S U M M A R Y

of

ASSEMBLY TAXATION COMMITTEE
Public Hearing On

Governor's Tax Reform Bills

May 30, 1972
Newark State College
Union, New Jersey
Theatre for the Performing Arts

(This summary was prepared by the Division of Legislative Information & Research; it has not been reviewed by the Assembly Taxation Committee.)

ASSEMBLY TAXATION COMMITTEE

MEMBERS PRESENT

ASSEMBLYMAN EUGENE J. BEDELL, Chairman
District 5B (Monmouth)

ASSEMBLYMAN CHESTER APY
District 5B (Monmouth)

ASSEMBLYMAN WALTER E. FORAN
District 6A (Hunterdon, Part of Mercer)

ASSEMBLYMAN FRANCIS J. GORMAN
District 3B (Parts of Gloucester and Camden)

ASSEMBLYMAN STEVEN P. PERSKIE
District 2 (Atlantic)

ASSEMBLYMAN JAMES P. VREELAND
District 10B (Part of Morris)

Also present:

SENATOR WILLIAM E. SCHLUTER
District 6A (Hunterdon, Part of Mercer)
Vice Chairman, Senate Revenue, Finance and Taxation Committee

LIST OF SPEAKERS

1. Former Governor Richard J. Hughes

2. Mayor Kenneth A. Gibson,
   City of Newark

3. Mayor Thomas Dunn,
   City of Elizabeth

4. Mr. Carl Weininger,
   Member of Essex County College Faculty
   (Labor Studies Program), representing the New Jersey
   Coalition for the Reordering of Priorities

5. Professor Morris Beck,
   Rutgers Newark (University), Professor of Economics

6. Mrs. Laurine Moffett,
   Town of Westfield (Union County)

7. Mr. Frank Pollatsek, Neighborhood Cleaners Association

8. Reverend Norman Smith, Pastor
   United Methodist Church,
   Lyndhurst

9. Mr. Bertram Brown,
   Tax Assessor
   East Orange

10. Mr. Ted A. Manning,
    Town of Westfield (Union County)

11. Mr. John J. Connolly, Clerk
    South Orange Village

12. Mr. Saul Wolf, Tax Assessor
    City of Newark

13. Mrs. Evelyn Frank,
    Senior Citizens Association of Union County

14. Mrs. Elizabeth Brody

15. Mr. Douglass Wurzburger,
    Manager, Governmental Affairs Department
    Eastern Union County Chamber of Commerce

16. Very Reverend Victor Yanitelli,
    S.J., President, St. Peter's College and a member of the Jersey City Board of Education

17. Senator Harry Sears
    Chairman, Governor's Tax Policy Committee

1. GOVERNOR HUGHES

Governor Hughes indicated his support for the program.

He commended the Legislature and the Committee for arranging these Statewide hearings.

He noted that New Jersey is among the States with highest per-capita income, but "we are not doing the job we should be doing" in providing government services.

He noted that there was formerly a "superstitious terror" of any kind of broad-based tax; but his present assessment of public opinion is that the people are "now resigned to the necessity" of fundamental tax revision.

It is inconceivable that public education can be financed without such a program under the present "strictures of the courts".

This program would shift the burden to a progressive system of taxation.

Comparing the I & A budget figures for 1962, when he was in office ($66-million requested, $63-million recommended by the Governor), with those for 1971 ($204-million requested by the Department, $165-million recommended by the Governor), he said this means that there is a job to do in this State, and yet the Governor is required to cut off $40-million while the Department is below its needs.

For the past 10-15 years, no Governor has not been alert to the necessity for economy in government. The State is below the national average for expenditures on maintenance of public institutions.

If urban areas continue to decay, the effects of that decay will spread out to the surrounding areas.

The program represents a "change in direction". It would freeze the property tax for schools, and get revenue from "the only place it can be raised". People must face up to the decision -- do we want to continue to squeeze the local property taxpayer?

Recognizing the political difficulties and the traditional coompetition between parties in combating taxes, he asserts this is a matter of conscience. Conditions now exist which did not exist when many legislators made pledges against new taxes -- the Botter decision, virtually mandating a change in the system of financing public schools, and the program devised by the Tax Policy Committee.

It is not a question of more taxes, but of who's going to pay them.

2. MAYOR GIBSON*

Mayor Gibson indicated he was appearing to state his "strong support for the overall direction and major components of [the Governor's] program"; that he had begun reviewing the 57-bill package, and planned "a more detailed analysis" at a later hearing.

He urged the necessity of a major revision of State revenue and expenditure. This program represents hope for Newark to maintain needed services without an oppressive property tax which drives out business and homeowners.

The cornerstone of the program is the income tax, permitting reduction in reliance upon the property tax.

Present reliance upon property tax, combined with high level of tax-exempt property (60% of the city's land area) has motivated industry to relocate in suburban areas and has been a major influence in abandonment and deterioration of housing.

Temporary State aid now received by the city will cease with the end of 1972, creating an additional local tax burden unless the legislature acts.

Mayor Gibson was then questioned by Mr. Foran and Mr. Apy.

The city was last revalued in 1962 or 1963.

The largest portion of tax-exempt property is that of the Port of New York Authority.

*For the Mayor's prepared statement, see Appendix.

The city will certainly be seeking further state aid when the present temporary aid runs out at the end of 1972.

3. MAYOR DUNN

Mayor Dunn first outlined his background in public office -- 5 years on City Council, 6 years as Union County chosen freeholder, 7 1/2 years (and still counting) as Mayor of Elizabeth; then stated that in all his time in public office one thing clear to him was that the tax structure of the State was completely inequitable, especially to the private homeowner, and had been so for many years.

A great deal of study will have to be given to the Sears Committee proposals and to the program of the Governor based upon those proposals.

He related to the Committee a four-point statement agreed upon recently by the New Jersey Conference of Mayors:

1. Passage of Federal revenue sharing should not be considered a substitute for State urban aid.

2. The effective date of the Governor's tax program should be 1973, instead of 1974.

3. Municipalities affected by the program should not be penalized by any forced reduction of revenues.

4. Municipalities should be allowed to tax not only State-owned land but also county-owned land.

Mayor Dunn also recalled a statement which he had issued earlier, endorsing the Governor's program; and submitted an editorial from the Elizabeth Daily Journal.*

Mayor Dunn was then questioned by Messrs. Perskie, Apy and Bedell.

