

PUBLIC HEARING

before

THE NEW JERSEY TAX POLICY COMMITTEE
TASK FORCE E [Service Levels, Costs and Allocations]

Held:
December 16, 1970
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF TASK FORCE PRESENT:

Robert N. Wilentz [Chairman]
Patricia Q. Sheehan
Victor Frank [for Howard C. Harder]
William H. Weathersby [for Robert Goheen]

Also:

Prof. Ernest Reock, Consultant
Dr. William Miller, Staff Director

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MR. ROBERT N. WILENTZ [Chairman]: I am going to start this hearing now.

As you all know, this is the public hearing of Task Force E of the Governor's New Jersey Tax Policy Committee. The Task Force title is Service Levels, Costs and Allocations.

I am told that the sale of lottery tickets is such that we may not even have to go on worrying about the fiscal needs of the State of New Jersey. On the possibility that there still may be some problems after lottery sales are over, we are going to continue anyway.

I would like to introduce the members of the Task Force who are here today. On my extreme right, and not a member of the Task Force, but one of the consultants of the Task Force sitting with us today, is Professor Reock, the Director of the Bureau of Governmental Research at Rutgers. We are very happy that you are able to join us. On his left is Mr. William Weathersby who is substituting for Dr. Goheen. Mr. Weathersby is the Vice President in Charge of Public Affairs at Princeton. On my right is the distinguished Mayor of the City of New Brunswick, Mayor Patrician Sheehan. On my extreme left is Mr. Victor Frank who is substituting for Mr. Harder. And on my left is Mr. Miller, who is the Chief Executive of the staff of the State Tax Policy Committee.

We have a list of approximately ten witnesses that we expect to hear from today. They include Mayor Holland of Trenton; Mr. Male, the Former Mayor of Princeton; - Mayor Holland has just walked in - Mr. Meholick, the head of the New Jersey Municipal Management Association; Dr. Barone, the Mayor of Woodbridge, may be here; Mayor Luther of Parsippany-Troy Hills; Mrs. Betty Little, Citizens for Conservation; Mrs. Gertrude Unsel of the Federation of New Jersey Taxpayers; Mr. George Smith, President of the State Board of Education; Mr. Kennedy Shaw, Administrator of the City of Plainfield; Mr. Mark Jones of Princeton; and Professor Ylvisaker of Princeton, Former Commissioner of the Department of Community

Affairs.

The schedule is not quite as certain as I would hope it would be, but many of these people have other commitments and the time of arrival and, in some cases, the question of arrival remains a question.

Some of the other Task Forces have been charged with obligations of investigating things that are quite clearly fiscal and concerned with the amount of money that is needed in New Jersey and methods of raising the money. Our Task Force has, in addition, the question, I think, of who should be doing what at various levels of government. Who should be taxing at various levels of government? And how funds should be allocated? Where services can best be performed?

I would hope that the witnesses in addition to their prepared presentation might focus on some of the questions that I think interest the members of the Task Force, namely, just how bad is the condition of municipalities in the State of New Jersey? Are they as bankrupt as some of us may believe? Where can they go without increased Federal or State aid? Should we be as concerned with the general level of services that are being delivered in municipalities as with the direct question of how we can refinance those services? In other words, shouldn't our concern be extended beyond the question of enabling municipalities to perform as they are now performing? And shouldn't it be extended to the question of how we can deliver better services - better quality services? Should we be concerned with the question in connection with some services of achieving a greater degree of equality? I am particularly referring to the delivery of educational services. Should our Task Force be concerned with whether or not in connection with the State tax policy reform some effort shouldn't be made to assure that a child in one municipality has the same kind of educational opportunity as a child in another municipality? Should we be concerned with the method of distribution of the proceeds of State aid? Should we be concerned with the amount allocated to the rural

and suburban areas as compared to the amount allocated to our central cities?

To what extent will regionalization of functions actually lead to cost savings? Or should regionalization be viewed simply as a method of improving services and making them more efficient?

Is there any area in municipal government where cost savings can actually be achieved in substantial measure? Are the opportunities for cost reduction so limited that when we talk about tax reform, we are talking not only about making the tax burden more equitable but we are also talking about the need for additional tax resources? And to what extent is the State capable and in what manner of making those resources available?

When State aid is delivered, should it be delivered on condition? Should it be delivered provided that municipalities conform to certain standards? Should it be delivered on condition that they deliver certain services? Or should it be delivered without strings?

If the witnesses believe that tax reduction should be achieved in certain areas, but that services should be maintained at their present level or that services should be increased, if the witnesses care to, we would like to know what their views are on providing the funds for any such increase in State aid or, if they think the Federal government is the source of increased aid, where that money is going to come from and by virtue of what taxes.

I would like to call on our first witness, Mayor Arthur Holland of Trenton. Just by way of refreshing the witness's recollection of the rules, my understanding is that each witness is allowed ten minutes for his or her direct presentation, after which the members of the Task Force that desire may ask questions of the witness.

Mayor Holland, it is very nice of you to come.

M A Y O R A R T H U R H O L L A N D: First, I appreciate the opportunity to be here and I would be glad, and in fact welcome any questions following my presentation. I don't have copies of this statement because it may be amended before I finish. But I will before the day is out have copies for you.

Gentlemen, I appreciate very much the opportunity to appear before you. There is no subject of more essential importance to the future of our cities and, therefore, of our State, than the subject under consideration by your Committee.

My presentation will be in accordance with your suggested guidelines. I will follow literally the question outline.

I believe that the pattern of new and old services over the next ten years will follow the present regional approach. Several years ago, the City of Trenton negotiated with the County of Mercer the transfer of our municipal hospital. The County Improvement Authority is presently planning a regional arrangement for the disposal of garbage. It appears, however, that low income housing and school needs will continue to be met by the old central cities unless the State adopts policies which encourage or mandate assumption of such responsibilities by the county and/or State governments.

The trends in current expense budgets are those of substantial increases each year. Police and fire salaries, for example, have increased \$3,541,222 in the last six years. This represents a 52.5 per cent increase. Had it not been for the State's Urban Aid in 1970, these raises would either not have been given or the real estate tax would have gone even higher. As it is, should Urban Aid be withhold, these salary increases will have to be met by real estate tax revenues, as will any further increase and, in view of the inflationary spiral, not to increase is in effect to cut

salaries and wages. There is a similar upward trend throughout the various employment categories.

