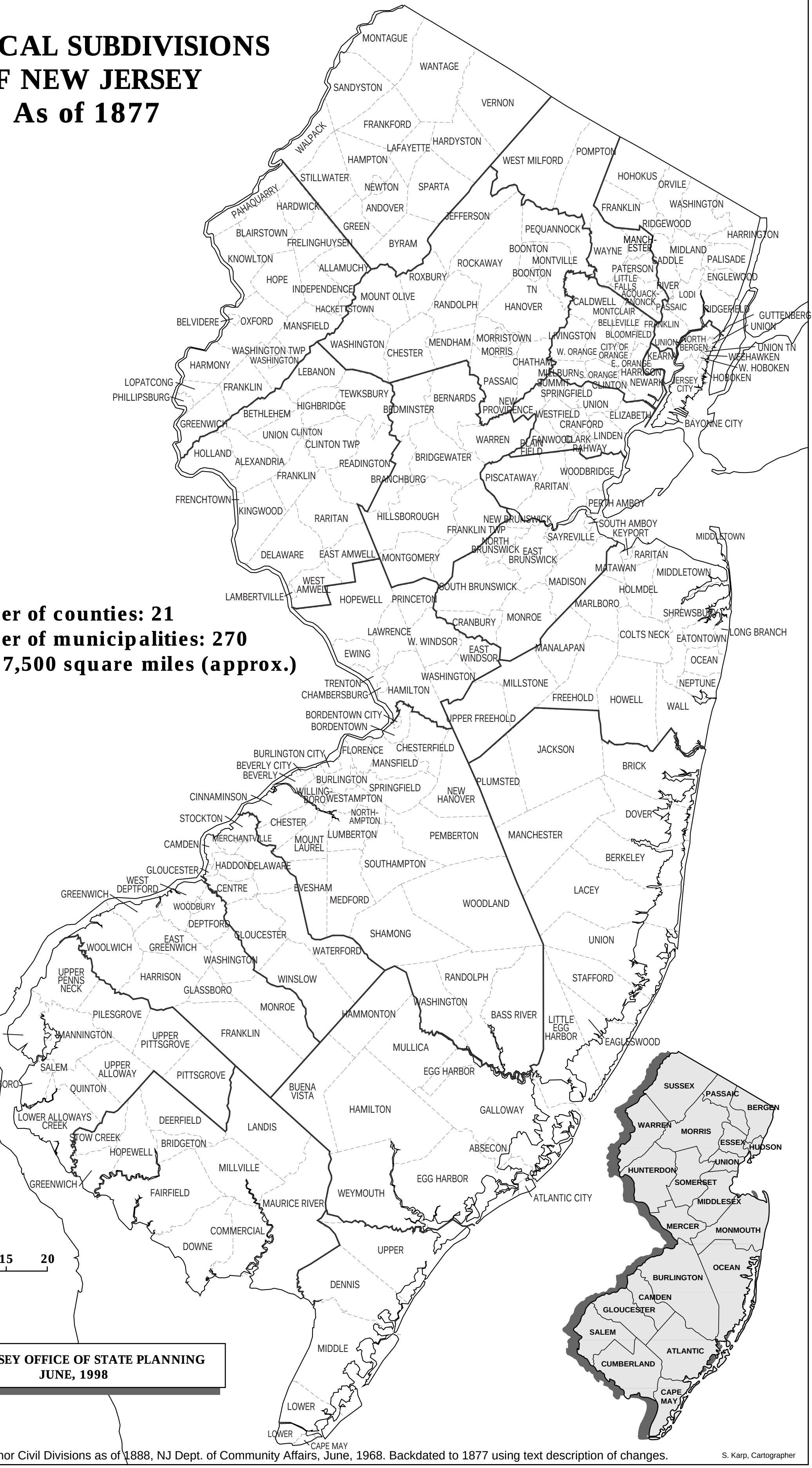
This process of grouping municipalities and determining a per capita cost of delivering services was repeated for each case in which an 1877 township was composed of multiple 1998 municipalities. The attached maps illustrate New Jersey's municipal boundaries in 1877 and 1998.

In order to establish credible cases against which to compare the groupings of contiguous small municipalities, staff at the Department of Community Affairs were asked to identify present day municipalities that are similar to the "1877s" with regard to population, population density, and land area. Though not measured as concretely as the three variables just listed, department staff also attempted to create matches based on other factors that make municipalities similar. Where possible, these factors included region, level of urbanization, income level, and other municipal demographics.

Commission staff culled from the proposed matches those cases in which the present day municipalities had a land area and a present day population density within about 12.5 percent of the comparable municipality. Twenty-four cases fit this criteria.

POLITICAL SUBDIVISIONS OF NEW JERSEY As of 1877

Total number of counties: 21
Total number of municipalities: 270
Total Area: 7,500 square miles (approx.)



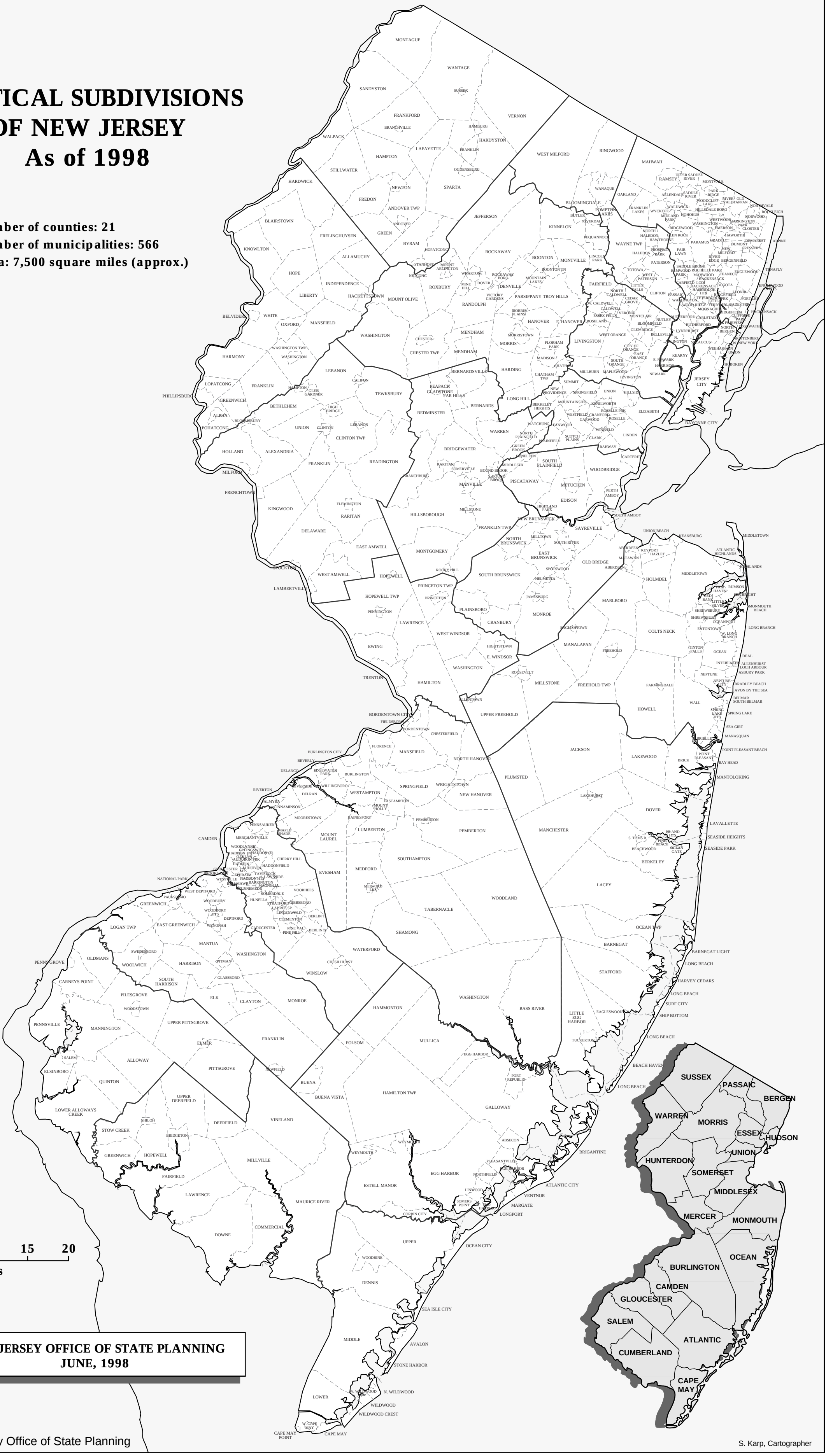
NEW JERSEY OFFICE OF STATE PLANNING
JUNE, 1998

Source: New Jersey Minor Civil Divisions as of 1888, NJ Dept. of Community Affairs, June, 1968. Backdated to 1877 using text description of changes.

S. Karp, Cartographer

POLITICAL SUBDIVISIONS OF NEW JERSEY As of 1998

Total number of counties: 21
Total number of municipalities: 566
Total Area: 7,500 square miles (approx.)



NEW JERSEY OFFICE OF STATE PLANNING
JUNE, 1998

Source: New Jersey Office of State Planning

S. Karp, Cartographer

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Harrington Twp	Bergen					
Alpine Boro		6.20	1,826	295	3,125,168.00	1,711.48
Closter Boro		3.17	8,366	2,639	8,120,798.00	970.69
Demarest Boro		2.10	4,922	2,344	4,485,339.00	911.28
Haworth Boro		1.97	3,428	1,740	4,395,119.00	1,282.12
Northvale Boro		1.30	4,660	3,585	5,034,410.29	1,080.35
Norwood Boro		2.90	5,691	1,962	4,429,652.76	778.36
Old Tappan Boro		3.10	5,006	1,615	4,661,769.00	931.24
Rockleigh Boro		1.00	278	278	992,984.00	3,571.88
Harrington Twp Comparable Municipality	Bergen	21.74	34,177	1,572	35,245,240.05	**1,031.26**
1998 Mount Laurel Twp	Burlington	22.15	36,067	1,628	18,820,388.57	**521.82**
					Difference:	509.44
1877 Lodi Twp	Bergen					
Hasbrouck Heights Boro		1.50	11,618	7,745	10,817,985.72	931.14
Little Ferry Boro		1.50	10,108	6,739	6,671,611.06	660.03
Lodi Boro		2.20	22,736	10,335	17,214,586.58	757.15
Moonachie Boro		1.60	2,874	1,796	4,381,610.00	1,524.57
S. Hackensack Twp		0.50	2,177	4,354	5,251,095.00	2,412.08
Teterboro Boro		1.20	22	18	3,148,668.17	143,121.28
Lodi Twp Comparable Municipality	Bergen	8.50	49,535	5,828	47,485,556.53	**958.63**
1998 Union Twp	Union	9.00	50,404	5,600	46,198,113.74	**916.56**
					Difference:	42.07
1877 Orville Twp	Bergen					
Montvale Boro		4.00	7,092	1,773	9,391,425.00	1,324.23
Saddle River Boro		4.90	3,078	628	5,130,925.32	1,666.97
Waldwick Boro		2.40	10,023	4,176	8,186,142.00	816.74
Woodcliff Lake Boro		3.75	5,676	1,514	6,736,279.00	1,186.80
Orville Twp Comparable Municipality	Bergen	15.05	25,869	1,719	29,444,771.32	**1,138.23**
1998 Livingston Twp	Essex	14.00	26,181	1,870	26,761,770.78	**1,022.18**
					Difference:	116.05