*See Appendix.

The Conference of Mayors wants a legislative commitment that municipalities will continue to receive the same amount of State aid in each year as in the preceding year. This should be a continuing commitment rather than on a year-to-year basis, since the revenues from this source have become "built in" to the municipal budgets.

The Mayor did not know whether the bills in the Governor's program regarding in-lieu-of-tax payments and block grants to municipalities met the requirements outlined in the statement of the Conference of Mayors. He had not had an opportunity to examine the bills in detail, but an analysis will be made.

Mr. Bedell asked Mr. Sidney Glazer, Director of the Division of Taxation, to outline the Governor's reasons for choosing the 1974 effective date. Mayor Dunn then said he would "accept 1974, in view of the explanation you have given." He added: "Perhaps we have chosen 1973 to dramatize the need. . . . There has been so much procrastination."

4. MR. WEININGER*

Mr. Weininger indicated the Coalition's support of the Governor's program.

The present local and State tax system bears most heavily on those least able to pay.

He would favor imposing the income tax at a higher rate (approximately double the proposed rates) so as to eliminate completely the need for imposing the State property tax for the support of schools, or for raising the sales tax or other "nuisance" taxes.

Despite this, however, he endorses the Governor's program "on balance" because of its good features, including specifically:

1. An exemption and deduction policy in the income tax which "goes a long way to recognizing ability to pay".

2. Recognition of the claims of the rent-payer.

3. The recapturing of the "excess gains" that might otherwise accrue to business from reduction of the property tax.

Mr. Weininger was then questioned by Messrs. Perskie and Apy.

The Coalition's recommendation for a higher income tax was based upon New York rates, which are for practical purposes double those proposed for New Jersey (2% to 14%, compared with 1% to 7%). Its estimate of yield came from simply doubling the Sears Committee's $550-million revenue estimate for the proposed rates.

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*For Mr. Weininger's prepared statement, see Appendix.

5. PROFESSOR BECK

Professor Beck emphasized that he was "representing no one" but spoke out of his longstanding professional interest in government finance.

He noted that the Governor's proposal was one of "fiscal reform" rather than merely "tax reform", and included the following major elements:

1. State funding of education.

2. State takeover of welfare costs now remaining at the local level.

3. A program of State block grants to municipalities.

The major components of the tax program:

1. A personal income tax with graduated rates, which would introduce balance in the State's system of taxation.

2. A State property tax for education, which would be "an improvement over the present situation".

3. An excess gains tax, which was a device for insuring that property tax reductions would be passed on to renters. (The professor described this as a "stroke of genius" without precedent.)

The program of block grants and other elements in the program would be of material value to older urban areas.

"If this State adopts all or most of the recommendations. . . this State can move to a position of envy by the other 49 states."

Professor Beck was then questioned by Messrs. Apy, Foran, Perskie and Schluter.

He saw "no potential risk" that the limits to be placed on property tax rates would lead municipalities to increase revenues through higher assessments.

He foresaw no problems from the coexistence of both a State and local property tax. There would possibly be benefit in improved administration through greater State involvement.

Reduction of property tax revenue to "not more than one third" of total revenue would enhance the equity of the entire system. The property tax is regressive in that its effective rate, measured against the income of the taxpayer, tends to decrease as income increases. The sales tax also tends to be regressive, depending on what is exempted (NJ's being only "moderately" regressive); under the new system, these regressive elements would be balanced by a more progressive one. The balance between types of taxation could, however, swing too much the other way if the property tax rates remain frozen over a long period of time; it would be better not to include rates in a constitutional provision. Regressivity of the sales tax could be moderated by credits granted on the income tax; this is done in some states.

He would accept a constitutionally frozen rate if necessary to "quell the fears of voters", but feels this should not be necessary if "the essential facts are gotten across" -- that the program will

(a) reduce property taxes,

(b) permit each taxpayer to pay his fair share, and

(c) transfer welfare and education costs to the State.

One of the major attractions of the program would be that reduction of the property tax would give the cities a tremendous boost in property values. Any reduction in property taxes tends to raise property values.

There would be a beneficial effect on zoning. New Jersey has the "worst record" with regard to "fiscal zoning" for the purpose of attracting high ratables while excluding land uses which result in municipal costs. Such zoning leads to misuses of land. Reducing emphasis on property tax would curb the tendency to fiscal zoning.

6. MRS. MOFFETT*

Mrs. Moffett said she was speaking on behalf of the "low-income people" and in support of the Governor's program. She made the following points:

1. The program would reduce property taxes to the benefit of low-income persons and senior citizens; the benefits of tax reduction would be passed on to renters.

2. Educational opportunity would be improved and equalized by the system of State funding.

3. The current unevenness of the welfare tax burden would be equitably distributed.

4. Relief and aid granted to cities would halt a process of deterioration which would otherwise "eventually reach our town".

5. Tax reform would have beneficial effects upon unemployment, especially in the cities.

6. The program has been modified to guard against any business "windfall" from property tax reduction.

7. Tax-rate limits should not be in the Constitution, since this makes them too hard to change.

8. A personal income tax would grow in yield with economic growth, without the need for increasing rates.

*For Mrs. Moffett's prepared statement, see Appendix.

7. MR. POLLATSEK

Mr. Pollatsek urged that tax exemption be continued on laundry and cleaning services, as these services are "a necessity." Only 2 States (Alabama and Louisiana) do not grant such an exemption. Such an exemption is consistent with the policy of exempting clothing purchases. Consumers resent a tax on these services.

8. REVEREND MR. SMITH

Mr. Smith said there was no question about the necessity for tax reform but he couldn't agree to a new tax without closing out an existing source. If the income tax is necessary, the sales tax should be eliminated.

He opposed a tax credit for nonpublic school tuition.

Mr. Smith was then questioned by Mr. Perskie.

His opposition to tuition tax credit is based upon consideration that the State grants a right to citizens to establish and attend private schools, and thereby to satisfy the legal educational requirement outside the public schools; but it does not thereby create a responsibility for the State to support such private schools.