With regard to trends in capital needs, it is ironic that the old central cities are now faced with doing for the second time what new municipalities are doing for the first. Trenton is replacing at a cost to the city of approximately \$20 million large sections of its storm and sanitary drain system. This project will, assuming Federal aid continues, be carried on over a period of approximately 15 years. Over the next 10 years, 8 additional schools will have to be built. And while such construction may be met through the Emergency School Construction Fund, operating costs will continue to increase because of State requirements that class sizes be smaller and because of the need for more specialists to deal with school problems prevalent in the old central cities.

2. There is a strong temptation to answer question 2 by saying "all of them." This is particularly true of the county level, especially in view of the possibility of strengthening county government as a result of the recommendations of the Musto Commission. Among those services which seem to lend themselves most readily to assumption by the county are welfare and garbage disposal.

The State should assume responsibility for education. Welfare and education costs should be completely financed by the Federal and State governments. Garbage and police service costs should be met by participating municipalities, that is, should there be any regional arrangement with regard to police protection.

(B) There should be a maximum home-rule provision in the administration of services funded by the State and/or Federal government. The actual administration of such services could best be done by local officials. Perhaps the receiving jurisdiction could participate financially through assumption of all or a part of the administration costs of services transferred to the State and/or Federal levels.

3. Those services of local governments should be aided financially by the State which are meeting a national and State responsibility. The old central cities are being asked in effect to be the housing, job and education centers for the Nation's disadvantaged. It makes sense, therefore, that higher levels of government share the cost of such services.

3 (A). As indicated above, costs of such services, except perhaps for administration, should be borne completely by higher levels of government.

3 (B). There are obviously vast differences among urban, rural and suburban areas in costs of service and in need for such aid. The old central cities are increasingly the clustering places for the poor and the old. Suburbia, except for pockets of poverty, is becoming relatively increasingly affluent, and exurbia is relatively untouched by the problems we call urban.

Trenton which has less than half the equalized valuation per capita that Lawrence Township has spends 50 per cent more than Lawrence does for police protection, 3 times as much for health, 4 times as much for welfare and 20 times as much for fire protection. Similar comparisons could be made between other old, large cities and their surrounding municipalities. Those figures are from the Third Report, Joint Services, A Local Response to Areawide Problems, the Musto Commission.

3 (C). I believe that current urban aid programs have worked well in New Jersey compared with other states. I would like to submit in documentation of that statement a copy of a report of the National Survey conducted by the Urban Study Center at Rutgers, now known as the Center for Urban Social Science Research. The report is titled, "The Roles of the States in Solving Urban Problems," and I would like to leave this with the Committee. New Jersey emerges, relatively at least, as a model with regard to assisting in the solution of urban problems.

With regard to Question 4, again many recommendations

are contained in this report. Especially necessary, however, as is pointed out in the report on page 136, is a program which would subsidize the real estate tax required by municipalities of developers or purchasers of rehabilitated low-income housing. In this way, rehabilitation, low-cost housing under present Federal and/or State programs would be feasible in high tax-rate municipalities.

It is the tax rate alone which is interfering with programs such as those undertaken by the Urban Coalition. The tax rate normally shouldn't be greater than 50 per cent of the total cost of owning a house. But in Trenton, the tax rate exceeds the cost of amortization payments on the principal and interest. This makes it impossible.

Coalitions make it possible for low-income families to obtain decent housing, but then they can't pay the taxes on it.

5. In the absence of a State income tax, which would enable the State to meet revenue needs of local governments, permission should be given to counties, municipalities and school districts to levy and collect local non-property taxes. It should be kept in mind, however, that such an approach may be self-defeating, that the only fair, sufficient method of meeting the State's and the cities' revenue needs is through a State income tax or some other such Statewide levy.

6. This opportunity is present through the Municipal Charter Law of 1950 and hopefully through the Musto Commission recommendations becoming law. Also productivity of employees can be increased through introduction of a merit system and in-service training program. During our previous administration, there were after four years 128 net fewer positions at a savings of approximately \$500,000 per year. This was accomplished through a review of each position when it became vacant to see whether it needed to be filled and the introduction of modern administrative techniques in the running of the government.

The New York City Educational Construction Fund provides for private financing for educational facilities by making available to a developer land and joint development rights for revenue-producing purposes. For example, the school board would use its power of eminent domain to assemble a piece of land on which a private developer would build a school facility and an office building, thereby paying construction costs of the school for the right to erect an office building for his purposes. This technique may also be used for other public works as well as for providing the city with an in-kind urban renewal credit.

I believe that I must in conclusion point out that the real answer to the pressing financial problems of the old central cities lies in long-range legislative remedies of a non-fiscal nature. If the problems were distributed, there might not be a need for a State income tax or for local non-property taxes.

Examples: States should require, as has been done in effect in Massachusetts, that all cities and towns allow for the use of a certain percentage of land for the erection of low-income housing.

States should pass a law requiring county governments to foster the finding of homes for welfare clients throughout the county of residence. This could result in maintenance or restoration of socio-economic balance in the central cities and at the same time afford affluent America an opportunity to share what is now central city America's burden at a time when the central cities are least able to bear it.

MR. WILENTZ: Mayor, thank you very much for a very stimulating presentation.

Do any members of the Task Force have any questions they would like to ask? Mayor Sheehan?

MRS. SHEEHAN: Obviously I am in some sympathy with much of what Mayor Holland had to say. I would have two

specific questions. With regard to your comment on urban aid, that was limited, as you know, to the so-called big six cities. Do you think that that really represents a solution to the city problems throughout the state?

MR. HOLLAND: No, I think there was no rational basis for that program. The big six, ranging probably in need from Newark to Elizabeth, certainly required and were entitled to it. But New Brunswick, Perth Amboy, Hoboken, Union City, Bayonne, and many other municipalities throughout the State relatively, I think, had equal need and equal right to such assistance and I think any such future programs should take the needs of these municipalities into consideration.

MRS. SHEEHAN: Following through on that point where you indicated that the right of local areas to levy non-property taxes might well be self-defeating, in a city like Trenton or New Brunswick or any of the other so-called core cities, don't you think we have to face the problem where we are surrounded by a suburban area that has a great deal of land and an anxiety, if you will, to attract industry and ratables, that a city tax is going to encourage the flight of commercial and industrial taxpayers to those very suburbs, thus compounding the problems of the cities?