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Burlington Twp	Burlington					
Burlington City		3.44	9,639	2,802	9,659,495.22	1,002.13
Burlington Twp		14.20	14,914	1,050	13,222,095.00	886.56
Burlington Twp Comparable Municipality	Burlington	17.64	24,553	1,392	22,881,590.22	**931.93**
1998 Deptford Twp	Gloucester	17.58	24,747	1,408	13,997,203.59	**565.61**
					Difference:	366.32
1877 Cinnaminson Twp	Burlington					
Cinnaminson Twp		7.57	14,702	1,942	10,496,861.84	713.98
Delran Twp		6.91	13,957	2,020	7,452,600.00	533.97
Palmyra Boro		1.92	6,950	3,620	4,045,231.82	582.05
Riverton Boro		0.70	2,690	3,843	1,970,975.69	732.70
Cinnaminson Twp Comparable Municipality	Burlington	16.40	38,299	2,335	23,965,669.35	**625.75**
1998 Sayreville Boro	Middlesex	16.60	37,352	2,250	31,622,730.00	**846.61**
					Difference:	-220.86
1877 Waterford Twp	Camden					
Berlin Boro		3.56	5,943	1,669	4,173,674.00	702.28
Berlin Twp		3.27	5,395	1,650	4,223,998.24	782.95
Chesilhurst Boro		1.72	1,519	883	1,743,000.00	1,147.47
Waterford Twp		36.11	10,935	303	6,016,965.76	550.25
Waterford Twp Comparable Municipality	Camden	44.66	23,792	533	16,157,638.00	**679.12**
1998 Medford Twp	Burlington	40.29	22,046	547	12,440,558.00	**564.30**
					Difference:	114.82

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Caldwell Twp	Essex					
Caldwell Boro		1.20	7,295	6,079	6,389,298.00	875.85
Cedar Grove Twp		4.50	11,731	2,607	7,160,602.04	610.40
Essex Fells Boro		1.30	2,013	1,548	2,937,319.56	1,459.18
Fairfield Twp		10.58	7,355	695	10,769,364.00	1,464.22
N. Caldwell Boro		2.90	6,583	2,270	5,101,334.39	774.93
Verona Boro		2.80	13,044	4,659	11,184,677.60	857.46
W. Caldwell Boro		5.04	9,768	1,938	11,712,314.79	1,199.05
Caldwell Twp	Essex	28.32	57,789	2,041	55,254,910.38	**956.15**
Comparable Municipality						
1998 Wayne Twp	Passaic	24.89	50,439	2,026	45,455,586.00	**901.20**
					Difference:	63.95

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Deptford Twp	Gloucester					
Deptford Twp		17.58	24,747	1,408	13,997,203.59	565.61
Wenonah Boro		0.99	2,325	2,348	1,396,725.00	600.74
Westville Boro		1.21	4,455	3,682	3,011,120.00	675.90
Woodbury Heights Boro		1.23	3,300	2,683	2,031,856.55	615.71
Deptford Twp	Gloucester	21.01	34,827	1,658	20,436,905.14	**586.81**
Comparable Municipality						
1998 Mount Laurel Twp	Burlington	22.15	36,067	1,628	18,820,388.57	**521.82**
					Difference:	64.99

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 E. Brunswick Twp	Middlesex					
E. Brunswick Twp		22.20	44,829	2,019	39,700,622.00	885.60
Helmetta Boro		0.80	1,398	1,748	1,141,742.08	816.70
Milltown Boro		1.60	7,032	4,395	5,173,716.00	735.74
South River Boro		2.80	13,921	4,972	8,734,565.10	627.44
Spotswood Boro		2.15	8,174	3,802	4,944,621.18	604.92
E. Brunswick Twp	Middlesex	29.55	75,354	2,550	59,695,266.36	**792.20**
Comparable Municipality						
1998 Brick Twp	Ocean	26.40	73,323	2,777	40,336,259.40	**550.12**
					Difference:	242.08

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Eatontown Twp	Monmouth					
Eatontown Boro		5.80	13,976	2,410	13,823,954.00	989.12
Oceanport Boro		3.10	6,207	2,002	3,768,849.82	607.19
W. Long Branch Boro		2.83	7,949	2,809	5,306,874.00	667.62
Eatontown Twp Comparable Municipality	Monmouth	11.73	28,132	2,398	22,899,677.82	**814.01**
1998 Ocean Twp	Monmouth	11.20	26,851	2,397	18,144,890.75	**675.76**
					Difference:	138.25
1877 Howell Twp	Monmouth					
Farmingdale Boro		0.50	1,514	3,028	642,218.24	424.19
Howell Twp		62.10	44,718	720	25,738,451.98	575.57
Howell Twp Comparable Municipality	Monmouth	62.60	46,232	739	26,380,670.22	**570.61**
1998 Vineland City	Cumberland	69.50	55,906	804	32,570,950.21	**582.60**
					Difference:	-11.99
1877 Manalapan Twp	Monmouth					
Englishtown Boro		0.57	1,359	2,384	1,240,595.00	912.87
Manalapan Twp		30.85	31,245	1,013	20,601,728.84	659.36
Manalapan Twp Comparable Municipality	Monmouth	31.42	32,604	1,038	21,842,323.84	**669.93**
1998 Marlboro Twp	Monmouth	30.35	33,039	1,089	17,819,501.08	**539.35**
					Difference:	130.58
1877 Middletown Twp	Monmouth					
Atlantic Highlands Boro		1.20	4,819	4,016	4,266,822.99	885.42
Highlands Boro		0.64	4,903	7,661	5,865,407.66	1,196.29
Middletown Twp		41.08	68,327	1,663	43,511,369.17	636.81
Middletown Twp Comparable Municipality	Monmouth	42.92	78,049	1,818	53,643,599.82	**687.31**
1998 Dover Twp	Ocean	41.62	83,776	2,013	54,070,477.65	**645.42**
					Difference:	41.89

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Upper Freehold Twp	Monmouth					
Allentown Boro		0.60	1,948	3,247	1,496,039.08	767.99
Upper Freehold Twp		47.45	3,771	79	2,803,870.00	743.53
Upper Freehold Twp Comparable Municipality	Monmouth	48.05	5,719	119	4,299,909.08	**751.86**
1998 Shamong Twp	Burlington	46.61	6,243	134	1,873,938.00	**300.17**
					Difference:	451.69
1877 Boonton Twp	Morris					
Boonton Town		2.42	8,502	3,513	6,109,965.14	718.65
Boonton Twp		8.20	3,790	462	2,847,807.06	751.40
Mountain Lakes Boro		2.90	4,071	1,404	4,229,018.97	1,038.82
Boonton Twp Comparable Municipality	Morris	13.52	16,363	1,210	13,186,791.17	**805.89**
1998 Plainsboro Twp	Middlesex	11.80	15,636	1,325	11,109,175.36	**710.49**
					Difference:	95.40
1877 Chatham Twp	Morris					
Chatham Boro		2.35	7,953	3,384	7,864,629.88	988.89
Chatham Twp		9.10	9,775	1,074	7,296,852.57	746.48
Florham Park Boro		7.50	8,986	1,198	9,232,637.00	1,027.45
Madison Boro		4.20	15,727	3,745	18,020,262.78	1,145.82
Chatham Twp Comparable Municipality	Morris	23.15	42,441	1,833	42,414,382.23	**999.37**
1998 E. Brunswick Twp	Middlesex	22.20	44,829	2,019	39,700,622.00	**885.60**
					Difference:	113.77
1877 Morris Twp	Morris					
Morris Twp		15.70	21,811	1,389	21,098,244.74	967.32
Morristown Town		2.86	16,357	5,719	28,945,375.95	1,769.60
Morris Twp Comparable Municipality	Morris	18.56	38,168	2,056	50,043,620.69	**1,311.14**
1998 Sayreville Boro	Middlesex	16.60	37,352	2,250	31,622,730.00	**846.61**
					Difference:	464.53

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Long Hill Twp	Morris					
Harding Twp		20.50	3,778	184	4,997,549.10	1,322.80
Long Hill Twp		12.50	8,012	641	9,140,041.57	1,140.79
Long Hill Twp Comparable Municipality	Morris	33.00	11,790	357	14,137,590.67	**1,199.12**
1998 Montgomery Twp	Somerset	32.80	12,261	374	14,131,676.18	**1,152.57**
					Difference:	46.55
1877 Rockaway Twp	Morris					
Denville Twp		12.70	14,629	1,152	12,618,088.34	862.54
Rockaway Boro		2.00	6,435	3,218	4,968,408.53	772.09
Rockaway Twp		42.35	21,245	502	19,941,271.00	938.63
Rockaway Twp Comparable Municipality	Morris	57.05	42,309	742	37,527,767.87	**886.99**
1998 Howell Twp	Monmouth	62.10	44,718	720	25,738,451.98	**575.57**
					Difference:	311.42
1877 Bernards Twp	Somerset					
Bernards Twp		24.95	20,455	820	22,537,431.93	1,101.81
Bernardsville Boro		12.85	6,928	539	8,308,814.78	1,199.31
Far Hills Boro		4.90	1,002	204	1,404,465.16	1,401.66
Bernards Twp Comparable Municipality	Somerset	42.70	28,385	665	32,250,711.87	**1,136.19**
1998 S. Brunswick Twp	Middlesex	41.00	30,716	749	27,204,608.02	**885.68**
					Difference:	250.51

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Bridgewater Twp	Somerset					
Bound Brook Boro		1.60	9,617	6,011	6,718,526.95	698.61
Bridgewater Twp		32.30	38,491	1,192	20,942,780.14	544.10
Raritan Boro		2.00	6,115	3,058	6,037,475.04	987.32
Somerville Boro		2.30	11,705	5,089	10,843,223.73	926.38
Bridgewater Twp	Somerset	38.20	65,928	1,726	44,542,005.86	**675.62**
Comparable Municipality						
1998 Middletown Twp	Monmouth	41.08	68,327	1,663	43,511,369.17	**636.81**
					Difference	38.81

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Warren Twp	Somerset					
Green Brook Twp		4.60	5,156	1,121	3,708,740.71	719.31
N. Plainfield Boro		2.70	18,947	7,017	11,320,607.26	597.49
Warren Twp		19.60	12,804	653	10,775,959.61	841.61
Watchung Boro		6.00	5,280	880	6,970,133.19	1,320.10
Warren Twp	Somerset	32.90	42,187	1,282	32,775,440.77	**776.91**
Comparable Municipality						
1998 Evesham Twp	Burlington	29.65	38,524	1,299	15,948,441.00	**413.99**
					Difference	362.92