9. MR. BROWN

Mr. Brown said he did not represent the mayor or the city in any way but was making a "personal statement".

He supports "most" of the Governor's recommendations.

In East Orange the tax on a $20,000-assessed property is $1,900 a year, which is "outrageous".

He favors "remodeling" and "professionalization" of the assessment system.

Mr. Brown was then questioned by Messrs. Apy and Foran.

Not having had opportunity to study in detail the bills relating to administration of the tax system, he (like other assessors) does not sufficiently understand the proposals to either give or withhold an endorsement.

He favors the tax appeals system as it has been outlined. Most county boards are not professionalized and do not serve a useful purpose.

East Orange was last revalued in 1958; it is now in the process of revaluation.

At this point in the proceedings, the chairman asked for questions or comments from any persons in the audience who were not scheduled to make formal presentations.

10. MR. TED A. MANNING

Mr. Manning said he represented "John Q. Public", and wanted details regarding the tax proposals, such as exemptions on the personal income tax and how they will be handled.

Sidney Glaser, Director of the Division of Taxation, was asked by the Chairman to respond:

There are quite a few tax exemptions contained in the proposed tax reform package, and he would mention some here. For parents with college age children, there is a proposed deduction for tuition of $2,000.00 or the actual cost of the tuition, whichever is less. Then there is the allowance for a tax credit for each child in private school, $50.00 for grades K-9 and $100.00 for grades 10-12. Senior citizens now receive a property tax deduction of $160.00 or actual taxes, whichever is less, if they are property owners over the age of 65 who have no more than $5,000.00 annual income, excluding Social Security and some pensions. The present tax package proposals will increase the eligibility from the present $5,000.00 level to $7,100.00 a year, including Social Security as income. The Tax Policy Committee also proposed a formula making the senior citizen responsible only for tax payments up to 7% of his income and the remainder (not exceeding $500.00) would constitute property tax relief in the form of a credit against one's State income tax or rebate.

There are also proposals for tenants to deduct (in computing their State income taxes) the full dollar amount of their rent attributable to property taxes paid by the owner of the dwelling. These are only some of the tax deduction or tax credit proposals.

MR. MANNING: This is good information, but why isn't it made public? Also, what control is there on the $1.00 tax rate of the proposed Statewide property tax (per $100.00 valuation).

MR. GLASER: This is fixed by a proposed constitutional amendment placing a limitation on any Statewide property tax at $1.00 per $100.00 per valuation.

11. MR. CONNOLLY

Mr. Connolly inquired whether the Governor's program meets the requirements outlined in Judge Botter's decision regarding school finance. He doubted that it did.

Mr. Bedell said the Administration feels it does. The purpose of the hearings is not to pass on this question, but to determine public feeling.

Mr. Perskie noted that there is difference of informed opinion on the point raised by Mr. Connolly.

12. MR. WOLF

He has not been able to obtain more than 18 bills of the proposed tax reform package. How could he get all the bills so as to be informed enough to make a presentation?

MR. APY: We will have a complete set of bills in the tax package delivered to the State Bar Association in Trenton, today. Others may call the bill room in the State House, Trenton, to obtain a package of tax bills.

CHAIRMAN BEDELL: Mr. Wolf, this is one of our problems also, as well as all Legislator's, to analyze all 54 bills and then be able to vote upon them at our next legislative session.

13. MRS. FRANK

Mrs. Frank noted that shelter costs are a major expense for senior citizens. She asked:

1. How much relief could renters expect from the program?

2. How would the proposed sliding scale for the senior citizens real property tax deduction operate?

3. Would there be any sales tax deduction or exemption for senior citizens?

Mr. Richard Weinroth, Assistant Governor's Counsel, said the total relief to renters was estimated at $45-million; but it was impossible to say how much it would be in individual cases. The part of rent attributable to taxes varies from 16% to 45% depending upon area and circumstances. Mr. Weinroth explained the operation of the sliding scale, and said there was no proposal in the program relating to the sales tax for senior citizens.

14. MRS. BRODY

Mrs. Brody urged that more information be made available to the public. She suggested the preparation and distribution of summaries of the bills composing the program.

She asked whether legislator's mail was running heavily against an income tax. Members of the Committee indicated that this varied in each constituency.

15. MR. WURZBURGER

As an organization trying to put forth a view, we are still studying the tax proposals of the Tax Policy Committee. Now that the Governor made changes affecting business, we hat had to restudy the program. I will speak at Trenton at the public session concerning the affect of the tax proposals on business.

At 1:00 P.M., the Committee recessed for lunch, reconvening at 2:00 P.M.

16. VERY REVEREND MR. YANITELLI*

Father Yanitelli said he spoke primarily from the point of view of one concerned with the problems of aging inner cities. Governor Cahill's program is seen as an instru.. .t for social reform.

The "unrealistic property tax" is the main cause for city deterioration. Those who can afford it, move out; their places are taken by poorer persons. A greater burden is placed upon public schools and upon welfare services at the same time that the tax base is eroding.

These problems, if not solved, will spread to the suburbs.

Judge Botter's decision is correct in stating that reliance upon the local property tax to fund public schools effectually denies equal educational opportunity.

Some adjustments have been made in the Governor's program; other adjustments may be needed.

If the program were in effect now, it would cut Jersey City's levy from $66-million to $34-million, and the tax rate from $8.16 to $4.19 per $100. Of this $15-million would result from State funding of education.

The present tax structure permits grave inequalities between cities and suburbs.

*For Father Yanitelli's prepared statement, see Appendix.

Father Yanitelli was then questioned by Mr. Vreeland.

The new program would help stem the flight to the suburbs by permitting the cities to institute new opportunities which would induce young people to stay.

17. SENATOR SEARS

Senator Sears said he was fully in support of the modifications made by the Governor in the TPC program.

He offered to assist the Committee in obtaining whatever information it might desire from the staff and records of the TPC.

In speaking around the State, he has encountered some opposition to the program, but he is encouraged by the response in many quarters. There is "more than average recognition" of the seriousness of the problem.

The Governor's modifications have in many ways improved the TPC recommendations, and nothing in the Governor's program in any way "undermines" the TPC report.