MR. HOLLAND: Except that Mayor Gibson claims to have two reports, and a third was upcoming when I met with him on this, that document the premise that such an approach, a local payroll tax, income tax, earnings tax, whatever it is called, is no more of a deterrent to retention and attraction of industry and business than is an increasingly high real estate tax. At least, the payroll tax gives an opportunity - I don't think those who live outside the city will call it that - but it gives an opportunity to those who make their living in the city to share in the cost of the services which make it possible for them to earn their living in the city. In effect, I would think, the local residents who would pay it would be getting their money back in that it should cushion the real estate tax, whereas those who live outside the city would be making a contribution. That's why I see it, even

though as a last resort, as a need pending the passage of a State income tax and the keeping or returning of money to the cities on the basis of guidelines of need. New York State, for example, - this takes effect April 1st of this year - is going to return 21 per cent of the revenue from its income tax to the cities - 10 1/2 per cent on a per capita basis plus a wealth factor. I see no great assistance for the cities - well, I do see assistance, but I don't see any fair assistance for the cities if we have additional State revenues which are distributed on a per capita basis. To me, the major premise here has to be that of need.

MR. WILENTZ: Any further questions? Mr. Frank?

MR. FRANK: Do you have any figures on how much revenue could be raised by a payroll tax?

MR. HOLLAND: No, I don't. But obviously for every hundred million dollars of payroll, we would realize a million dollars. I haven't had an opportunity to research that.

MR. FRANK: In so far as the shifting of responsibility from the city to the county or the State, do you see any possibility of it reducing costs or do you feel it is just a question of equity demanding that it be shifted to the county or State?

MR. HOLLAND: Well, I see better service and some reduction in costs. Obviously a regional arrangement for the disposal of garbage should be less costly, given the market-place principle of less cost with volume than if each of the municipalities within a region conducted its own disposal system.

MR. FRANK: Do you have any examples of that though?

MR. HOLLAND: No, because it is a beginning approach.

MR. FRANK: There has been some concern that maybe that won't turn out to be the case.

MR. HOLLAND: I think we have to make sure that bidding techniques are such that we profit through competition. The present proposal which calls for franchising against the

background of our present regulation, should assure an honest situation. It is up to local officials, municipal and county, that whoever serves on a board such as the Mercer County Improvement Authority, which consists of citizens as well as public officials, to make sure that we do realize what we should under such an arrangement, which means less cost.

MR. WILENTZ: Mayor, I take it on one of the basic questions facing this Task Force, namely the fiscal capability of municipalities, especially central cities, under the present tax system and the resources available to the central cities, that it is your opinion that these cities come nowhere near having the capability of meeting their present needs and their likely future needs without further aid.

MR. HOLLAND: I gave as an example Trenton and Lawrence costs of operating the government. We have less than half the assessed valuation of Lawrence, even though our costs are many times over.

MR. WILENTZ: And those costs are going up, up, up, I take it.

MR. HOLLAND: Since '64, our police and fire costs have gone up over 50 per cent and we have 20 times the costs of fire protection that Lawrence has because they have a volunteer fire department.

MR. WILENTZ: How long can you go on without substantial increased aid?

MR. HOLLAND: Well, the only difference really between Newark and Trenton and the other old large cities is that Newark has this monumental deficit. Our tax rate is only about 10 or 15 points behind that of Newark. If you use that as an index, because problems of Newark have attracted so much attention, I am afraid that committees like this may not give sufficient attention to cities like ours. We have done everything we can - at least I have in the past - and we are continuing on to economize. We cut the tax rate in 1966 in Trenton by 65 points through this half million dollars

in payroll savings plus anticipated revenue from the sales tax, which had to be applied, a percentage of it, to educational costs that year. But all the economies in the world in a government because of its limited potential will not enable us to pay, because of inflation especially, the increasing costs of payroll which are about 80 per cent of the costs of government.

MR. WILENTZ: Do you think realistically there are any present avenues open for substantial cost reduction in the operation of a municipal government and the delivery of services within municipalities?

MR. HOLLAND: Not of the ---

MR. WILENTZ: -- meaningful, substantial reductions.

MR. HOLLAND: I don't know of any potential now that would enable us to meet the rising costs of government, and this is what I have in mind: I checked before I came here on our ratable picture. It is going to remain about the same. Tax cuts will be balanced pretty much by some new ratables. Given inflation, given the granting of normal increments - we have asked for reclassification - given the increase in some maximums, we are going to have an increase in our tax rate. We have to go increasingly to people on low-fixed incomes. In recent years the Social Security Administration has been increasing the pension payments to beneficiaries, but not to a degree that would enable them to keep up. Also increasingly, the self-sufficient people are leaving the city and people are coming in who need help.

When I mentioned long-range legislative remedies of a non-fiscal nature - a block may be perhaps able to absorb one large fatherless family. If you put two or three such families in that block, people aren't then running away from anything but noise and dirt and disruption and how do you measure the impact ratablewise out in such a situation? It is a very complex situation.

MR. WILENTZ: What kinds of things would you anticipate would happen in a city like Trenton unless substantial increased

aid is forthcoming?

MR. HOLLAND: I have said before, unless the State had done something in the case of Newark, the State would have a city on its hands. It's that simple. And the State could start having more than one city on its hands. This is why as a last resort, I think we need and every other such city in the State needs the option to impose a payroll tax. It is the only fair way I know in the short run of meeting the needs. The thing that disturbs me is that this committee was not given the challenge, the urgent command, that was given to our Welfare Study Commission. We have to report in a month. This is basic to every other Study Commission. I would hope that you would report as soon as possible.

MR. WILENTZ: You indicated that you thought that New Jersey was a model for urban aid. I assume that is in comparison with other states. In other words, I take it from your testimony that you do not agree with the kind of distribution of urban aid that we have had in the past, namely, redistribution of sales tax funds on a straight population basis, the distribution of special school aid on a per student basis. You don't regard that ---

MR. HOLLAND: I wasn't referring to that. I was referring primarily to the State Department of Community Affairs and the programs which it initiated in recent years. We were the second state in the Nation to have such a department.

MR. WILENTZ: The dollar value of the State aid programs that were distributed on a straight population basis on a per student basis in the educational field far exceeded the Community Affairs aid.

MR. HOLLAND: Such programs are almost immoral, if not immoral.

MR. WILENTZ: Do you have any views about the wisdom of attaching strings to this aid? In other words, do you think that the State, assuming it gives further State aid,

should require certain performance from municipalities?
What is your view about that?

MR. HOLLAND: Absolutely. In fact, for a long time, I opposed revenue sharing in block grants, specifically block grants, because I felt there was a need for the guidelines that accompany categorical programs. So, just as was indicated according to the news stories, in the case of Newark, any city which is given State funds, I think must expect to have a close review of the expenditure of those funds and, if they prove unworthy of the confidence of the State, then they should be denied such funds. Then the State itself would have to administer whatever programs are required.