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Rahway Twp	Union					
Clark Twp		4.53	14,579	3,218	13,820,520.89	947.97
Rahway City		4.00	25,228	6,307	25,382,683.84	1,006.13
Winfield Twp		0.17	1,566	9,212	1,002,083.00	639.90
Rahway Twp	Union	8.70	41,373	4,756	40,205,287.73	**971.78**
Comparable Municipality						
1998 Willingboro Twp	Burlington	7.60	35,445	4,664	20,344,800.00	**573.98**
					Difference	397.80

Municipal Comparisons Attachment

Municipality	County	Land Area	1996 Population	1996 Density	1997 Municipal Budget	1997 Mun. Budget Per Capita
1877 Westfield Twp	Union					
Cranford Twp		4.90	22,811	4,655	18,249,851.00	800.05
Fanwood Boro		1.29	7,108	5,510	5,512,787.41	775.58
Garwood Boro		0.70	4,216	6,023	5,108,498.11	1,211.69
Mountainside Boro		4.10	6,655	1,623	7,354,172.00	1,105.06
Scotch Plains Twp		9.20	22,780	2,476	15,330,851.19	673.00
Springfield Twp		5.20	13,670	2,629	16,568,894.43	1,212.06
Westfield Town		6.50	29,125	4,481	22,270,222.00	764.64
Westfield Twp Comparable Municipality	Union	31.89	106,365	3,335	90,395,276.14	**849.86**
1998 Edison Twp	Middlesex	30.65	93,993	3,067	66,342,693.50	**705.83**
					Difference	144.03

LOCAL SCHOOL TAXES
DISCUSSION PAPER
GOVERNOR'S PROPERTY TAX COMMISSION
AUGUST 1998

Property Tax Commission staff were asked to provide the following paper to stimulate discussion of the role of local property taxes in funding public education and of replacing that funding with increased State aid.

New Jersey's system of funding public education is characterized by a tension between two competing goals. First, the State's constitution requires that the State provide a "thorough and efficient" education to all school-age children. This responsibility has been defined by the New Jersey Supreme Court to mean the State must assure that the amount of money spent on the education of children in poor districts is comparable to the per-pupil amount spent in wealthier districts.

Second, New Jersey has a strong tradition of home rule for school districts as well as municipalities. State statutes and local business practices leave individual school districts with the authority to decide many aspects of their educational programs. This authority includes the ability to enter into contracts, bargain for employee wages, and determine spending levels and spending priorities, all of which are funded through State aid and property tax revenues.

Among other consequences, this arrangement has the effect of directing most State-aid to poorer districts. An individual district's decision to increase its costs is funded through the property tax. Such decisions tend to increase the poor-to-wealthy spending gap, obligating the State to provide more aid to poor districts in order to equalize per-pupil expenditures. Thus, State aid constitutes a very small proportion of total funding for some districts and a large proportion for others. Additionally, the property tax persists not because the State has sought to avoid funding schools – State aid to school districts has more than quadrupled since 1980 – but because it is the only constitutional means by which some communities can fund the enhanced or extra educational services they decide to provide.

The Property Tax Commission has been asked why the State can't use additional State revenues for education funding, thereby reducing or eliminating the heavy burden of the local school tax. This approach has been tried periodically over the past 20 years. In years when State aid was substantially increased, school districts generally exercised their decision-making rights and spent the additional aid <u>as well as</u> revenues from increased local taxes. The desired decrease in the property tax burden did not materialize.

If the lesson from these past 20 years is that, under the current arrangement, additional State aid alone cannot reduce school taxes, we must consider how a change in the degree of local control would work. Would additional State aid eliminate or reduce school taxes if it were accompanied by a corresponding elimination or reduction in local control over schools?

First, one must examine the case for complete State funding of education. In addition to eliminating the school portion of the property tax, 100% State funding of education costs would require several other significant changes.

- **First, the State would have to establish and enforce a common per-pupil spending level for a statewide "thorough and efficient" educational program offered equally throughout the public school system.** Since New Jersey school districts currently spend more per pupil, on average, than any other State in the nation, even a generous statewide per-pupil funding amount would be less than the amount currently spent by the State's highest spending districts. Therefore, in order to achieve equal and full State funding of education in all school districts, spending in districts already above the per-pupil threshold would have to be frozen or radically slowed until spending in other districts caught up.

- **Second, the State would have to generate approximately $7 billion in new State revenues simply to transfer the existing local tax portion of school funding to the State level.** This would require a doubling of either the sales tax or income tax rates. Additionally, depending on where the common statewide per-pupil spending amount were set, more State revenues might be needed to raise the spending level of districts initially below that level.

- **Third, all future local contributions would have to be forbidden by law.** Without a strict prohibition on local spending, education would not be funded fully by the State.

- **Fourth, not all communities would receive education aid equivalent to their local contribution.** This is somewhat true today because the amount that a community receives in State education aid is not determined by what the community's residents pay in State taxes. With regards to the property tax, however, local control enables communities to apply each local dollar raised entirely toward the support of their schools. In a State-funded system, that portion of local control would not exist. Taxes to raise funds for education would be based on wealth or property or personal spending, and they would be distributed on a per-pupil basis to all schools. In general, wealthier citizens would pay more in State taxes than their schools would spend. Poorer citizens in poorer districts would pay less in State taxes than their schools would spend.

- **Fifth, full and equal statewide funding would require the establishment of a statewide salary schedule for school employees.** The wages of employees currently being paid above the schedule would have to be frozen temporarily, or radically slowed, until those below the schedule were caught up. For determining future compensation, the existing local negotiations conducted separately by local school boards would need to be eliminated in favor of statewide collective bargaining.

- **Sixth, given the radical curtailment of local decision-making under this model, there would no longer be a need for over 600 school boards.** In order to facilitate uniformity and efficiency, county or regional boards would need to be created to coordinate administrative services, while advisory councils of parents and teachers might be established in each school to retain local oversight of its operations.

While this scenario represents a radical departure from the way in which New Jersey's education system is administered, it is not unlike the arrangements in states that currently fund education fully with State revenues. Hawaii, which fully funds public education in all communities, is a single school district. Michigan, which is often cited for having reduced and capped local tax support of public schools, achieved that result by: 1) setting a common per-pupil spending amount of $6,500 for all school districts (about $3,000 lower than New Jersey's current average); 2) allowing districts spending above that amount to raise local taxes with voter approval only where such taxes are needed to maintain their pre-equalization spending levels; and 3) increasing the sales tax from 2% to 6%.

Of course, full State funding is only one scenario. Examining the option of increased, rather than complete, State funding of education, one sees that the effects on home rule are not unlike those described above. The State of New Jersey cannot guarantee that State aid will represent an average 50% of total school spending, for example, without applying strict controls on the total amount that is spent. Nor would there be a guaranteed local tax benefit without such controls. Without additional constraints, districts conceivably would remain at liberty to use their local power over property tax rates to increase spending, thereby negating any positive benefit from increased State aid. In order to ensure the advantages of additional aid, the current system in which each local school board enters into contracts and formulates its own spending levels would need to be eliminated or radically constrained. Therefore, to guarantee even a specific, partial level of State funding would require the application of all of the measures of increased State control described in the full-funding scenario above.

Even with such controls, increased average proportional State funding would continue to be only an average. In order to maintain reasonable spending equity in a system funded in part by local taxes, the State would still need to use State aid to equalize spending, providing aid to districts in proportion to the wealth of their communities. Therefore, regardless of the average proportional State support, the wealthiest districts would continue to receive little State aid, while State dollars would continue to represent most of the spending in other districts.

MICHIGAN'S "PROPOSAL A" DISCUSSION PAPER

GOVERNOR'S PROPERTY TAX COMMISSION

AUGUST 1998

Introduction

A number of people who communicated with the Property Tax Commission, whether through correspondence or at public meetings, expressed support for tax restructuring to shift the local portion of education funding to statewide revenue sources. In addition to being cited by tax restructuring proponents as a model for New Jersey, Michigan's education funding reform, called Proposal A, represents one of the few broad statewide tax restructuring efforts in decades. Because of this, Property Tax Commission staff developed this discussion paper about the Michigan model and its applicability to New Jersey. This discussion paper is being made available to inform more fully the public debate on the merits and likely consequences of a Michigan-style tax restructuring in New Jersey.

Tax Restructuring

With the basic elements of taxation put in place in most states by the end of the 1960s, broad scale tax restructurings are now relatively rare in the United States. In a majority of states today, personal and corporate income taxes, sales and use taxes, and property taxes provide the primary tax revenue sources for state and/or local governments. A handful of states do not tax income, a few others do not tax sales, and New Hampshire taxes neither.

In recent years, voters or legislators in several states have been presented with sweeping tax restructuring proposals aimed at reducing reliance on property taxation. These restructuring plans were typically rejected. The most notable recent exception to these rejections was in Michigan, where Proposal A was approved by the electorate in March, 1994.

Michigan's Proposal A

Briefly, Proposal A sought to shift the burden of public education funding from locally-levied property taxes to broader state taxes by establishing a statewide education property tax, raising various other state taxes, and limiting the ability of local school districts to raise property taxes in addition to the state school tax. For a more detailed description of the program, please refer to the attached summary of Proposal A prepared by the Citizens Research Council of Michigan.

Proposal A's approval by the voters is unusual in a number of respects. First, between 1972 and 1994 Michigan voters rejected 13 of 14 ballot questions concerning either property taxation, school finance, or both. These questions were placed on the ballot either by the legislature or through the state's initiative petition process. Each of the 13 proposals defeated during this period would have reduced Michigan's reliance on the local property tax. Five of the proposals would have raised the sales tax rate.

Like most fiscal restructuring ballot measures, Proposal A was complex. This complexity can be seen in the attached summary of the proposal given to the Property Tax Commission. The political and fiscal dynamic surrounding Proposal A's passage was also complex. The 1993 enactment of a statute eliminating property taxation to support school operations, for example, did not determine a source of replacement revenue. That replacement source was determined in a subsequent bill, passed with little public discussion on Christmas Eve, 1993, which would have statutorily increased the personal income tax and business tax rates unless voters approved Proposal A at the polls. The revenue from these tax increases would have been used to replace the property tax revenues formerly used to fund school operations. Thus, whether or not the electorate approved Proposal A, there would have been a major shift to the state in the sources of school funding.

Proposal A significantly changed Michigan's tax structure. Reliance on the property tax diminished, but the percentage of total property taxes paid by owners of commercial, industrial, and utility properties increased from 28% to 43%. Meanwhile, the proportion of total state and local tax revenue derived from the sales tax increased from 16% to 25%. All told, the FY1998 net tax reduction from Proposal A was estimated to be $1.087 billion.