The present tax structure is inadequate, inelastic, regressive and inequitable. It cannot be expected to take care of the growing needs of the State.

He reviewed certain measures which have been suggested as alternatives to tax reform:

1. Stricter economy in government. Such a proposal must be followed up with specific suggestions for the drastic re-

ductions in existing State institutions and programs which would be required in order to yield enough money to finance State funding of schools costs and reduction of property taxes.

2. Enlargement of legalized gambling. At hearings a year ago, the best estimate given by proponents of legalized casino gambling was that it would yield $200-million a year after 10 years of development. The State cannot wait 10 years.

3. A State property tax, at $2.25 per $100, for education. This overlooks the inflexibility of the tax, the added burden on the property owner, and the greater equity of shifting much of this burden to the income tax.

The Governor's program offers a "ray of hope for the cities" by offering (a) relief from present inequitable burdens, and (b) incentives for rebuilding and revitalization.

It is not beneficial to cities alone -- though in some rural and suburban areas this is not believed. Areas where circumtances now result in a favorable tax situation are not immune from what may happen if the property tax continues to escalate.

This is not just a new tax but a new system, providing future assurance of containing the real estate tax.

Senator Sears was then questioned by Messrs. Perskie, Foran, Vreeland, Bedell and Apy.

Retaining an element of property tax in the State funding of education, rather than relying entirely on the income tax, was felt to build in an element of stability in the system. But exceeding the $1.00 rate limit could create an overbalanced dependency on the property tax.

As to proposed statutory limits on municipal-purpose tax rates, this was felt to be a desirable assurance to the people. The limits suggested were based upon research indicating that they were realistic.

Income and sales taxes should be the main sources for making up the difference between the $1.00 school tax rate and the revenues needed for State funding of education. He would oppose going beyond the 5% rate in the sales tax; hopes that yield would grow within that rate. The income tax should be the source for any new revenues needed beyond that.

Local decisions will determine how much funds will be raised locally (through the property tax) to make up the difference between recommended State funding levels (through the State property tax and the income tax) and the projected costs of schooling. Estimates which were made by the TPC regarding effects of the program upon individual districts were made upon the assumption that present levels of spending would not be reduced. [TPC overall estimates cited by Committee members were that $550-million would come from income tax, and $600-million from the State property tax -- leaving a $600-million gap between State funding and estimated overall cost of $1.8-billion.]

There is no assurance that the Courts will strike down this program (by reason of excessive dependence on local tax resources). The chances are just as good that it will be upheld. He does not believe the Supreme Court will prohibit "any initiative at the local level".

He notes that additional State aid is "built in" to any additional local-level spending.

The impact of the program on property values and zoning will be beneficial, especially in the cities, and will increase investment opportunities. There will be general improvement in all areas through stabilization of the tax levels. Long-range zoning changes will relax the competition for ratables, reduce restrictive zoning and increase housing starts.

It is possible that limits on local tax rates may encourage increased use of bonding for expenses now often met on a pay-as-you-go basis, or even for non-capital purposes. The TPC has made some suggestions for more State review and participation in this area.

The hearing was then adjourned.

STATEMENT BY MAYOR KENNETH A. GIBSON, CITY OF NEWARK, BEFORE THE COMMITTEE ON TAXATION OF THE NEW JERSEY ASSEMBLY, MAY 30, 1972

NO PUBLIC ISSUE IN NEW JERSEY TODAY IS AS IMPORTANT AS THE TAX REFORM PROGRAM NOW BEFORE THIS COMMITTEE ON TAXATION. YOUR WORK AND THAT OF THE SPECIAL SESSION OF THE LEGISLATURE, WHICH CONVENES IN JUNE, REPRESENT THE FINAL STEPS IN DETERMINING THE FUTURE OF THIS STATE FOR MANY YEARS TO COME. TWO YEARS OF STUDY BY THE NEW JERSEY TAX POLICY COMMITTEE HAVE CONCLUDED; FOUR MONTHS OF REVIEW BY THE GOVERNOR HAVE PRODUCED A REFINED PACKAGE OF TAX REFORM RECOMMENDATIONS; AND NOW FINAL ACTION DEPENDS UPON THE LEGISLATURE.

AS MAYOR OF NEW JERSEY'S LARGEST CITY, I AM VERY PLEASED BY THE OPPORTUNITY TO PARTICIPATE IN THE FIRST HEARING OF YOUR COMMITTEE. I BEGAN THIS PAST WEEKEND TO REVIEW THE 57 BILLS WHICH CONSTITUTE GOVERNOR CAHILL'S TAX REFORM PROGRAM. MY PURPOSE IN APPEARING TODAY IS TO STATE MY STRONG SUPPORT FOR THE OVERALL DIRECTION AND MAJOR COMPONENTS OF HIS PROGRAM. I PLAN ALSO TO PRESENT A MORE DETAILED ANALYSIS OF THIS LEGISLATION BEFORE THE CONCLUSION OF YOUR HEARINGS ON JUNE 9.

IN MAKING A STATEMENT TO THE TAX POLICY COMMITTEE ONE YEAR AGO, I URGED A MAJOR REVISION OF STATE REVENUE AND EXPENDITURE PATTERNS TO PROVIDE MORE EQUITY FOR THE TAXPAYER AND AN ADEQUATE LEVEL OF PUBLIC SERVICES. TODAY, THESE NEEDS ARE MORE EVIDENT

THAN EVER IN NEWARK AND THROUGHOUT THE STATE. NO LONGER DO WE HAVE THE TIME OR THE EXCUSE TO DELAY ACTION. POSITIVE, DECISIVE LEGISLATIVE ENACTMENT IS NECESSARY, AND WILL CERTAINLY BE MORE DIFFICULT TO ACHIEVE IN THE INDEFINITE FUTURE THAN IT IS RIGHT NOW.