MR. WILENTZ: Not only a close review of the expenditure, but would you agree there should be a functional obligation of the municipality? For instance, in the State aid for health purposes, there are certain standards and levels of achievement that must be complied with before you qualify for State aid.

MR. HOLLAND: Philosophically I am opposed to dedicated funds. I do believe there is a kind of general dedication accompanying grants. For example, the urban aid package - I did not think that such funds should be used for salaries and wages. A good example, I think, of a program which is peculiar to cities like ours and for which such urban aid money ought to be used is a hot lunch program. To me, a hot lunch program is a public health measure in a city like ours as well as an educational assist. I know, first hand, that children don't go to school because they don't have their snack money.

MR. WILENTZ: So while you are opposed philosophically to dedication, you would think there would be some sense in requiring certain kinds of performance.

MR. HOLLAND: There is a happy medium there and I think that is up to committees like yours to recommend, in consultation

with local officials.

MR. WILENTZ: You don't view the studies of this State Tax Policy Committee as simply being a rendering of a more equitable tax structure for the State, but apparently from what you said about housing, you think we should be very much concerned about what is ultimately delivered to the citizens.

MR. HOLLAND: I think you should relate your deliberations to non-fiscal matters because the fiscal considerations grow out of the other conditions.

MR. WILENTZ: In other words, if the Tax Policy Committee as a whole came in with recommendations which in your mind did not show some promise of moving towards a solution to the housing problem, you would be gravely disappointed?

MR. HOLLAND: If you pour money into cities like ours, for years to come you are simply going to harden the present social situation, which I think is a blot on our democracy. We will become more and more then the housing, employment and education centers for the disadvantaged. I think this is unhealthy. Busloads of children are brought into our cities so these young white children may see what a blighted area looks like or what a slum looks like. They come on excursions or field trips into the city.

MR. WILENTZ: Two things disturb me greatly about your suggestion of interim, of sort of local option, non-property taxes. Isn't there a danger if you gave as an interim proposition every municipality the right to impose non-property taxes that you would be compounding the problem, mainly you would be giving to some high income areas the right to raise their own tax, either through a payroll tax or perhaps some other kind of non-property tax, thereby exaggerating the inequities even more. But perhaps even worse, wouldn't you be building in a political force against any kind of Statewide tax, and particularly a Statewide income tax, where these municipalities or areas might say to themselves, "Well, we

now have a local option tax where we can apply the money to our own area and we know very well that Statewide income tax is going to apply it differently, namely, more to the central cities"? Aren't you recommending something that is terribly dangerous to the central cities?

MR. HOLLAND: I am not really recommending it. As I said, I would want it there in case we needed it as a last resort and I was pleased to see that the Legislature put a two-year limit on this privilege for Newark. Gentlemen and lady, I am convinced that you must, and if your Commission were succeeded every year by a new one to study this matter, that you would have to come up with a recommendation that there is only one fair and sufficient solution to the revenue needs of this State - and I said this ten years ago - I openly, unequivocally advocated it then as I have since then - and that is an income tax. Also it would simplify the whole tax structure.

MR. WILENTZ: I didn't say it ten years ago, but I agree, Mayor. Professor Reock?

MR. REOCK: I have just one question. Mayor Holland, would you say as a general rule a governmental service should be administered at the governmental level at which the major part of the financing takes place? For example, you suggest that the State take over the financing of education. Would you accept the premise then that the State should administer education?

MR. HOLLAND: No. I think in our society maximum local discretion should be given with regard to implementation of funds from a higher level.

MR. REOCK: You see no essential relationship then between the level at which financing is provided and the level at which the services are administered?

MR. HOLLAND: It is a natural relationship, but I think we have to fight that in the interest in the long run of retaining democratic decision at the local level.

MR. WILENTZ: Anything further? Mr. Miller?

MR. MILLER: Mayor, I have been taken with your suggestion that non-fiscal remedies are important too and perhaps in the long run if cities are to be viable entities, more important. But remedies so far are to provide State aid, which is fiscal. The non-fiscal ones are to shift the responsibility for services from the municipality to the county, to the State - somewhere else. If you follow that process, are you saying that the big cities are no longer viable entities as we have known them?

MR. HOLLAND: No. I say the big cities always have been and always will be centers of not only residents but commerce and industry. I think they will always be central points because if they aren't, you will simply have new communities which, by whatever name, will be replacing what we now call the central city. First of all, you have large institutions located in central cities which it is just economically not feasible to relocate. They are always going to be there. So we start, I think, with the premise that we must proceed on the basis of the recommendation, for example, of the Regional Plan Association of two years ago which says, as we build new towns on the one hand, we renew our old central cities, and we relate the two processes.

When I talk about non-fiscal legislative remedies, I mean such a law as Connecticut passed about a year ago which establishes a statewide uniform building code. This makes it profitable for prospective manufacturers of housing, not only for the central city but for suburbs, to go into a state and know basically the code is the same, in our case, in each of the state's six largest cities. We don't have a statewide uniform building code in New Jersey. We need one I think.

MR. MILLER: We have one that is recommended but not used.

Take the view that you want the city in the long run to be economically a viable entity, to be able to support itself really as much as possible. Are there other ways

the State could do this? For example, I know I shouldn't mention the word urban renewal in Trenton. But in the long run is there any way that the State should have a role that would improve the prospects of that kind of thing?

MR. HOLLAND: Yes. It is hard to mention urban renewal in connection with Trenton. The Mercer-Jackson Project right now is booming. In fact, whites are competing to move in. This is not a formal renewal project. But in one of the finest residential sections of the city where we had fine old houses going begging recently, people are moving in from Long Island now because it is easier to commute to New York. So there are some bright spots. And as we restore the economic base, which was the ultimate goal, of course, of urban renewal in other programs, we won't need hopefully state and/or federal assistance. But we can amend certain programs. For example, the Urban Coalition in Trenton has taken tens of houses - there is a block on Olden Avenue near State Street, for example, and there is Wilkinson Place, the city's only private street - where they have acquired and rehabilitated and are making available at approximately \$10,000 good decent housing. The only thing that is giving them real trouble and they may have to go out of business is because they are losing about \$5,000 on a house. They are keeping the price down in order to make it possible for the person needing the housing to acquire it. But related to this is the problem of what happens after the person acquires it because the real estate tax is so high that the person can't keep up the real estate payments. He is liable to lose that house. That is why I say Trenton has a problem similar to Newark's. So has Paterson, Camden and Jersey City, and to a lesser extent Elizabeth, in that I don't think the real estate taxes can go any higher for those specific reasons as well as just general reasons because of the nature of our population.