While "hold harmless" provisions perpetuated significant spending disparities between some districts, Proposal A made important changes in education funding. The super-majority legislative vote required by the proposal to increase school operating taxes beyond those in place in February 1994, for example, has been a key factor in limiting spending increases. Greater control of education policy shifted from communities to the state level. A July 5, 1998, Detroit News article (attached) is indicative of rising public concern over this increased state control.

A Model for New Jersey?

Is the Michigan Proposal a model for New Jersey? Given New Jersey's uniquely high education costs, a tax system able to fund schools in Michigan may either be inadequate for New Jersey or may require excessively high tax rates. To consider this concern, some comparisons of Michigan and New Jersey are in order.

CATEGORY	MICHIGAN	NEW JERSEY
area	58,110 mi^2	7,468 mi^2
population	9.6 million	8 million
population density	164 people/ mi^2	1,042 people/mi^2
school districts	695	611
attendance[1]	1.493 millions	1.103 million
revenues[2]	$10.96 billion	$10.80 billion
admin expenditures[3]	$2,043	$2,738
instruction[4]	52%	55%
administration[5]	$145	$303
transportation	$297	$492

STATE COMPARISONS

This chart presents data to compare Michigan and New Jersey in several categories relevant to the school funding discussion.

[1]Average daily public school attendance, 1994-95. (The first year in which Proposal A was in effect.)
[2]State and local combined K-12 public school revenues, 1994-95.
[3]Total K-12 public school expenditures per pupil in average daily attendance,1994-95.
[4]Classroom instruction portion of total K-12 public school expenditures, 1994-95.
[5]Per pupil general administration expenditures (which excludes school building based administrative costs, such as those associated with principals).

As indicated by the chart above, Michigan and New Jersey are comparable with respect to a number of factors relevant to the school funding discussion, including population and number of school districts. Despite this comparability, however, New Jersey not only spends more money per pupil than Michigan, but also more than any other state in the nation and more than any nation in the world. It is, therefore, plausible that New Jersey has an education expenditure problem rather than simply an over-reliance on the property tax.

The hypothesis that New Jersey has a cost problem is supported by the existence of two areas of dramatic difference in expenditure patterns between Michigan and New Jersey. First, with 84 more school districts than New Jersey, per pupil general administration expenditures (which excludes school building based administrative costs such as those associated with principals) were $145 per pupil in Michigan and $303 per pupil in the Garden State. Second, with more school districts, vastly larger land area, and a much sparser population distribution, pupil transportation costs were $297 per student in Michigan and $492 per student in New Jersey. This figure does not factor in the number of students actually transported.

To further illustrate the differences between New Jersey and Michigan, consider the contrast between Michigan's and New Jersey's sales tax rates. In Michigan, the sales tax rate was 4% prior to the passage of Proposal A and 6% after. This rate increase made Michigan's sales and use tax comparable to that of neighboring states. New Jersey's current sales tax rate is 6%, as is Pennsylvania's. Delaware does not tax sales. New York has a state sales tax rate of 4%, with an additional amount levied locally. If New Jersey's sales tax rate were to be increased so that, like Michigan, the increase generated about half of the new revenues used to replace the local property tax for school operating purposes, New Jersey would require a sales tax rate of 10.25%. This would be not only the highest sales tax rate in our region but also the highest rate in the country.

An additional point to consider when examining a possible transfer of funding from the property tax to the sales tax is that property tax payments are deductible for federal income tax purposes, for those who itemize, but sales tax payments are not. While this deductibility issue was not extensively discussed in Michigan, it would likely be an issue for New Jerseyans to consider. This is especially true given the well documented small return on taxes paid to the federal government by New Jersey residents.

Another tax provision of the Michigan model increased imposts on tobacco products. In view of a recent increase in tobacco taxation in New Jersey, an additional increase in the taxation of these products may not be likely in the near term.

Finally, while Proposal A did provide a measure of property tax relief to Michigan taxpayers, the erosion of local influence over education matters that it prompted would likely be an important factor in evaluating the appropriateness of the Michigan approach for New Jersey, with its affinity for local control over educational decisions. For example, New Jersey school districts already spending well above the state average would, under the Michigan model, lose almost all local ability to determine their local education spending level.

In summary, there are significant differences between Michigan at the time of Proposal A’s adoption and New Jersey in 1998.

Attached:

⇒ Summary of Proposal A.
⇒ Detroit News article.

MICHIGAN'S PROPOSAL A

This summary of the elements of Proposal A was prepared by the Citizens Research Council of Michigan and given to the Property Tax Commission. CRCM is an independent policy research organization based in a Detroit suburb.

CONSTITUTIONAL CHANGES

Proposal A, as adopted, consists of both constitutional changes, which may be changed only with voter approval, and statutory changes, which may be changed by the legislature or by the voters through initiative.

No direct changes were made in the property tax rate limitations in the Michigan Constitution.

Property Tax Changes

Classified Property Tax: Permits school operating taxes to be imposed on a non-uniform basis. Previously, Michigan's constitution provided that all property was to be taxed uniformly, which had been interpreted to mean that all property had to be assessed at the same proportion of market value and taxed at the same rate.

Cap on Taxable Value: Limits the annual increase in taxable value of individual parcels of property to the lesser of 5 percent or the rate of inflation. Property would be revalued for tax purposes at the "applicable proportion of true cash value" when ownership of the property is transferred. At present, the "applicable proportion," or assessment ration, is 50 percent.

Sales and Use Tax Changes

Sales and Use Tax Rate: Imposes a 2 percent sales and use tax dedicated to the school aid fund, beginning May 1, 1994. This increased the limit on sales and use tax rates to 6 percent. (The implementing statute exempted the consumption of electricity, natural gas, and home heating fuels for residential purposes from the increase.)

Sales and Use Tax Dedication: Continues the dedication of 60 percent of the first 4 percent of the rate of sales and use taxes to the school aid fluid.

School Finance Changes

School Operating Revenue Guarantee: Requires that the state guarantee each local school district in state fiscal year 1995-96 and thereafter at least as much combined state and local operating revenue per pupil as in the 1994-95 fiscal year.

Super-majority Vote for School Operating Tax Increases: Requires a ¾ vote of the Legislature to increase school operating taxes beyond those in effect on February 1, 1994.

STATUTORY CHANGES

By far, the bulk of the Michigan plan was, and continues to be, accomplished statutorily. The statutes are complex, in part because of transitional provisions. The statutory component of the plan continues to evolve and will likely change further over time.

Tax Change

Personal Income Tax: Reduces the rate of the personal income tax from 4.6 to 4.4 percent.

Cigarette Tax: Increases the rate of the cigarette tax from 25 cents per pack to 75 cents per pack. The new revenue from the cigarette tax was dedicated to the school aid fund, except that 6% of total cigarette tax revenue was dedicated to "improving the quality of health care" of Michigan residents.

Real Estate Transfer Tax: Establishes a state real estate transfer tax of 0.75 percent.

Interstate Telephone Tax: Establishes a 6 percent use tax on the Michigan portion of long distance interstate telephone calls.

School Finance Changes

School Aid Formula: Establishes a new school aid formula providing a per-pupil foundation allowance to each school district. The initial foundation allowance was structured as follows:

State-local revenue per pupil	
Pre-Proposal A	**Foundation allowance**
$4,200 or less	$4,200, or an increase of $250, whichever is higher.
$4,200 to $6,500	Increase of $160 to $250 (sliding scale)
Over $6,500	Increase of $160

The basic foundation allowance, which was $5,000 in 1994-95, is indexed each year to the change in school aid fluid revenue and the change in pupil count. The foundation allowance of a given school district will be adjusted by the dollar amount of the basic allowance.

The state payment to each district equals the difference between the foundation allowance and the local revenue per pupil, calculated by assuming that the district levies the lesser of 18 mills on non-homestead property (see below) or the number of mills it levied in 1993, regardless of how many mills are actually levied.

State Education Tax: A statewide 6-mill ($6 per $1,000) property tax for school operating purposes. This tax is levied on all property.

Local Supplemental Millage: A local property tax for school operations of 18 mills to be levied with voter approval on all property except homestead and qualified agricultural property. If the foundation allowance of a school district exceeds $6,500 per pupil, the district, with voter approval, may levy additional millage on homestead property up to 18 mills in order to maintain existing per pupil revenue. If 18 mills is still not enough to prevent a decline, further millage may be levied uniformly on all property until a decline is prevented. A relatively small number of districts (52 out of a total of 556) were affected by this so-called "hold harmless" provision.

Enhancement Millage: Beginning in 1995, the maximum millage rate on homestead or qualified agricultural property may be increased only under certain conditions. Until 1997, individual school districts could levy three "enhancement" mills uniformly on all property, again with voter approval. Beginning in 1997, these mills may be levied only on an intermediate school district-wide basis, with ISD voter approval. Revenue from this levy is to be shared among constituent school districts on a per pupil basis.

Regional Efficiency Aid Program

Introduction

The Regional Efficiency Aid Program (REAP) is the Division of Local Government Services' (DLGS) response to the introduction of A-1878 (Roberts/Lance), which proposes the creation of a $50 million fund to provide State aid to municipalities and school districts that engage in joint service programs, and to questions posed by Governor Whitman's Property Tax Commission. The coincidence of these two issues, when merged with a series of propositions Division staff have been studying for a number of years, has resulted in a proposal for a new type of State aid program: one that combines incentives to reduce the cost of government with true property tax relief to taxpayers.

Why REAP?

The REAP proposal is based on a foundation of conclusions reached over 10 years of administering municipal State aid programs and promoting inter-local service agreements. These so-called "Unfortunate Truths About Regionalization and State Aid" highlight the flaws with our current system of promoting joint services (regionalization) and State aid programs.

With regard to regionalization, the Division concluded that when municipalities (and, by extension, school boards) actually regionalize or agree to provide joint services, it happens usually as a last resort, and then only gets done if: the current service becomes too expensive to justify local control; the State provides money for it, the savings are easily apparent; it is a new program which requires new revenue local officials do not want to raise; it is so controversial that elected officials don't want control over it (so someone else can be blamed); or it has significant political advantage. Of course, there are wonderful exceptions when local officials do it for the right reasons, and those are not always celebrated as the successes they are.

The Division's conclusions about State aid lend it to an apt, but unfortunate, metaphor: that State aid has been shown to act like an addictive drug, in that it is easy to initially take, gives an easy property tax relief "high," but becomes addicting; requires increasing doses to maintain the high; and results in political cravings to continue it if withdrawn. These cravings have been accentuated in recent years by the reality that most State aid allocations have been frozen, a good deal of them at eight year old limits, with small increases in other areas.

Furthermore, the way State aid is handled in local budgets (despite legislative and executive branch efforts to prevent it), aid gets "lost" in budgets, as it becomes "just another revenue" that is offset with spending. This deficiency is compounded by the fact that State and local elected officials rarely receive acknowledgment for the political will required to provide the fiscal resources that are used to offset property taxes.