FOR NEWARK, THIS PROGRAM REPRESENTS A HOPE FOR AN ADEQUATE LEVEL OF PUBLIC SERVICES WITHOUT AN OPPRESSIVE AND SELF-DEFEATING PROPERTY TAX RATE. I SAY "HOPE" BECAUSE THE ACTUAL DOLLARS ARE FEW BY CONTRAST WITH THE PHYSICAL AND SOCIAL IMPROVEMENTS REQUIRED IN NEWARK. BUT THIS STEP, FOR THE FIRST TIME, IS IN THE RIGHT DIRECTION. IT IS A STEP TOWARD REVENUES DERIVED MORE FROM ABILITY TO PAY ON A STATEWIDE BASIS THAN FROM LOCAL TAXES WHICH DRIVE OUT BUSINESS AND MAKE HOUSING MAINTENANCE AND CONSTRUCTION NEARLY IMPOSSIBLE.

THE CORNERSTONE OF THIS TAX REFORM PACKAGE IS THE STATE INCOME TAX, WHICH WILL PERMIT THE REDUCTION OF LOCAL PROPERTY TAXES. THE PACKAGE CONTAINS A CAREFULLY PLANNED SET OF RELATED MEASURES, ALL OF WHICH ARE IMPORTANT. BUT ONLY THROUGH THE ENACTMENT OF THE STATEWIDE, BROAD-BASED INCOME TAX IS RELIEF POSSIBLE FOR THE INDIVIDUAL PROPERTY TAXPAYER.

THE IMPORTANCE OF THIS REVENUE SHIFT FOR NEWARK CANNOT BE OVEREMPHASIZED. IN 1970, MY FIRST YEAR IN OFFICE, NEWARK HAD A PROPERTY TAX RATE OF $8.44 PER $100 OF ASSESSED VALUATION. AND WE FACED A BUDGET DEFICIT OF $65 MILLION. THROUGH A COMBINATION OF GOVERNMENT ECONOMIES, TEMPORARY STATE AID, AND SPECIAL NEWARK TAXES AUTHORIZED BY THIS LEGISLATURE, WE WERE ABLE TO BALANCE THE 1971

BUDGET WITH A 9 PER CENT PROPERTY TAX INCREASE TO $9.19 , DESPITE OUR BEST EFFORTS IN 1972, THE BUDGET FINALLY ENACTED BY THE CITY COUNCIL REQUIRES A NEWARK PROPERTY TAX RATE OF $9.63.

MOST OF OUR PROPERTY TAX REVENUE GOES TO SUPPORT THE COSTS OF THE PUBLIC SCHOOLS AND COUNTY GOVERNMENT. LESS THAN 25 PER CENT IS REQUIRED FOR MUNICIPAL GOVERNMENT PURPOSES. YET, OUR INTENSIVE BUDGET WORK PROVIDES NO BREATHING SPACE.

AT THE END OF 1972, THE TEMPORARY STATE AID, TOTALLING ALMOST $17 MILLION, AND THE SPECIAL NEWARK PAYROLL AND PARKING TAXES, COLLECTING ABOUT $12 MILLION, ALL WILL COME TO AN END. WITHOUT ACTION BY THIS LEGISLATURE AND THE GOVERNOR, NEWARK WOULD BE FACED WITH A STAGGERING BURDEN OF ADDITIONAL PROPERTY TAXES IN 1973, AND IN FUTURE YEARS. TO FORESTALL SUCH A CRISIS, IT WAS EXPECTED THAT NEW STATE REVENUE WOULD BE AVAILABLE TO NEWARK IN 1973 AS PART OF THE OVERALL TAX REFORM PROGRAM YOU NOW HAVE UNDER CONSIDERATION. TIME IS SHORT, AND YOU CAN UNDERSTAND MY SENSE OF URGENCY.

THE CONSEQUENCES OF CONTINUING HIGH PROPERTY TAXES ARE DEVASTATING. MANY EXISTING INDUSTRIES ARE MOVING OUT OR ARE PLANNING THEIR EXPANSIONS FOR LOWER-TAX SUBURBAN AREAS. NEW BUSINESS DEVELOPMENT IS DISCOURAGED FROM LOCATING IN NEWARK AND OTHER CENTRAL CITIES. TOGETHER WITH THE LARGE AMOUNT OF TAX-EXEMPT LAND (OVER 60 PER CENT OF NEWARK'S LAND AREA), THESE BUSINESS DECISIONS CHECK THE GROWTH OF TAX RATABLES AND FORCE STILL HIGHER PROPERTY TAX RATES.

HOUSING, TOO, IS STRONGLY INFLUENCED BY THE PROPERTY TAX. NEWARK'S TAXES ARE A MAJOR FACTOR IN THE ABANDONMENT AND DETERIORATION OF THE CITY'S HOUSING STOCK AND IN THE SMALL AMOUNT OF NEW CONSTRUCTION. NEWARK HAS AT LEAST 61,000 SUBSTANDARD HOUSING UNITS, AND EVEN AN AUGMENTED DEMOLITION PROGRAM CANNOT KEEP PACE WITH THE NUMBER OF HAZARDOUS BUILDINGS WHICH CAUSE HEALTH PROBLEMS AND FIRES SUCH AS THE RECENT TRAGEDY THAT KILLED THREE FIREMEN.

THE TAX REFORM PACKAGE PRESENTED HERE WOULD RELIEVE THE LOCAL PROPERTY TAX. THE STATE WOULD ASSUME MUCH OF THE COST OF LOCAL SCHOOLS, WELFARE PAYMENTS AND COURT ADMINISTRATION. THE RESULT SHOULD BE BETTER FINANCING OF THESE CRITICAL SERVICES THROUGH APPLICATION OF THE TOTAL WEALTH OF THE STATE, RATHER THAN SOLELY THAT OF THE CITIZENS LEAST ABLE TO SUPPORT SUCH SERVICES. WE ALL TOO EASILY FORGET THAT NEW JERSEY IS ONE OF THE WEALTHIEST STATES -- SEVENTH IN PER CAPITA PERSONAL INCOME IN 1969 -- AND THAT ITS PRESENT LEVEL OF SUPPORT FOR VITAL PUBLIC SERVICES IS AT OR NEAR THE BOTTOM AMONG THE FIFTY STATES.

THE TIME FOR RESPONSIBLE ACTION IS AT HAND. CAREFUL LEGISLATIVE REVIEW MUST BE ACCOMPANIED BY THE WILL TO MOVE AHEAD FOR THE GOOD OF THE STATE.