When I talk about long-run remedies, let's have some public housing projects for the elderly, for example, elsewhere than in Trenton. We are the only municipality of the 13 that

has low-income housing. Here is what this means: I go as Mayor to a senior citizens' Christmas party and an elderly woman comes up and asks how to get in the Josephson Apartments. I said, "Do you live in Trenton?" She said, "You know I lived in Trenton most of my life but I moved out to Hamilton Township." This proves one thing - people do grow old in the suburbs. Now she wants to come back to Trenton. Why can't she be accommodated in Hamilton Township? Maybe we need a County Housing Authority which would see that such facilities are placed throughout the county. These are the kinds of remedies which would make unnecessary perhaps the convening of your Committee.

MR. WILENTZ: Any further questions?

MRS. SHEEHAN: I am concerned with the rate of the property tax and I understand that we really in the cities have reached the limit and the problem that it entails. But my question really I guess is: In terms of the allocation, not of a new tax but of a new base upon which to raise the money, if you will, what would you think of the concept that the cities could handle on a property tax basis the normal municipal services if the cost of education were on something other than the property tax? I take the position, as I assume most of us do, that children are our resource. But the property tax cannot pay the cost of this education. What would you think of having that kind of an allocation taking, say, for example, education out of the property tax pot, if you will?

MR. HOLLAND: Then we could adjourn the meeting, but not without providing for a source of revenue for the State to do that. I won't talk programs unless we go to the other side of it which is, where does the State get the money to do these things?

MRS. SHEEHAN: But if it allows the municipality to raise a non-property tax, you still decrease the property tax because it is not paying its way now. Where you have old or marginal facilities, commercial and industrial, which are

staying because the cost of the move is prohibitive and you add to their cost by, say, a payroll tax or business tax of some kind, it then makes it profitable for them to move.

MR. HOLLAND: This is why I wasn't in here fighting as Mayor Gibson was for the privilege that was granted to Newark. I still have serious reservations. I am glad there was a limit put upon it. I do believe, in order to be on the safe side, until we get a State income tax, - our city and our council president who is here today, David Schroth, supported me on this as did the entire council - that we ought to have this privilege if we need it. We don't want to face the kind of crisis situation Newark did. We could be on the verge of it. Until the income tax is adopted and the funds made available, we need to be assured, I think, as responsible public officials that if necessary we can look to a source of income other than the property tax.

MR. FRANK: You mentioned one non-fiscal consideration, a uniform building code throughout the State. Do you have others in mind?

MR. HOLLAND: My three major ones are:- an absolute requirement by the State that every municipality provide some low-income housing. Now you can put a ceiling on it - 3 per cent, 5 per cent, 7 per cent, whatever. And I realize, of course, this leads you into providing services too. The real answer was Secretary Udall's. As people were automated out of jobs, keep them down where at least they can breathe and put up the factories and the houses and the schools, instead of having this constant flow to the cities, which fortunately has been levelling off. But there are three major ones and there are others in this report which I would like to leave with the Committee. One, distribution, if the client is willing, and I am sure they would be, of ADC cases. They are considered city cases only because there is no place else for them to go when they leave the rural areas. But this doesn't mean since they are a county responsibility that

they have to be housed in Trenton. You can't tell me there aren't more houses available in the other municipalities of this county. I have talked with our Welfare Director about this. He says they can't find houses elsewhere. These are the real reasons for the wrecking of the cities.

I am not blaming the people themselves; they need help, and we are least able of the municipalities these days to give that help. There was a time when we were the counties. We were the economic base of the nation as well as of our counties. It is an entirely different situation now.

MRS. SHEEHAN: Mayor Holland, do you have children in Federally-supported housing without regular property tax?

MR. HOLLAND: Yes. We have too much public housing. I am against any more public housing because we are not meeting a need; we are creating it.

MRS. SHEEHAN: Is that all payment in lieu of taxes?

MR. HOLLAND: Yes, 15 per cent, I think it is, of gross rental. Another problem has been when we set out with urban renewal to restore the economic base, it was to be on a full tax basis. Everything has gone up practically now. It has been on a limited dividend basis or on some kind of subsidized basis. So we are not realizing anywhere near the return that we had hoped.

MR. WILENTZ: Mayor, one last question unless some of the other members have some more because you have been very helpful and very informative: The idea of taking over the education bill is, of course, very appealing because ---

MR. HOLLAND: It would account for about half of our budget.

MR. WILENTZ: It relieves the property tax of this tremendous pressure. But if you simply take over the education bill, if the State simply does that, that would be a little over a billion dollars, I gather, isn't that exactly the same as a direct State grant without strings unless there are some very, very careful provisions? In other words, if the State simply picks up the education bill, it is a subsidy very, very badly needed, but without any assurance as to

where the new funds, the new ability to raise revenue, is going to go.

MR. HOLLAND: Well, there is a lot of regulation now as you know by the State Department of Education of local school districts. I am glad this came up because I supported educators. No one more strongly supported educators than I did over the years. I felt they had been held back and they weren't being compensated in accordance with their contribution to society, even though we understand traditionally they were to be self-sacrificing in that regard. So I supported the act of '65 which made it impossible for a governing body to upset salary policy set by a school board. I want that law repealed today because the pendulum has swung in the other direction. They are telling us to raise money which we simply can't raise. Do you know that right now if the Commissioner and the State Board and the courts continue to rule the way they are, we owe the School Board another \$700,000. So in that sense we are on the verge of a Newark crisis.

MR. WILENTZ: My point was this, Mayor,---

MR. HOLLAND: Yes, there has to be control. I think I indicated that earlier.

MR. WILENTZ: [Continuing] --- that is one billion dollars you are going to spend. Presumably you will still have regulations about education. But what other non-educational needs will you have served because the municipalities may with their then refreshed revenue power not go into the kinds of housing that you are concerned about? They may use their new found ability to raise funds for goals that you may feel are not proper.

MR. HOLLAND: If we can cut that tax rate, we have homeowners in this city who will renovate their homes as soon as they get a reduction. It will be sort of a built-in, private renewal impact program.

Incidentally I would like to see a State law - and I

am going to propose this - which would declare a moratorium for five years on increased assessments which ordinarily result from improving one's property. In fact in some states they are penalizing people now for letting their property deteriorate.