This phenomenon exists despite the fact that, for the past eight years, there has been a display of a schedule on tax bills showing the amount of State aid used to offset property taxes. The Division believes this is because the amount has no context: the previous year's amount or percentage of budget is not shown, only gross amounts.

REAP would capitalize on these two issues, for together there is synergy: if we want to encourage regionalization, and we want to provide State aid, we should link the two as a formal, permanent State aid program, in which aid is tied to regionalization of services.

Inside REAP

REAP involves two new concepts. The first is that if a municipality or school district wants more State aid, and if it regionalizes services, the State will provide permanent aid, scaled relative to what is regionalized. Secondly, to ensure that the aid is real to taxpayers, the aid will be provided, not as a budget offset, but as a property tax credit for residential property owners. This combination adds a missing element of public accountability, in that the public will be able to challenge local officials either to do more regionalization, or to maintain the status quo and be content with limited new State aid opportunities. REAP can also provide an incentive for complete or functional dissolution of governments themselves, in exchange for State aid to the taxpayers.

There are several advantages of providing aid as a property tax credit. Having noted that budget-based aid gets "lost" among other revenues in the budget, a tax credit (1) eliminates the complex and sometimes ineffectual process of having to compensate for it in budget and spending restrictions, (2) provides a greater public awareness of the aid and where it comes from (it’s part of the tax calculation most people look at), and (3) can be used by the public to pressure local governments to act to get more aid.

The Division suggests using the Property Tax Relief Fund as the revenue source for the program, as it is income tax revenue, comes from taxes paid by individuals, and is constitutionally required to be used as property tax relief.

A number of details must be managed to create the program. A primary one is how aid will be calculated. Here, DLGS and the Department of Education (DOE) would have to study and develop "point" models that assign different amounts of points for each type or class of service. The use of a point model provides flexibility by permitting a number of options: putting premiums on targeted services, granting special credit to jurisdictions with fiscal stress, excluding jurisdictions that already have very low tax rates, excluding (or minimizing the value of) certain types of well-established programs for which incentives should not be required, or providing credit for existing programs at some percentage of the normal value.

Once such a model is in place, each year as part of the budget approval cycle, DLGS and DOE would calculate for each jurisdiction’s budget, the number of points earned (shown by appropriate documentation), then multiply the points by the population of the jurisdiction, and then by dollar value of a point. The dollar value could be set in statute, or as part of the State’s budget. In other terms: total REAP aid = total number of "points," times population, times cash value of a point. It must be kept in mind that the REAP aid has no impact on the budget of the jurisdiction, except for the savings it has achieved by contracting or the added revenue for providing the joint service.

To provide the property tax relief, once the amount of aid is calculated the two agencies would certify to each county tax board how much REAP aid is due to the taxpayers. The board would then turn the aid into a "negative" tax levy and rate. The rate is treated as a tax credit and granted to residential and rental properties. To assure credit to tenants, amendments to the Tenants' Property Tax Relief Act would be required. So that taxpayers would be more aware of the program, the current Statement of State Aid on tax bills could be replaced with a breakdown of REAP aid for each taxing district. While there is some question whether the program can be limited to residential properties, and not all property tax payers, the answer lies in careful consideration of constitutional issues in crafting the law.

Another detail deals with providing incentives to large municipalities and school districts, where economies of scale would seem to limit regionalization opportunities. The opportunity here is to encourage large agencies to provide service to smaller ones. To encourage this type of entrepreneurial behavior, points and aid could also be granted, on a percentage basis, to the agency that provides the service, in addition to the revenue and offsets to their own costs that providing services permits.

With regard to budgeting for REAP, if the program includes existing regional efforts, in-depth study of existing programs would be required in order to estimate how much it will cost at the start. Otherwise, the initial aid budget would be marginal, compared to the total PTRF. And since some municipalities and school districts have ongoing efforts to develop new programs, credit should be given to those efforts that began several months prior to the initiation of the REAP program itself.

Operation of the program would involve some costs to State agencies. In addition to the start-up studies, REAP would require some staff to ensure that the local programs are bona-fide shared and that they either save money or control costs. REAP would also require staff and appropriations to provide education and outreach to local officials and the public, as well as for internal administration.

To get the program started, three elements are necessary: (1) development of a point system and (if required) an existing services survey; (2) legislation for the program itself and the Tenant Property Tax Rebate Law, and changes to tax calculation programs and county tax board procedures; and (3) at least six months of lead time to establish the program.

Get REDI to REAP!

While REAP would provide ongoing aid, it would also be prudent to provide governments with assistance to study regionalization opportunities, and to provide seed money for start-up costs. The State already does provide some funding for this purpose, through DCA's Joint Service Incentive Grant Program, but it is a relatively small pool of money – $500,000 annually – and, without a companion initiative such as REAP, it has not been able to spark widespread efforts to share services or regionalize.

The Division proposes a larger incentive program that would complement REAP by providing local units of government across New Jersey with critically needed financial support to initiate the process of regionalization. This program would be called the Regional Efficiency Development Incentive (REDI) grant program. While patterned after the current Joint Service Incentive Grant Program, REDI would have several major differences: a higher level of funding than the current JSIG Program, a more rigorous selection process, higher grant amounts, and a required local match for studies (e.g., 50 percent), to ensure that local units are serious about these programs.

OPPORTUNITIES FOR SHARED SERVICES

FUNCTION/SERVICE	MUNICIPALITIES	COUNTIES	SCHOOL DISTRICTS
Administration			
Administrator	,		
Board Secretary			,
Data Processing	,	,	,
Department Directors	,		,
Legal and Bond Counsel	,	,	,
Personnel recruitment and training	,	,	,
Records Management	,	,	,
Superintendent			,
Business Services/Finance			
Accounts Payable	,	,	,
Budget and budget administration	,	,	,
Comptroller	,	,	,
Investment and Cash Management	,	,	
Internal Audit			,
Payroll	,	,	,
Printing and duplicating	,	,	,
Risk Management and Insurance	,	,	,
Warehouse and distribution services		,	,
Health			
Clinics/Hospitals	,	,	
Nursing services	,	,	,
Speech, occupational and physical Therapists		,	,
Media/Library Services			
Library staff	,		,
Audiovisual staff			,
Educational Televsion staff			,
Computer Aided Instruction			,
Parks and Recreation			
Atheletic Coaches	,		,

Parks, playgrounds, recreation fields	,	,	,
Recreation Programs	,	,	,
Swimming Pools and Lifeguards	,	,	,
Planning and Economic Development			
Economic Development	,	,	
Land Use Planning	,	,	
Public Safety			
Animal Control	,	,	
Communications and dispatching	,	,	
Detective services	,	,	
Drug abuse prevention programs	,	,	,
Emergency Management Services	,	,	,
Fire Prevention & Protection	,	,	,
Police Patrol	,	,	
Public Event coordination and Security	,	,	,
School Crossing Guards	,	,	,
Weights and Measures	,	,	
Public Works/Roads/Transportation			
Buildings & Grounds Maintenance (Custodians, Grounds Keepers, Security)	,	,	,
Fuel storage and refueling	,	,	,
Recycling and solid waste/trash collection or contracts	,	,	
Road surfacing and paving	,	,	
Snow plowing services	,	,	,
Street and road maintenance	,	,	
Traffic signals and maintenance	,	,	
Vehicle Maintenance	,	,	,
Vehicle Operations (Student transportation)			,
Purchasing			
Building materials and maintenance supplies	,	,	,
Duplicating machines, paper, operating supplies	,	,	,
Electricity, natural gas and energy	,	,	,

Food (food, services, institutions, nutrition programs, school lunches)	,	,	,
Gasoline and Fuel Oil	,	,	,
Heating Oil	,	,	,
Janitorial/cleaning supplies	,	,	,
Lawn supplies	,	,	,
Library supplies	,	,	,
Office supplies	,	,	,
Radio and communications equipment	,	,	
Signs	,	,	,
Uniforms	,	,	,
Vehicles, trucks, maintenance supplies and parts	,	,	,
Social Services			
Day Care, Child Care, Adult Care	,	,	
Dial-A-Ride	,	,	
Guidance Counselors (School)			,
Nutrition Programs	,	,	,
Office on Aging	,	,	
Programs for the Disabled	,	,	,

NEW JERSEY
REGIONALIZATION ADVISORY PANEL

FINAL REPORT

Completed
January 1998

NEW JERSEY
REGIONALIZATION ADVISORY PANEL MEMBERS

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EXECUTIVE SUMMARY

Taken as a whole, New Jersey's educational system is operating inefficiently. With over 600 school districts, boards of education, superintendents, business administrators and other support services, the system is plagued by redundancies and inconsistencies.

Efforts to address these conditions have been primarily incentive based, with school districts "encouraged" to examine such alternatives as regionalization and shared services. In certain cases financial incentives have been provided for districts to undertake such consolidations. Unfortunately, recent examples of district consolidations and new shared services initiatives have been limited. In fact, several regional districts have elected to dissolve their relationships, creating even more individual school districts in the State.

The Regionalization Advisory Panel considered several models for statewide school reform including regionalization of certain smaller school districts and county-wide or other shared services programs. The panel held three public hearings in which educators, legislators and the general public spoke to us about their concerns, successes and failures in implementing one or more of these models. What became apparent to us is that one size, in fact, does not fit all. Practices that work successfully in one or more school districts do not necessarily make sense on a statewide basis. Consequently, mandates that require consolidation or shared services in all districts meeting a specified criteria with the risk of political backlash could create conditions that are potentially worse than the current system.

The panel also recognizes the limitations to effective change by a totally incentive-based reform program. Many of the panel members who have served on school boards acknowledged the inherent conflict of interest in an elected or appointed body undertaking an initiative that could potentially abolish that group or a portion of the employee base it oversees. Others pointed out that consultants hired to undertake regionalization studies could present a biased recommendation that was more reflective of individual community member opinions and emotions than what was in the long-term best interest of the educational system and the children it serves. It was further acknowledged that the effort required of board members and administrators to undertake such analyses and discuss them with other school districts involved was sometimes more than many of these individuals were willing or able to assume.

The panel believes that there are too many school districts in the State of New Jersey, that the duplication of efforts caused by these separate legal organizations has contributed to the highest average per pupil expenditure in the United States, and that inconsistencies abound in the delivery of educational services throughout the state. Therefore, a prudent and uniform approach is needed to address these issues. Having observed the extent of inaction among school districts in the face of an incentive-based system, the panel is skeptical that meaningful process be made under current conditions without strong leadership from the State of New Jersey.