STATEMENT OF THE NEW JERSEY COALITION FOR THE REORDERING OF PRIORITIES

Governor Cahill's current legislative proposals for reform of the State's tax structure are economically feasible; offer the possibility of timely passage by the Legislature; would provide needed fiscal resources to meet pressing needs for State and local services; would significantly improve the progressivity of the State's tax structure; and would ease the tax burden on lower and middle income taxpayers.

The above statement summarizes, in general, the position of the New Jersey Coalition for the Reordering of Priorities, in support of the Governor's proposals. Tax reform and tax relief is the Coalition's first priority.

The Coalition is a broad-based gathering of representatives from a variety of organizations - religious and secular - which have been dealing with crucial social issues for several years. The list of representatives includes leaders of a number of New Jersey labor unions, statewide voluntary associations, community groups, and other agencies, and faculty members and students of several New Jersey public and private colleges. The Coalition does not claim to officially represent any of its constituent organizations.

The Coalition agrees with the New Jersey Tax Policy Committee that the State and local tax burden bears most heavily on those least able to pay. The tax structure is regressive. In effect it taxes the lowest income group at the highest rate, and each successively higher income group at a successively lower rate.

The Coalition favors a progressive and adequate level of taxation which will enable the State to meet its increasing obligations for the health, welfare, safety, transportation, and education of its citizens. The Coalition opposes the regressive features of our presently inadequate tax system. The present system imposes economic hardship on lower income families, wage earners, and senior citizens - and an unfair tax burden on four-fifths of the State's taxpayers.

The Coalition favors a graduated personal income tax over other forms of citizen taxation. We have proposed a 2 to 14% rate, modeled on the New York State pattern, which would raise $1100 million in New Jersey annually, and eliminate the need for a new State property tax, as proposed by the Governor. An adequate progressive income tax would grow with the economy, and insure that regressive property and nuisance taxes do not continue to escalate. The Coalition supports a graduated personal income tax over other forms of citizen taxation because:

a. it is fairer, its rate increasing with the taxpayer's increased ability to pay;

b. it is more productive. At the rate of 2 to 14% it would produce revenue to equal the cost of State assumption of local welfare and school operating costs;

c. it grows with the annual increase in population and income levels, making the yearly levy of new taxes unnecessary;

d. it allows for differences in individual circumstances, such as size of family, high medical expenses, extraordinary financial losses, and commuter taxes paid to neighboring states;

e. it balances the State's regressive tax structure by replacing 62% of the property tax, and by making it unnecessary to raise the sales tax and the other regressive nuisance taxes which bear most heavily on larger families wage earners, and lower income groups.

The Governor has blunted the progressive effects of his income tax proposal by recommending a basic rate of 1 to 7%, [redacted]. As a result the State falls far short of the revenues needed for the proposed state takeover of the costs of education, welfare, and the judiciary. Thus the Governor has had to propose a regressive state-wide property tax of $1 per $100 of value.

The Coalition opposes a State property tax on dwellings. Such a tax has the same faults that cause us to condemn local property taxation. Under the present system, property taxes exact an effective rate of 14.2% on incomes under $3000, declining regressively to 2.9% of incomes over $25000. Property taxes make no allowance for size of family, financial hardship, age, disability, etc. And property taxes are relatively inelastic. Revenue continues to lag behind growing fiscal needs. A large measure of property tax growth which does occur is due solely to inflation of property values and annual increase in rates.

Nevertheless, on balance the Coalition supports the Governor's proposal for a 1 to 7% income tax. The Governor's proposal goes a long way to assist lower income families by exempting incomes under $5000 from taxation, and by allowing a straight $15 tax credit for each dependent - a decided improvement over the Federal dependency allowance.

In addition, the Governor's bill recognizes the claims of the rent-payer. The Coalition endorses the Governor's proposal to permit the rent-payer to use the tax portion of his rent as a deduction from his gross income. It further endorses the Governor's proposal for a renter's income tax credit, to enable the renter to recapture 75% of his landlord's windfall tax saving, including a rebate from the State where the credit exceeds the amount of the tax.

The Coalition feels that the three-year limit on the windfall tax credit, which the Governor has proposed, is an adequate length of time to enable the Legislature to enact long-term relief from rent-gouging in urban areas affected by a shortage of proper and decent housing. The Coalition favors proposals advanced in the Kean Bill, which would tie rents to the Consumer Price Index, and allow for the prorating of capital improvements.

Finally, the Coalition supports the Governor's proposals for recapturing excess gains in business taxes due to the sudden reduction of local property taxes. The Coalition recognizes that present level of business taxation in New Jersey is competitive with that of most other states.

In conclusion, the Coalition believes there is urgent need for timely and constructive action by the Legislature to shift the tax burden from homeowners, renters, and consumers paying more than their fair share under the present tax structure, to a more equitable graduated personal income tax based on ability to pay. Up to now, high income people have not been carrying their fair share of the tax burden. Such a shift, even so modest a shift as proposed by the Governor, would benefit four-fifths of the State's taxpayers, now in the under-$15000 income groups, and provide the tax base needed for New Jersey to finance current and future government services.

May 30, 1972

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Laurine O. Moffett
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May 29, 1972

To Mr. Eugene J. Bedell, Chairman Assembly Tax Committee

I am Mrs. Laurine Moffett, a resident of the Town of Westfield, Union County.

I am speaking particularly for all those low income families in New Jersey (55% of the total families) who probably do not understand the tax reform proposal and who would probably not speak out anyhow. Here are some of the reasons why I support the tax reform proposal as modified by Governor Cahill:

1. Westfield is a residential community with practically no industry. Although the average family income is considered to be in the upper middle income range, there are many families with low incomes and many senior citizens. These families are finding it impossible to meet the ever increasing property taxes. Property tax relief would mean a lot to these poorer families and make it possible for many senior citizens to retain their homes. The part of the proposal carrying property tax relief through to renters would be especially beneficial to the senior citizens living in the few apartments in town.

2. Figures in the report, point out that lower income families forced to live in the ghettos of our cities, are not receiving an equal education to those in the suburbs - and this despite the higher property taxes that must be paid for this poorer education. (We mustn't forget that renters pay their share of the property tax in their rents.) Court decisions have indicated that this cannot continue.