MR. WILENTZ: You have a lot of great ideas, Mayor, and I think it is a tribute not only to your imagination but to the number of problems that the State has amassed in order to have so many very provocative ideas.

Are there any further questions? If not, I want to thank you, Mayor. You have been most helpful. We took a long time with you because you had quite a bit to offer. Thank you very much.

MR. HOLLAND: Thank you.

MR. WILENTZ: Is Mr. Male here? [No response.]

Mr. Meholick? [No response.]

Dr. Barone isn't here.

Mayor Luther? [No response.]

Mrs. Little? Mrs. Little, before you start, I assume other members of the Task Force are better aware of your organization than I am, but if you would just tell me briefly what it is and what your position in it is.

M R S. B E T T Y A. L I T T L E: I am the Co-ordinator, which is sort of like the unpaid employee. I am doing conservation work on a professional basis too. I do spend pretty nearly full time on conservation one way or another. I think when you get my statement, I have on the back attached my qualifications so you will know what my background is. I am an economist. I was teaching at Fairleigh Dickinson University. About a year and a half ago I decided there was an environmental crisis and the place to solve it was where it was worse, which was right here.

MR. WILENTZ: How many members are there in the Citizens for Conservation?

MRS. LITTLE: I would say there are over 300. We are a very strange sort of organization. We started out being

Bernards Township only. To Bernards Township have come an awful lot of people who worked hard for their money, who have fled from the environmental crisis from every place from Staten Island to Newark, Jersey City and Trenton, and we all of a sudden found out that we were running into each other and said, this is the place we stop and fight.

MR. WILENTZ: Your position with the Citizens' group is what?

MRS. LITTLE: I am co-ordinator. In other words, I do their hearing work.

We also have as members now individuals who represent similar organizations throughout the Passaic Basin, about 25 of them, so that our influence is beyond the immediate membership.

MR. WILENTZ: Thank you. You can go on with whatever you have prepared.

MRS. LITTLE: One of the reasons I am here today is because we feel that what the Tax Commission does will determine in large part the fate of municipal government.

This is my third appearance before the Tax Committee. I am well known to your regular staff and I welcome the opportunity to speak today for Citizens for Conservation - Bernards Township. Answering your questions provides us with the opportunity to make clear the concepts of the new conservation which is concerned with the total environment: everything from where and how a man lives and works to what he thinks and feels.

We think that the environmental crisis in New Jersey, as elsewhere, can only be solved by strong citizen involvement with a great deal of emphasis on local governmental action. Because of this we support the establishment of Conservation Commissions throughout the State. The concept of these commissions should be expanded to include total environmental concerns so that the problems can be solved as close to the source as possible and at least expense. As soon as you begin to put these things all into one hamper, they get much

more expensive. If we can tie them to the people who are causing them, it can reduce municipal, county and state government costs. These commissions should be provided as soon as possible with funds for the purchase of open space and recreational lands on a matching basis. We have been here several times during the last year to ask for this kind of funding. There is a need for a new Green Acres bill, and afterwards for inclusion in the State level in the annual budget, funds for the acquisition of new lands or easements. We are getting 12,000 new residents in this State every year. Some provision has to be made for them or the quality of living in the State of New Jersey will suffer a further sharp decline.

While we believe firmly in the need for home rule and the desirability of developing particularly in our cities a sense of "community," there are certain areas of environmental concern which can only be handled on a State level. For example, A-1321, now under consideration, provides for much needed flood plain zoning but places the responsibility for standards and policing in the hands of municipalities. We believe it is the necessary and rightful concern of the State to enforce uniform standards throughout the State. In fact, I don't think flood plain zoning will be meaningful unless you do that because it will be piecemeal. Flood plain zoning will be an effective means of controlling heavy future expenditures on every government level. If building is allowed to continue in the flood plain, we have no alternative but to build huge dams and dikes costing billions of dollars and resulting in a deteriorated environment for millions of citizens of this State. The Corps of Army Engineers is working on such a plan for the Passaic Basin at the present time and they have admitted that unless flood plain zoning comes in, it will have to be built bigger and more of it.

On this vital issue we need State leadership. On the other hand, certain other environmental concerns are rightfully the responsibility of municipalities. Each municipality should adopt a recycling ordinance. The handling of such recycling is

proving difficult for volunteers and would prove expensive for higher levels of government. It would inevitably result in pick-up centers closer to the sources and would enlist the services of volunteers, such as the Girl Scouts, on a regular basis. We can no longer handle our garbage by moving it west because this is expensive and we are losing valuable and irreplaceable resources.

A great number of communities in the Passaic River Basin are trying to do this on a voluntary basis and I think it could result in a substantial reduction in municipal costs. Your garbage disposal is one of your larger expenditures in many of these communities.

Our exploration into the many programs of government financial aid discloses a failure to co-ordinate activities. We need a systems approach to the restoration of our cities and the development of the State. What is so commonplace in industry appears to be a startlingly new concept to government. I was a security analyst and one has to be planning what a whole industry is going to be doing. One has to be looking at the whole picture - your source of supply and your source of outlet. In many branches of government we find transportation, education, health, all operating separately as though the other one didn't exist. No one seems to be pulling all this together.

The failure of existing programs in spite of their enormous expense can be laid squarely on the failure to take an over-all view to the needs of man.

We have spent several months reviewing the expenditures, forecasts, and results of education. Educational expenses are large and apparently limitless. I have even been to meetings on how to forecast future expenditures and it looks to me, unless we change the way we are doing it, all the money in the State will be absorbed by education. Since it is the largest single item of municipal expense, taking on the average over 56 per cent of local budgets and for many communities as high as 80

per cent -- and, incidentally some of those with the 80 per cent couldn't adjust it downward if they wanted to, even if they found a cheaper way to do it - the State has set standards so they can't lower it -- we call for you to hold a special hearing on educational expenditures and results in this State. We need some statewide standards and it doesn't have to be uniform. What we are finding is - and I am taking Somerset County because I spent a lot of time talking to the County Superintendent of Schools - he has been very sympathetic on this - out of our vocational school we are placing almost 100 per cent people in industry. We are actually training in that county people for jobs. Now the same thing is not happening in the cities. In fact, one of the things that industry is saying about wanting to move out of the cities is the fact that we are not training the people to fill the jobs. They can't read and they can't write, so they don't want them.