Consequently, the panel recommends legislation that would direct and empower the Commissioner of Education, supported by the county superintendents and in cooperation with the local boards of education and administrations, to identify school districts that might benefit financially and educationally from either regionalization or consolidation of services with other school districts. Once these districts are identified, the Department of Education would be required to undertake studies that would examine those issues specified by statute for consideration in such instances. Such studies would be underwritten by the State of New Jersey and would identify the benefits and detriments of regionalization and consolidation for the particular school districts involved, as well as a recommended course of action. Where regionalization or consolidation is financially and educationally sound but there are barriers to these changes caused by statutory provisions or other short-term financial disincentives, the Commissioner shall seek regulatory relief or subsidies from the Legislature to overcome those barriers. The Commissioner’s recommendations would then be discussed and presented to the local school districts and municipalities involved who would be required to justify why such recommendations should not apply to their districts.

It is the panel’s view that regionalization and increased use of shared services will improve educational opportunity, both by improving efficiency and by making better use of facilities and professional resources available to local districts. Neither regionalization nor shared services is a panacea, however. They will not substitute for adequate funding of education. The most efficiently run school district will still incur considerable costs, including teachers’ salaries, maintenance of the physical plant, and investment in textbooks and technology.

While it is not realistic to expect that regionalization or shared services will allow districts to drastically reduce school spending, it is realistic to expect savings which could be considered for reinvestment in educational programs. Even savings which appear small in relation to a district’s entire budget may be very meaningful if they allow the district to take such actions as reduction of class size, enhancement of professional development, or avoidance of program cuts.

In addition to cost savings, both regionalization and sharing of services may allow local districts to improve education through the sharing of expertise. For example, improved articulation of the curriculum and greater opportunities for professional development can be expected in a unified district or in districts that are cooperating closely in a shared services arrangement.

INTRODUCTION

Legislative Mandate

On December 20, 1996, Governor Christine Todd Whitman signed into law the Comprehensive Educational Improvement and Financing Act of 1996.

One component of this legislation created a 12-member Regionalization Advisory Panel whose purpose was to conduct a study and develop recommendations regarding ways to encourage school districts to regionalize or share services. The panel was directed to study the feasibility of regionalizing at the county level such administrative services as overall administration, purchasing, transportation, budgeting and accounting, while maintaining local control at the school district or building level for curriculum, instruction, personnel and management of instructional processes.

In addition, the panel was instructed to study site-based management, use of local parent advisory councils, maintenance of local tax bases and other issues related to regionalization of districts and services.

With this purpose in mind the panel members were selected as delineated in the legislation. Over an eight-month span, the panel reviewed and studied al! of the topics described in the legislation with the greatest emphasis given to what the panel saw as key issues which needed to be addressed in this report.

Committee Process

The Regional Advisory Panel held its inaugural meeting on May 23, 1997, and was greeted by Commissioner Klagholz, who thanked the members for volunteering their time to serve on the panel.

Additional panel meetings were convened on June 16, 1997, and August 5, 1997.

Three public hearings to receive testimony on the panel's charge were held on September 18, 1997, at the Department of Education, September 25, 1997, at Morris County Community College and on October 9, 1997, at Atlantic County College. The panel heard testimony from fourteen individuals at these public hearings.

The panel next met on November 17 and 19, 1997, for a two-day working retreat for the purpose of discussing its findings and formulating its report.

A subcommittee of the panel met on December 2, 1997, to write the draft copy of the report.

On December 9, 1997, the panel's report was submitted to Commissioner Klagholz for his review and comment.

The panel met again on January 6, 1998 to make final edits and prepare the final report.

Why New Jersey Should Pursue Regionalization

Historically, many citizens of New Jersey have felt that there are too many school districts with insufficient number of students to offer a broad, articulated and comprehensive educational program. Forced regionalization or forced consolidation has met with resistance because of the social, political, and economic issues associated with local control of educational programs. The challenge facing the state is what it can do to encourage districts to regionalize where appropriate and/or to participate in shared or regionalized services where appropriate, without sacrificing educational quality.

New Jersey currently has 618 school districts including 24 non-operating districts. The Advisory Panel believes that bigger is not necessarily better, but that change should be considered where there is an opportunity to increase efficiency and effectiveness. The focus of this report is to analyze actions that would encourage this change; to foster shared services for efficiency; to increase effectiveness; and, to redirect resources to the instructional process.

During the course of study, hearing of testimony, and extensive discussion, the panel frequently heard about the strength of public sentiment against regionalization. The sentiment may be based on fear of the unknown or understandable but essentially non-educational concerns. It may also be grounded in the real strengths of smaller school systems. The intimacy and personal nature of a smaller system may promote more individual focus on students and more parent and community involvement; a smaller system may also have less bureaucracy and may allow greater autonomy at the school level to make basic decisions. It is the panel's perception that many of the strengths of small school districts could be retained after regionalization by maintaining neighborhood schools and expanding the use of local parent advisory councils and site-based management, while allowing districts to benefit from the efficiencies of regionalization.

The panel agreed that there are two possible courses of action in an effort to promote regionalization of schools districts:

1. voluntary regionalization or
2. legislatively required regionalization

Historical Context

Nowhere is the well known adage more true that "all politics are local" than in the issues related to regionalization of local school districts. From their original foundations, New Jersey school districts have held to the idea that local control of the educational programs for young people ensures that the will of the people will prevail in the design and delivery of educational programming. Confining local schools to local communities made sense in the 18th and 19th centuries. However, as geographic and cultural boundaries have become blurred by modern transportation and communication, the educational program needs of young people are no longer defined by the economic and social needs of the limited geographic reach of local municipalities or communities. The reality is that education in the State of New Jersey can no longer remain a local issue.

Nearly every state in the nation has recognized the need to redefine what is local control in an effort to more effectively provide educational opportunities that reflect the globalization of life in the 215' century. New Jersey has recognized this fact and has adopted Core Curriculum Standards that focus on preparing New Jersey's children for life in a highly competitive, technologically rich, and economically diverse world. For more than 30 years, New Jersey has debated the merits, issues, and problems associated with the delivery of educational programming in a decentralized, highly diverse set of more than 600 school districts. Virtually all reports and studies provided since 1965 have made it abundantly clear that a system of 600 school districts, two thirds of which are classified as "small," organized as independent and disconnected units, cannot possibly achieve the consistent program quality nor economies of scale that life in the late 20th century requires.

Somehow, New Jersey must muster the political will to adopt and implement a new law that will enable the merger of small, programmatically limited, and economically costly districts into larger, programmatically rich and economically efficient units. Only then will New Jersey be able to assure its citizens that the constitutional mandate for a "thorough and efficient" education responsive to the reality of the 21st century will be provided to all children in the state.

ISSUES AND REMEDIES

Statute and Code

Beginning with former Governor Florio's initiative to provide statutory support for regionalization with the enactment of Chapter 67 Of the Laws of t993 and continuing with several legislative initiatives since, New Jersey has acknowledged that the ongoing patchwork of Law and Administrative Code has provided both incentives and disincentives for local school districts to regionalize on a voluntary basis.

It is clear that legislative and administrative efforts have been insufficient to overcome the many real barriers to change. Tax apportionments, rules governing school board representation, limitations of existing categorical aid, and current regulations governing financing school facility construction are some areas in which there may be disincentives to the merger of school districts into regional relationships.

The panel agrees that statute and code serve to perpetuate the existing structure of school districts in New Jersey through cumbersome and inflexible requirements. The panel further agrees that the Legislature, in conjunction with the Commissioner of Education, should direct the Office of Legislative Services, Division of Governmental Relations, to conduct a comprehensive review of all New Jersey statutes, Administrative Code, Commissioner's decisions, and court decisions that impact on the process of school district regionalization and prepare a report recommending specific statutory remedies that will be required to support the panel's recommendations regarding regionalization.

Financial Incentives and Disincentives to Regionalization

The panel found that in many instances where regionalization was or should have been considered by local districts, regionalization was not accomplished because of financial disincentives. Even when regionalization would allow more efficient and more effective education for the regionalized district as a whole, one or more of the districts considering regionalization would suffer an increased tax burden after regionalization. As long as one of the constituent districts has a financial disincentive to regionalize, it is not reasonable to expect voluntary regionalization.

Many of the financial disincentives to regionalization are inherent in our current system of school funding. For example, a district with relatively high ratables or a relatively low number of children may find that its tax burden increases with regionalization. On the other hand, some districts may find that they lose state aid when regionalizing with wealthier districts. To address these and other financial disincentives to creating or expanding regionalized districts the panel recommends that the Legislature should:

1. Create a formula that will allow adjustments in property tax assessments for education for a fixed period of time, so that a district with relatively high ratables is not immediately faced with an unacceptable property tax increase after regionalization.
2. . Enact legislation that provides "hold harmless" aid to protect districts that regionalize from losing state aid for a fixed period of time.
3. Adopt a formula that establishes a new category of categorical aid to cover the additional costs associated with merger.
4. Adopt a formula that excludes costs related to regionalization from cap calculations.
5. Create a formula which addresses increased transportation costs.

The financial incentives that to date have been offered to districts that regionalize have not been effective, probably because they were not substantial enough to overcome the short-term financial and political drawbacks to regionalization. Bills have been introduced in the current session of the Legislature (A-680 and S-386) which, using a carrot and stick approach, would provide increased financial rewards in the form of grants and loans to districts that regionalize; continue penalties for excessive administrative spending; and provide that rewards for administrative efficiency be doubled in districts with enrollment greater than 2500 students. In addition, these bills incorporate some of the panel's recommendations of eliminating financial disincentives by providing supplemental state aid for five years after regionalization and providing that regionalization costs be added to a district's pre-budget cap calculations. Although it is difficult to predict either the cost or the effectiveness of this legislation, it appears to be a good starting point if the Legislature wishes to begin with an incentive-based plan.

In addition to directly addressing the financial disincentives through increased or reallocated State aid, the Legislature and the State Board of Education should play a leadership role for educating the public about the long-term financial benefits of regionalization; and about the educational benefits, such as K-12 program articulation, improved staff professional development, and increased availability of a wider range of course and program offerings.

Regionalization: Mandate or Choice

The concept of regionalizing school districts in New Jersey is one that has been researched and debated for many years. The incentives that have been developed and offered to date have not been effective.

There are certainly benefits to promoting regionalization on a voluntary rather than a mandated basis. Not only is voluntary regionalization more politically palatable, but it is reasonable to expect greater cooperation and good will from districts that join together voluntarily. Given New Jersey history, the question, of course, is whether there is any reasonable expectation that voluntary regionalization will actually occur.

If the state wishes to promote voluntary regionalization in a meaningful way, it must take two difficult steps. First, it must be willing to commit substantial resources to providing logistical help and financial incentives. Second, it must be willing to place the decision to regionalize in the hands of local boards of education. School board members, through experience and training, are more likely than voters at large to appreciate the financial and educational benefits of regionalization and to be able to separate the emotional issues from consideration. Local board members may face pressure against regionalization from their constituents. When board members decide that regionalization is so beneficial that they will support it despite political pressure, their action should not be subject to veto by referendum.