3. I was amazed at the uneveness of the welfare burden not only between communities but also between counties. When the residents of Essex County pay $17 per capita for welfare and residents of neighboring Morris County pay less than $2 per capita, there is something wrong. The costs of carrying for the unfortunate members of our society should be shared by everyone. I feel that the welfare prob-

lem is a federal responsibility, but until the federal government takes over, the state is a much more logical level to carry out this function. With welfare costs soaring, any savings accomplished by consolidation of functions at the state level should be encouraged.

4. In our town, the problems of the cities are not as remote as they may seem. We have problem cities such as Plainfield and Elizabeth on each side of us and Newark not far away. We cannot let these cities deteriorate any further because this would soon bring their problems to our town. Not only would the overall property tax reduction help these cities but the specialmunicipal block grants would absorb some of the extra cots that these cities cities face as they serve nonresidents who use their services. For example, I use the research library in Elizabeth, Ishop in Plainfield, and I have visited the Newark Museum many times.

5. Tax changes that will keep industry in the cities are particulary welcome at a time of extremely high unemployment among the young people in the cities. Not only is this idleness dangerous, but also costly. On the other hand, those lucky enough to find work in the suburbs find little public transportation, so resort to makeshift cars that are dangerous, which also add to road congestion and air pollution.

6. The Tax Policy Committee proposals left the impressinn of windfall savings coming to some types of business due to property tax reduction without commensurate tax increases. This appeared to be particularly true of apartment house owners. The modifications proposed by Governor Cahill seem to answer this objection.

7. Although I can see the reason for ceilings on county and municipal expenditures to prevent a further escalation of costs, and I also recognize that many states have such provisions, I cannot help but object to that part of the proposal, especially if it should become part of the State Constitution. Times change and it is very difficult and a slow process to change anything that has become part of the laws of the State. There is also a tendency for expenditures to rise to a ceiling and many areas of the State are now well below the proposed ceilings.

8. A tax structure that would grow with the economy would be a stabilizing factor in this State, and that is what is to expected with the addition of a personal income tax. It seems that every year becomes another crisis when new or increased taxes must be found to balance the state budget. I has happened once again this year.

I moved here almost fiteen years ago from a state that had a balanced tax structure with a state income tax, a sales tax and of course the property tax. Taxes were never a problem. The level of the property tax here was a terrible shock. We soon realized that in our case the high property taxes were balanced by the lack of a state income tax. But for those low income families the high property taxes or excessive rents must have been a terrible burden, and since then the property tax has increased more than three fold.

all citizens   Support

I urge ~~you~~ to ~~report~~ the bills that emcompass this tax reform program, ~~faverably~~

the Legislature

~~out of your Committee.~~

STATEMENT ON GOVERNOR CAHILL'S

PROGRAM FOR TAX REFORM

Victor R. Yanitelli, S. J.
President, Saint Peter's College

Gentlemen: I do not pretend to address you either as an economics scholar or a tax expert. With most of the citizens of the Garden State, I share a certain unfamiliarity - if not total ignorance - of the subtler mysteries involved in the effect that gross national product, the balance of payments, and the meaning soft or hard money may have on the distribution of the goods and services every person needs to live in society with other persons. However, I also share with those same ordinary citizens, and also with you, I hope, the anxieties and pressures that come with what the experts call a "tight economy" and above all, I am concerned about what that economy does to the poor.

Nor do I come before you just as a "do-gooder" or what others have called a "sob brother." Those same "others" might even question me as a clergyman who never pays taxes. I am indeed a Roman Catholic priest and as such, I would ask the questioners to remember that I do smoke cigarettes, take a drink, drive a car, make telephone calls, send telegrams and gladly pay my fair share of the excise taxes to the State.

I am here really because I am an educator, the president of an urban independent college which is deeply conscious of its obligation to render public service and is committed under some twenty-two (22) programs to the search for some solution to the problems of the city. I also am a member of the Jersey City Board of Education, Co-chairman, with Dr. James Mullen, the President of Jersey City State College, of Mayor Jordan's Task Force on Education, and a member of President Nixon's National Advisory Commission on Economic Opportunity.

I formed the People for Tax Reform Committee simply because there is hardly a day goes by in my life without my coming into contact with some new evidence of the destruction of young potential intelligence and talent that is going on in the school systems of our aging inner cities.

We live in a society which demands either some form of higher education or some fairly high technical skill - like a Journeyman's book in the construction trades or para-professional expertise in computers or the health professions - in order for a young man or woman to survive in that society. The ordinary labor which opened up a dignified life possibility to you and to me in the days of our youth, has, for all intents and purposes, been wiped out by technology and destroyed by inflation.

The high school drop-out of today - unlike the drop-out of our day - has no place to go, no place that is, but down to the dregs of society. And we all know that a seventeen to twenty to twenty-five year old that has absolutely nothing to lose because he or she is already at the bottom, is like a walking stick of dynamite on our streets. The spiralling rise in teen-age crime speaks eloquently to that. But more than this, the man or woman who possesses neither higher education nor a fairly high technical skill - simply because a complexus of uncontrollable circumstances prevented him or her from ever finding out what talents he or she could develop - represents a tragic waste of potential energy and intelligence which no state or country can afford to lose. This fact becomes more crucial to our future now that the Census Bureau has announced America's arrival at zero population growth.

To me then, Governor Cahill's Program for Tax Reform as reflected in the tremendous labors of the State Tax Policy Commission, represents much more than a strategy for fiscal stability. I see it as a courageous and daring effort to forge an instrument for social reform. I believe that this tax package on which you are holding these hearings, presents a promise of hope for all the citizens of our State, but most of all for the citizens of our deteriorating cities, and especially for those citizens caught in the mushrooming ghettos.

If that sounds a little rhetorical - and it is somewhat so - please believe me when I tell you that it is not just rhetoric, not mere words uttered to impress you or to score a brownie point. I come from Jersey City where the number of abondoned buildings seems to grow by the hour; a city where prime land lies undeveloped; a city where, even in the fully rented apartment houses, the lack of maintenance grows like a spreading visible cancer on the body of the town. And if Jersey City is in such critical condition, then a city like Newark must be almost hopelessly inoperable.