We need some statewide standards. Education should be aimed at producing a person who will contribute to the quality of life index. Because of the environmental crisis, we must abandon the concept of producing built-in obsolescence. We must return to the craftsman concept of quality. There should be a re-evaluation of the needs for servicing existing products and building new products for durability and environmental quality. Education should become functional and, in so doing, less expensive. I would like to quote Mrs. Margetts' statement to the Committee on Labor and Public Welfare, United States Senate, with reference to environmental education:

"Most people today do not realize that the human relationship to the environment presents one of the century's greatest changes and one of education's most serious challenges. We need to educate an entire generation of citizens, planners, developers, engineers, economists, and scientists to understand that people are part of the environment and what effects the environment ultimately will affect man."

This statement only emphasizes the need to reappraise our entire educational system.

Local government can be made less expensive by a change in attitudes, by the development of the concept of "community" and the use of citizen volunteer services. It can be made less expensive by eliminating inflexibility, by a change in civil service which keeps in government those without the necessary skills at public expense. It can be made less expensive by eliminating short-term expenditures, such as the dredging and desnagging of our rivers, and finding long-term less expensive methods. S-298, for example, proposes \$4.5 million be made available for dredging. Such a solution shifts flooding downstream, increases pollution, destroys wildlife habitat, kills vegetation along our rivers and results in a need for more dredging and desnagging in only a couple of years. As long as this expensive practice is continued, real solutions will not be sought.

In all of our planning, we must begin to relate the effect of our actions in costs to every level of government and in terms of environmental quality. In a quick review of the Hackensack Meadows Land Development Plan, we see just such a failure. The plan does not include water supply, and yet 200,000 persons will live there and more thousands work there, with a minimum daily requirement of 200 gallons per person for individual use. Industry is planned for this area which will require thousands if not millions of additional gallons of water. Who will pay for the water supply? This should be of concern to every municipality in the State. Our failure to consider the Meadows as an integral part of the State may result in higher costs for every level of government. If such a "modern-day Venice" is competitive to areas like Jersey City and Newark, if it prevents the revitalization of our cities, it will be an additional burden not only to those municipalities but to the State as well. Should we not ask ourselves what we are doing wrong that such a city is proposed for an area of unnatural development when vast sections of

our cities so badly need just this type of development. The fault lies in our tax structure; it lies in our education system; it lies in our concept of citizen participation. Certainly a critical appraisal should be made of any large development in this State with regard to future public expense on a broader basis. Without such an environmental economic approach, we will have no means of meeting the financial crisis in this State. What we need now is a state-wide commitment to the environment.

This type of planning will complete the circle. It involves all areas of development including the burden or benefit placed upon the rest of our State or neighboring states. We can no longer consider one area isolated from another, whether it be education, planning, or taxes. Therefore, after having duly studied the impact of environment upon our municipalities and State, we suggest that this Commission submit a special report on this subject because of the important role played by all levels of government in this regard. This is the first opportunity given the public to include environmental problems and solutions into the budget projections of municipalities and the State.

MR. WILENTZ: Mrs. Little, thank you very much. Some members of the Task Force may have some questions.

MRS. SHEEHAN: On your point about educational expenses and the results of the impact on the local budget, you suggest having a special hearing on the expenditures and the results. What would really be the purpose of this hearing?

MRS. LITTLE: I think to explore the possibility -- You see, the way we are going now - one of the things that interested me as I went to our Department of Education and several county Departments of Education was when I asked them to forecast not for 10 years but for 5 years, they told me they couldn't. Then I went and checked how much expenditures had increased. For my county alone, it has gone up 18 per cent in the last year. When I went to them, I said,

"What is it going to be in 5 years?" They said, "It's impossible - we can't tell you. The sky is the limit." Then I went and talked to the men making the projections, the statisticians, the people using the calculators. They said, "Well, we can't do it. We can't forecast it. Education may double." So I said, "What can we do to cut the cost of education and at the same time improve the results?" I think educators themselves ought to be involved in such a discussion. I asked them if we could use their buildings better. They said, "Yes. We might get another semester out of it. We might get a little bit there."

Most of our education costs in this State are involved in two kinds of things. Your salaries run sometimes 60 to 70 per cent. Sometimes your transportation cost is a major factor - is like 25 per cent. These things are inflexible. We don't know how we can change them.

So I think if you would hold such a hearing and see if we can't work out some new ways to handle the education problem in the State, it would be helpful. I even have in mind using some of our high school kids to teach the younger grades. That sounds fantastic. But with the population increase like we are getting, I don't see how we are going to be able to support the cost of education as it is presently constructed. I also look at these kids and find that some of them are bored by what they are getting in their school systems. So I think maybe an apprentice type situation in your high schools or in your junior colleges may be your only answer. I am very much opposed to increasing the size of classrooms. I have been working in environmental education and one of the greatest emphasis we have is on individual contact. I don't like to deal with more than 15 children at a crack because they lose their individuality. They lose their interest. They don't learn as well when you throw them into 30's and 40's. So the answer is not in increasing classes. And perhaps the answer is in some sort of way of using the

children already in the school system to help us educate those in the lower grades. That's revolutionary. They will throw me out for that one.

MR. WILENTZ: Any further questions? Mr. Weathersby?

MR. WEATHERSBY: I was just wondering on the Hackensack Meadows Development where would you put the responsibility for that?

MRS. LITTLE: Well, this is a private development and I think when you take a look at this thing, it is for the wealthy. There is no provision in here for even the middle-class. I think you have to be very critical of this. Why should the State of New Jersey be responsible -- and reading this report I would say they are going to be responsible not only for the water supply, which is totally missing -- I have a good idea where the water supply may come from and I know who may have to pay for it because I have been studying water problems in northern New Jersey. But suppose you have to build a reservoir for those people. That is going to hurt somebody. If it isn't in the meadows, it is going to hurt somebody's standard of living. It is going to increase municipal costs across the board. And if the State pays for the building of the reservoir, it is going to be a pretty sizeable hunk of money. It seems to me that anybody now coming into the State of New Jersey has to bring their own stuff with them. A city that size has got to bring its own resources, especially the water resources. That's only the beginning, incidentally. They are expecting some help on the building of the city.

MR. WILENTZ: Mr. Frank?

MR. FRANK: I take it that while you state in this report here that you believe firmly in the need for home rule, but you see the answer, if there is an answer, primarily with the State. You are talking about a State Conservation Committee, a statewide environmental program, state educational standards. Where is the home rule?

MRS. LITTLE: My thought here is, what we are missing even in our cities is this sense of community, pulling people

together. What happens when you lose a sense of community is that people pass it on to the State. They pass everything on. You don't get any volunteer services anymore. As a result of that it increases the cost of government, if in nothing else, in indifference.