History tells us that even easing the path to regionalization and offering greatly increased incentives may not lead to a substantial decrease in the number of districts in New Jersey. The panel is skeptical that inducements and encouragement will be effective. Therefore, the panel recommends that the Legislature consider a systematic review of New Jersey school districts and require regionalization, where appropriate. The time for mere encouragement has passed.

The panel recommends that the Legislature direct and empower the Commissioner of Education to initiate the process of reducing the number of school districts. Through the development of thresholds based on student population, the Department of Education should identify districts that could benefit both financially and educationally from regionalization. Additional studies are necessary to produce information for these districts that will outline the positive and negative impact such change will bring.

Once this information is presented, each district would then be responsible for accepting the regionalization plan or justifying why it should not be implemented.

While this approach places a burden of proof on local school districts, it is intended to bring to light and examine the historical basis on which school districts could gain grease. operational and educational efficiency through regionalization. "Local control" can no longer be accepted as a justification to perpetuate economic inefficiencies and to limit the educational experiences afforded the students in these school districts.

RECOMMENDATIONS TO PROMOTE REGIONALIZATION

Meaningful change in the number and efficiency of New Jersey's school districts will be brought about only with strong leadership from the executive and legislative branches of State government. Eliminating the financial and statutory barriers to regionalization may improve the chances of voluntary regionalization and is a necessary first step. Nevertheless, it is the panel's view that even when these disincentives are eliminated, many districts will resist regionalization because of the less tangible barriers: fear of change, fear of loss of local control, fear that valued staff will not be retained, and fear of real or perceived social or economic differences between the communities to be joined.

The panel recommends that the Legislature direct and empower the Commissioner of Education to initiate a process whereby the potential benefits to regionalization are studied. In so doing, the State will remove the political, financial and emotional burden from local boards of education whose members may simply face too much pressure from their constituents to undertake an objective study of the impact of regionalization on their districts.

The recommendations listed below are aimed at focusing state attention on the types of districts that are most likely to benefit from regionalization, ensuring that the benefits of regionalization are studied in those districts, and providing incentives and technical assistance for voluntary regionalization.

The process the panel recommends does not require regionalization for all districts of a particular size or configuration (with the exception of non-operating school districts). While many small districts would benefit from regionalization with neighboring districts, the panel believes that some small districts in the state are successfully providing an excellent and efficient education. A district should not be required to regionalize simply because they have fewer than some arbitrarily set number of students. However, when an objective study shows a substantial benefit from regionalization, the districts involved should be required to regionalize unless they can justify that regionalization is not in the best interest of the children.

The panel recommends that the Legislature take the following steps to facilitate regionalization of those districts most likely to benefit from it:

1. **Direct and empower the Commissioner of Education to conduct, in cooperation with local studies, and to finance studies of regionalization in the following types of districts:**

   a. All K-8 and K-6 school districts with 300 or fewer students;
   b. All limited purpose regional school districts;
   c. All "doughnut" school districts (any district which is wholly surrounded by another district);
   d. All districts in sending/receiving relationships.

2. **Direct and empower the Commissioner of Education, in consultation with the educational community, to prepare a public information program describing the advantages and benefits of school regionalization.**

3. **Eliminate non-operating school districts. The pane1 sees no educational benefit to permitting districts without students to continue in existence. The Legislature should enact legislation requiring districts to merge with another district, in most cases a geographic partner, or one with whom a sending relationship has already been established. The Department of Education should be directed and empowered to work cooperatively with these districts and those that they may join to determine the most suitable partner(s). Statutory or regulatory action may be needed to address the tax consequences for districts of the newly formed regional.**

Although the types of districts to be studied are listed generally, the Department of Education must have flexibility to study districts in the order that seems most logical. For example, a regionalization study of a small K-6 district may logically require study of the larger neighboring district with whom it maintains a sending/receiving relationship.

4. **Direct and empower the Department of Education to offer financial incentives for voluntary regionalization within a set time period if the studies demonstrate substantial educational or efficiency benefits to regionalization,**

5. **Direct and empower the Department of Education to require regionalization, if districts fail to voluntarily regionalize within the set time frame, unless the district(s) can justify why regionalization is not educationally or economically in the best interests of the students of the district(s).**

6. **Direct and empower the Department of Education to provide technical assistance to districts that regionalize.**

7. **Direct and empower the Department of Education to engage in periodic review of existing regionalized districts to assess the educational effectiveness and efficiency of those districts.**

The panel believes that the process for regionalization should be as simple and flexible as possible. To that end the panel recommends that the Legislature:

8. Direct and empower the Department of Education to develop procedures to expedite the creation or dissolution of regionalized districts.

9. Direct and empower the Commissioner of Education to develop procedures which permit a phase-in period of regionalization not to exceed 5 years. The panel is convinced that the regionalization of school districts is likely to be more successful if changes are permitted to be phased-in over time. For example, districts that are likely candidates for regionalization may be permitted to adopt a plan for gradual regionalization (e.g. shared administrative services, business services, personnel, transportation, staff development, technology).

RECOMMENDATIONS TO PROMOTE CONSOLIDATION OR SHARED SERVICES

Consolidation of services or sharing services provides a second means to achieving operational and/or educational efficiency. Sharing of services is particularly appealing to many school districts because it may allow them to achieve some aspects of regionalization while maintaining local control. There are many educational services than can be effectively consolidated at the county level or through consortia. All school districts, including regional districts, can achieve savings through sharing of instructional and non-instructional services with other school districts, municipal and county governments, and regional consortia.

Some types of shared services, such as maintenance of playing fields, snow removal and joint purchase of supplies are particularly suited for cooperative arrangements between school districts and local municipalities. Because this type of sharing is already commonly accepted, and because the municipality and school districts are usually funded by the same tax base, the panel is optimistic about increasing municipal/school cooperation. This cooperation may be particularly meaningful in areas such as shared technology or library services, and may improve the quality of municipal services as well as improving educational opportunities.

The panel recommends that the Legislature take the following steps to facilitate consolidation or sharing of services in all districts statewide:

1. . **Direct and empower the Commissioner of Education to require each county superintendent to assess and prepare plans for consolidation of all non-instructional services in collaboration with local school districts,** municipalities and county government and community colleges. For **example, plans might include the sharing of educational services such as overall administration, purchasing, transportation, budgeting and accounting.**

2. **Enact legislation that requires municipalities and county government to participate in collaborative efforts to consolidate non-instructional services in conjunction with local school districts.**

3. **Direct and empower the Commissioner to require each county superintendent to assess and prepare plans for collaboration and consolidation of instructional planning and services in collaboration with local school districts and community colleges.** For example, the panel would expect the requirement of collaboration on curriculum changes to meet the State's Core Curriculum Content Standards. These local education agencies could share resources to provide advanced placement programs, Pre-K, summer school, foreign language, distance learning, school-to-work, special education, and others.

4. **Expand to all counties over the next three years the Pilot programs provided for in the CEIFA, providing $600,000 for three consolidated county service units.**

5. **Continue and expand efforts to utilize technology such as interactive television to foster shared services.**

CONCLUSION

The panel agrees that the voluntary regionalization of school districts is always the preferred approach to improved educational effectiveness and efficiency. Every effort should be taken to encourage voluntary action.

However, for a number of reasons, New Jersey's public schools have failed to initiate actions that will lead to improved statewide operating efficiencies. Although the panel heard several examples of successful school and service consolidations, some crossing county boundaries, there continues to be a lack of open sharing, communication and a willingness to make difficult decisions regarding regionalization.

The panel's recommendations for the State of New Jersey to take a leadership role in helping local school districts confront those issues is an acknowledgment that meaningful change will only occur via an effective change agent. The ability to prepare for the future is what shaped this nation and it is this ability which should serve as the compass that will guide the future of New Jersey's educational landscape for the year 2000 and beyond.

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Summary and recommendations from the:

Report of the State Committee to Study the Next Steps of Regionalization and Consolidation in the School Districts of New Jersey (known as the Mancuso Report), April 1969

Public Hearing Testimony - September 18, 1997:

Speakers: Tom McCabe, Manasquan Civic Association
Assemblywoman Barbara Wright, District 14
G. Loy Ehlers, Cape May County Special Services
Jeff Reuter, Burlington County Special Services

Public Hearing Testimony - September 25, 1997

Speakers: Kim Coleman, Superintendent, Morris-Union Jointure Commission
Leonard Margolis, Asst. Supt. Bergen County Vocational-Technical School & Bergen County Special Services School
Dr. Roger Bayersdorfer, Superintendent, River Edge Public Schools
Senator Bill Schluter, District 13
Dr. Ernest Palestis, Superintendent, Mine Hill School District

Written Testimony submitted by: Senator Macinnes, District 25

Public Hearing Testimony - October 9, 1997
Speakers: H. Mark Stanwood, Superintendent, Atlantic County Special Services School
Richard e. Squires, Atlantic County Executive Of ices
William Flynn, Superintendent, Atlantic County Vocational School

NEW JERSEY REGIONALIZATION ADVISORY PANEL

Michael C. Bibb, Chairman

For Release: January 29, 1998

The New Jersey Regionalization Advisory Panel today issued its final contains a call for new statewide laws and initiatives designed to bring about greater economic and academic efficiencies in local schools through both the combining of school districts and the sharing of services.

The 12-member panel, appointed in May 1997 by Governor Christine Todd Whitman, President of the Senate Donald DiFrancesco and Speaker of the Assembly Jack Collins, included in its report to the Legislature recommendations that would increase the state's power and responsibilities over how school districts are organized, offer greater incentives for districts to regionalize, and eliminate New Jersey's school districts that do not operate schools of their own.

The members of the Advisory Panel are Michael C. Bibb, Attorney for the Philadelphia Appeals Office of the Internal Revenue Service, West New York Superintendent of Schools Pablo Clausell, Laurie Fitchett of the New Jersey PTA, Robert Smith the Wood-Ridge Superintendent of Schools, Richard Gable the Hopewell Township (Cumberland County) Superintendent of Schools, Daniel Kaplen, Partner, Arthur Anderson, Virginia Hardwick, Member, Westfield Board of Education, J. Gordon Stanley, Chairman & CEO, Trinity Network Technologies, Terrence Crowley, the Kingsway Regional School District Superintendent of Schools, Edward White, Professor of Educational Administration at Rowan University and Mary Boyle, Assistant Principal at Collingswood High School.

"For decades, educators and elected officials have complained that 616 school districts in New Jersey are too many and are not in the best interest of serving students," said Michael Bibb, chairman of the advisory panel. "It's time to re-think our notions about local control and set up a thoughtful process that will guarantee meaningful reform."

The New Jersey Regionalization Panel, which was established in fulfillment of a portion of the Comprehensive Educational Improvement and Finance Act of 1996(CEIFA) met several times and held three public hearings. The panel said it found that New Jersey's education system, with more than 600 school boards, superintendents, business administrators and other support services, "has many redundancies and inconsistencies...a prudent and uniform approach is needed to address these issues."