There is no doubt that the main cause of this depressing scene is the unrealistic property tax rate. Under the sponsorship of the Jersey City Chamber of Commerce and through the leadership of its Chairman of the Board, Tom Stanton, experts have studied the problem and found that "much of the money that should have been spent in the maintaining and modernization of ...properties has been lost to higher taxes. Rents could not offset entirely the tax crisis as other expenses, such as insurance, fuel costs and basic repairs were constantly increasing. To be unrealistic in rentals would mean more businesses and residents fleeing the city. Bank financing has been more difficult because of the increased risk of foreclosure due to excessive taxes in proportion to income."

People who can afford it, have been leaving Jersey City for the suburbs. The total population of the city has been dropping markedly (some twenty to forty thousand in the last ten years), while the pupil population in the public schools has increased by at least five thousand children over the same period. This happens as the result of a simple historical and social process whereby the middle class heads out to the suburbs and their vacated places are taken by the migrant poor who are mostly Black and Puerto Rican, while at the same time the parochial schools are drying up due to lack of funds and the diminishing of contributed services by dedicated religious caught in a manpower shortage.

This accounts for the rise in the public school population while the over-all population of the city is on the decline. This historical and social process puts a severe strain on the school system and drives the costs of welfare beyond all hope of manageability. The way it is now, local property taxes are simply incapable of carrying both these burdens - teachers' salaries have to rise to meet inflation - some teachers should get combat pay - as must the salaries of policemen, firemen, and sanitation workers. And the local property tax has already reached the breaking point. Small homeowners are being driven out of their homes because they can no longer pay their property taxes. Pensioners and widows who tried to hold onto some family plot of ground are just wiped out. And meanwhile, the school system spends all its time trying to survive, time that should be spent on planning the re-allocation of its resources, which at the moment fail to meet the children's needs. And the greatest irony of all is that the flight to the suburbs is only a postponement of the inevitable. If the problems of the inner cities are not solved within the cities themselves, gentlemen, you can bet your bottom dollar that it won't be long before those problems reach out to the suburbs. They have already begun to do so. The signs are already visible in certain surburbs once spanking bright and new, now considered aging and in trouble.

Superior Court Judge Theodore I. Botter certainly hit the nail on the head in his ruling of January 19, 1972, which declared that the local property tax did not meet either state or federal constitutional requirements for equal educational opportunity. Gentlemen, the schools in the inner city at this moment are killing the very possibility of quality education. In fact, they are destroying as many children as they help. And the Judge is right when he says the local property tax denies a child equal opportunity.

I also realize that Governor Cahill's Program for Tax Reform will not bring instant Utopia. I realize too, that many aspects of the program will require adjustment. I have read the demurrers of State Senators J. Edward Crabiel and James P. Dugan and have seen that adjustments have already been made along the lines recommended by them in the areas of banks, insurance companies, utilities and a tax allowance for the payment of rent. Further adjustments will no doubt have to be made. No one wants a business landfall or a landlord giveaway.

However, once possible adjustments are granted, there should not be one business man, one legislator, or one educator in the city of Jersey City - I would like to say "in any city in the State" - who should not campaign hard for the approval of this tax package as a whole. It is the very interlocking of general tax, graduated income tax and State assumption of costs which gives it its total strength and guarantees its effectiveness.

For instance, if the Governor's program were in effect right now, the levy in Jersey City would be reduced by almost half, from about $66,000,000 to about $34,000,000. The net effect of State funding of schools would account for about $15,000,000 of that reduction, and the local property tax rate would have been reduced from $8.16 per $100 to $4.19. This alone could save much of our declining real estate and provide the muscle for educational flexibility, incentive, imagination and creativity which are becoming atrophied by the financial squeeze arising out of the need for more dollars to be milked from a shrinking tax source.

Other gains would include:

1. slightly more than $2,000,000 by virtue of State assumption of welfare costs;
2. another $900,000 in State assumption of judicial costs;
3. some $42,000 in County Tax Board costs;
4. about $300,000 in State assumption of senior citizens' relief;

[redacted]

And all twelve Hudson County municipalities would experience somewhat similar tax rate reductions under the recommendations made by the State Tax Policy Commission.

There you have it, education, housing, the judiciary, senior citizens, veterans, a total program which could inject new blood into the State's fiscal life stream in what seems to be - with adjustments - the fairest way possible; a program pointing to social reform which could bring us the hope of making ours a society in which every citizen and every child finally approaches the ideal of an equal chance to compete on his own merits.

The purpose of public hearings is to give the members of the legislature an opportunity to listen to the voice of the citizens they have sworn to serve. As a college president, I am perhaps by force of my office, a somewhat more articulate rson. As such - and I say this quite humbly and with a fully conscious awareness of the vast areas in which I am ignorant - I think I also speak for those citizens who are either unable or too timid to come before you to state their needs and their hopes.

I cannot countenance a tax structure which creates the situation we have now whereby the rich or upper middle class person comes into the city from a protected and beautiful neighborhood to make a fairly decent living on a 9 to 5, five days a week basis, and then rides out of the city in a Catalina or on state or federally funded rapid transit, totally blind to the hell to which the same tax structure has condemned people to live in the inner city, 24 hours a day, seven days a week.

Please note: I do not fault these men per se, that is, as a class - so many of them are actively involved in the problems of the city, so many of them sacrifice themselves and the time that would be spent with their families in order to fulfill the social obligations that business has to the community in which it prospers. No, I do not fault these men. I fault rather the circumstances - and especially the tax structure - which has created the situation and the problem. I know that many of these business men will speak out with me on this issue. The businessmen and the bankers of the Jersey City Chamber of Commerce have already endorsed Governor Cahill's total tax package in principle and with the understanding that adjustments need to be made in certain details of it. I also know that these good men will speak out with me in behalf of the thousands of citizens who cannot come here - who do not even know how to reach you - in order to plead their cause for the equalization of the rights and benefits of American society.

This is justice - no more, no less.

I am compelled to speak this way to you because I know of no other way to give whatever I have of talent or energy or of myself in the service of my fellow citizens. It is the only way I know to be true to myself, my city, my state, my country, and my God.

Thank you so very much for letting me appear before you today. I am most grateful.

DATE DUE