The panel is asking the Legislature to:

- Direct and empower the Department of Education to conduct and finance studies of regionalization for:

  - All K-8 and K-6 school districts with 300 or fewer students
  - All limited regional school districts
  - Any district completely surrounded by another district
  - All districts currently participating in sending-receiving relations.
- Direct the Commissioner to prepare an information program to the public describing the advantages and benefits of school regionalization.
- Eliminating non-operating districts by legislation requiring school districts without students to merge with another district, with the Department of Education's assistance.

The remaining six panel recommendations would:

- Direct the Department of Education to offer financial incentives for voluntary regionalization within a set time period if the studies demonstrate substantial and educational or efficiency benefits to regionalization.
- Authorize the Department of Education to require regionalization if districts do not regionalize within the set time frame. The district would bear the burden of proving why regionalization is not educationally or economically in the best interests of students. Direct and empower the Department of Education to provide technical assistance to districts that regionalize.
- Direct and empower the Department of Education to engage in periodic review of existing regionalized districts to assess the educational effectiveness and efficiency of those districts.
- Direct the Department of Education to develop procedures to expedite the creation or dissolution of regional school districts.
- Direct and empower the Commissioner to develop procedures which permit a phase-in period of regionalization not to exceed five years.

The panel's recommendations to facilitate consolidation or sharing of services would:

- Result in legislation that requires municipalities and county government to collaborate with local school districts for the provision of non-instructional services.

- Direct and empower the Commissioner of Education to require each county superintendent to assess and prepare plans for consolidation of all non-instructional services in collaboration with local school districts, municipalities, county government, and community colleges. Plans might include sharing educational services such as overall administration, purchasing, transportation, budgeting and accounting.
- Direct and empower the Commissioner to require each county superintendent to assess and prepare plans for collaborating and consolidating instructional planning and services with local school districts and community colleges.
- Expand to all counties over the next three years the pilot programs provided for in CEIFA, providing $600,000 for three consolidated county service units.
- Continue and expand efforts to use technology such as interactive television to foster shared services.

ECONOMIC ANALYSIS WORKSHEET

(The following information is reprinted with permission of the Association of New Jersey Environmental Commissions.)

Certain general information is necessary for making the analysis. Local permutations abound. Discuss figures with local administrators and be sure that all assumptions are acceptable. A word of caution: A fiscal impact analysis doesn't address secondary or long-term impacts.

The following is based on work of David Nissen (Rutgers University). ANJEC's Resource Center has his analysis for Cranbury, NJ, with notes, comments, assumptions and uncertainties.

Basic Demography

Number of Households: a. ____________________
(Source: recent tax information)

Number of students currently in public schools: b. ____________________
(Source: School Board)

Number of students school system can accommodate before new facilities are needed: c. ____________________
(Source: School Board, which should have generated working estimates for long-range planning.)

Assumptions

Number of students generated by each housing unit: d. ____________________
(Source: School or planning board figures.
A large single family house generally produces 1.0-1.5 school children; a townhouse produces 0.3 school children; senior citizen housing, none; modify planning estimates using your town's actual data.)

Cost per student: e. ____________________
(Source: School budget. Add capital budget and operating budget; divide by the number of students in the system.)

New facility cost: f. ____________________
(Once the threshold is passed, this figure comes into play.
Capital outlay is roughly estimated: Nissen's figures follow:
State requires 100 square feet of school space per student; approximate cost per square foot = $100; capital cost per student (100 X $100) = $10,000; capital charge factor based on 40 year mortgage at 8 percent - if inflation occurs, this charge factor will rise. This produces an annual cost per student of $420. Since new facilities are built with room to spare, a more accurate figure can be estimated after conversation with school administrators. Nissen uses a figure of $1500.)

Average cost of municipal services per household: g. ____________________
(Source: Municipal Budget. Subtract non-property tax revenues from total outlay and divide by the number of households. This number may be modified to reflect discussions with fire and police regarding at what point new facilities or equipment might be needed. Recognize that not all portions of the municipal budget vary directly with population increase or decrease.)

ECONOMIC ANALYSIS WORKSHEET
(Continued from previous page.)

Average market values of new housing unit: h. ____________________
(Source: tax information from other recent new units;
developer or real estate estimates)

Effective municipal assessment rate: i. ____________________
(Source: local tax assessor)

Municipal tax rate: j. ____________________

Method

Educational outlay:
students per housing unit…………….(d) ___________
X cost per student……………………(e) ___________ = $______________
PLUS
new facility cost per unit…………….(f) ___________
X students per housing unit…………(d) ___________ = $______________

total 1. ____________________

Cost of municipal services per house (g): 2. ____________________

Total municipal cost of one new housing unit (line 1 + line 2) 3. ____________________

Municipal tax revenue for one new unit: 4. ____________________
Calculate by multiplying average market value (h) X effective
assessment rate (i) X municipal tax rate (])

Net annual burden or revenue of an additional new unit: 5. ____________________
Subtract line 4 from line 3

To compare the costs of residential development with the cost of a Green Acres loan, a municipality has to determine the debt service on a 20-year loan at 2 percent interest. Your township administrator or financial officer can help. Costs for farmland preservation vary with each municipality's contribution and level of indebtedness. Your county farmland preservation program can help here.

It is important to note that the obligation to pay off loans or bonds for preservation is finite. For example, a Green Trust loan will be paid after 20 years. The costs of servicing development are unending and will increase over time.

THE HIERARCHY OF LAND USES AND FISCAL IMPACTS

Fiscal impact analysis is an analytical tool that is used to estimate the effect of newly arriving development on the local capacity to provide and pay for public services. The technique in a variety of forms estimates the public costs associated with development and compares these to the tax and other revenues generated by development.

The fiscal hierarchy shows which land uses, after all costs and revenues are considered, are more fiscally profitable than others. Position on the fiscal impact hierarchy depends on type of unit (reflecting size or intensity of use) within both residential and nonresidential classifications. Fiscal position also depends on the service district in which it is being viewed.

POSITIVE *POSITIVE*

Research Office Parks
Office Parks
Industrial Development
High-Rise/Garden Apartments (Studio/1 Bedroom)
Age-Restricted Housing
Garden Condominiums (1-2 Bedrooms)
Open Space Lands

MUNICIPAL

Retail Facilities
Townhouses (2-3 Bedrooms)
Expensive Single-Family Homes (3-4 Bedrooms)

SCHOOL DISTRICT

Townhouses (3-4 Bedrooms)
Inexpensive Single-Family Homes (3-4 Bedrooms)
Garden Apartments (3+ Bedrooms)
Mobile Homes (Unrestricted As To Occupancy Locally)

NEGATIVE *NEGATIVE*

NOTE: The above list contains too many disclaimers to include here. Fiscal impacts always must be viewed relative to the context of other properties' impacts in the jurisdiction of development.

From: "Fiscal Impact Analysis and The Fiscal Impact Hierarchy: A Glimpse at the Argument," Robert W. Burchell, Ph.D., Center for Urban Policy Research, Rutgers – the State University of New Jersey, 1993.

REVALUATION FISCAL SHOCK RELIEF PROPOSAL

I. Highlights of Proposal

- State funding of relief credits
- Eligibility limited to municipalities that voluntarily undergo revaluation
- 3 year phase-in of increased property taxes
- Incentives to encourage participation in program when General Coefficient of Deviation (GCD) is at low levels
- One-year window to participate in the program from the date of adoption of legislation for (i) municipalities with GCDs of 26 or more, and/or (ii) municipalities for which the Director of the Division of Taxation has approved an order from the County Tax Board to initiate a revaluation
- After expiration of one-year window, termination of municipal eligibility after Director approves an order from the County Tax Board to conduct a revaluation
- Disincentive provided to encourage maintenance of low GCD after undergoing revaluation pursuant to proposal

II. Proposal

A. Minimal Property Tax Increase Required for Property Taxpayer to be Eligible for Aid

1. State funding of relief credits for property tax owners who have an increase of more than 10% due solely to the revaluation for municipalities with a General Coefficient of Deviation (GCD)[1] below 15 (increase in the amount that needs to be raised from property taxes irrespective of revaluation would be excluded in calculating the 10% threshold increase)

2. State funding of relief credits for property tax owners who have an increase of more than 25% due solely to the revaluation for municipalities with GCD of 15 or above (increase in the amount that needs to be raised from property taxes irrespective of revaluation would be excluded in calculating the 25% threshold increase)

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[1] The General Coefficient of Deviation (GCD) is used to measure the degree of inequity of assessment practices among properties within a municipality. The GCD is determined by dividing the “average deviation” by the “average assessment-to-sales ratio.” The higher the GCD, the greater the inequity. In New Jersey, a GCD of 10 is considered fairly good.

B. Municipalities Eligible to Participate and Benefits Received

1. If a municipality with a GCD of more than 10 and less than 15, as determined by the General Coeffecient Deviation Study annually prepared by the Division of Taxation (GCD Study), the municipality would be eligible for State funding of phasing-in tax increases for eligible property owners. For the revaluation year the State would fund 85% of the eligible tax increases; 60% the first year following the revaluation; and 35% the second year following the revaluation.

2. If a municipality with a GCD of 15 or more but less than 21, as determined by the GCD Study, elects to enter into a contract to perform a revaluation, the municipality would be eligible for State funding of phasing-in tax increases for eligible property owners. For the revaluation year the State would fund 50% of the eligible tax increases; 20% the first year following the revaluation; and 10% the second year following the revaluation.

3. If a municipality with a GCD of 21 or more but less than 26, as determined by the GCD study, elects to enter into a contract to perform a revaluation the municipality would be eligible for State funding of phasing-in tax increases for eligible property owners. For the revaluation year the State would fund 25% of the eligible tax increases; 10% the first year following the revaluation; and 5% the second year following the revaluation.

4. During a one-year window which commences on the date the relief proposal is signed into law, a municipality with a GCD of 26 or more, as determined by the GCD study, and/or a municipality for which the Director has already approved an order from the County Tax Board to conduct a revaluation, elects to enter into a contract to perform a revaluation, that municipality would be eligible for State funding of phasing-in tax increases for eligible property owners. For the revaluation year the State would fund 25% of the eligible tax increases; 10% the first year following the revaluation; and 5% the second year following the revaluation.

5. After the expiration of the one year window, a municipality with a GCD of 26 or more, as determined by the GCD study, or a municipality for which the Director approves an order from the County Tax Board to conduct a revaluation, will no longer be eligible to participate in the relief proposal.

C. Each eligible municipality is entitled to a one-time-only participation in the program.

D. Impose disincentive to encourage municipal maintenance of low GCD after undergoing revaluation pursuant to proposal.

- If the municipal GCD in the first year after the revaluation year increases by 25% in any subsequent year, the municipality would be required to undergo a revaluation at its own expense. This provision would be deleted in the event that the assessment reforms recommended earlier in the Commission report are adopted.

E. As an incentive to do revaluations on a more consistent schedule, the State would fund the cost of the revaluation either fully under the II.B.1&2 above, or on a declining scale for each of the II.B. proposals.