MR. FRANK: But doesn't your program increase that by passing more and more things to the State?

MRS. LITTLE: No. I think the position of the State should be a policing function, an equality-setting function, and some of these quality standards cannot be set by municipalities because of the difficulty of their meeting local pressures. If you try to make a statewide standard for flood plain zoning, you find one municipality giving something a little extra. You can build closer to the river in community A than you can in B. So come and build here - industry come and build here. If the flood plain is not protected, the total State pays. If you build in the flood plain, the result has to be a dam or a dike. So I think where those kinds of things exist - and education is another one - where those kinds of things exist we want to set quality standards and we need to do over-all policing. The leadership then comes from the State. But on certain things where we can push back or roll back costs or get citizen involvement, then you should try to put it up to the municipalities to do it - the handling of your local garbage, when you are talking about recycling, when you are talking about crushing cans. Let's not throw all the cans into a big barrel and send it down to Trenton. Let's crush them and take care of them at home and see how many people who live in this area will contribute their time and energy to it.

The only reason I bring up recycling is this thing bugs me. I am interested in the big things like taxation. But the people who live in this State are very concerned about the environment and they are demonstrating this by month after month trying to do their own garbage collection. I am

talking about Florham Park and Bedminster and Randolph Township and a thousand other places. All these little people are trying to do this as their commitment. Now if you could get that kind of commitment in local government, you could reduce the cost of local government because you would have volunteer services. This is what I am after.

MR. WILENTZ: Any further questions?

I take it that you feel there would be economies in having each municipality do its own recycling.

MRS. LITTLE: I think so up to an area. It depends on population.

MR. WILENTZ: Do you think that the State needs a new revenue source, Mrs. Little?

MRS. LITTLE: I am afraid so. I am not sure income tax is the answer. We have been kind of kicking the thing around. I think what we need is kind of a moral reawakening. Why must even the wealthiest communities come for money to the State and Federal government? Let's try to get users to pay.

I have one really wild idea and that is when we are acquiring open space land, why can't we use some of this on a revenue-raising basis and until we have paid for it, certain uses of this property would be on a fee basis? You do this a little bit anyway with hunters. You charge a hunter to go hunt on a piece of property. You charge this kind of thing when you run a turnpike. You put the turnpike up and until the turnpike is paid for, in most areas you make a charge for it. I think we have got to begin to seek that kind of revenue.

The trouble with the income tax, it is open-ended. We start having an income tax and where do we stop?

MR. WILENTZ: You wouldn't charge revenue for education, however, I assume.

MRS. LITTLE: Maybe for certain kinds of education. Maybe that is one way to use your building. Hold dancing classes in there afterwards.

I think your basic education very definitely ought to be available to the public. This is part of our democracy. You can't teach people to be citizens and be responsible if you don't give them a place to learn.

MR. WILENTZ: Professor Reock?

MR. REOCK: Just to pursue the subject of statewide educational standards a little further - were you suggesting both the establishment of performance standards which might provide for a minimum level of performance in terms of education and also the establishment of expenditure standards which might provide a ceiling? You seemed quite concerned with the expenditures.

MRS. LITTLE: I will start with your first question. I think we should have standards and I think one of the things that is missing--no matter what community you are dealing with, we have put a tremendous emphasis on sending children to college and I think some of them are not mature and ready for that. I have met in conversation many people without a college education who are very, very well self-educated. They became motivated later in life and they have learned what they need to know.

I think the kind of thing we need is to find out what jobs our society needs done and to train people for what they are capable of doing and to try to get them out and function in the society. Now I have taught at Fairleigh Dickinson University for seven years and I struggled with this problem. I had text books which didn't relate to the real world. So I said, "Fellows, read the text book and I am going to bring in the stuff from the brokerage house and I will show you how it is done when you go out in the real world." I think we should try to relate what we teach in the schools to what is needed in life. That's the first thing.

What I mean by standards is that you might have a series of standards. Someone might be going for a vocational background. Somebody might be going for a college background. There may be different kinds of things - A, B, and C that you

set up.

The second thing is the inflexibility in the way our school system is handled. We have certain regulations. For example, in my town we had a bulge a couple of years in the fourth grade. I went to the Board of Education and said, "How about using some of this pre-fab housing? This is one class that is a huge bulge. Are we going to have to build a whole new building on account of this?" The answer turns out to be, yes. We are inflexible in the way we handle our expenditures. Our whole society is going to have to become more flexible. We can't build all the roads we want. We can't have all the things in the same way we have always had them because there are too many of us.

MR. REOCK: They are very valid concerns, but I am not quite sure how you would translate them into standards.

MRS. LITTLE: This is why I think it would be nice if we could get the educators themselves to work on this. They probably very much resent me. I am a new-comer in the field of environmental education. I am getting some recognition for the work I am doing. I will probably have my head chopped off for what I have said about education.

MR. WILENTZ: I doubt that very much, Mrs. Little. The educators are getting quite used to hearing from the citizens and maybe some day they will be resigned to it, but I am sure they don't resent it.

I want to thank you very much for coming here and for your testimony.

I assume that Mr. Male, Mr. Meholick, Mayor Luther, are not in the room.

Is Miss Unsel here?

MISS UNSEL: Yes.

MR. WILENTZ: Miss Unsel, before you start your testimony I wonder if you could tell me very briefly about how many people are in the Federation of New Jersey Taxpayers and what your position is with them.

G E R T R U D E E. U N S E L: I mention it in my testimony here. I am on the Board of Directors of the Federation. I couldn't give you the number inasmuch as it is made up of local groups throughout the State. It would all depend upon what the total membership of each group was. I don't know whether that has been tabulated or not.

MR. WILENTZ: Thank you. You can proceed with your presentation.

MISS UNSEL: My name is Miss Gertrude E. Unsel. I am a resident of East Paterson, a member of the East Paterson Homeowners Association, and a member of the Board of Directors of the Federation of New Jersey Taxpayers, Inc.

Before any thought be given to costs and allocations, the topmost question should be: What services are legitimate under our American system of government? Police and fire protection, water supply, sanitation facilities, roads, and basic education, are these services which rightfully belong to local government where the people can control costs and allocations according to local needs, which differ widely.

Transportation, housing, banking, insurance, mortgages, medication, and the like, government-owned or subsidized, belong to the socialistic totalitarian systems of Europe, Asia and other areas of the Old World. In fact, under the New Jersey Constitution subsidies to any private company are strictly forbidden, and there is no provision for government take-over of any of these operations. Paradoxically, another section of the same Article of the Constitution permits tax abatements to developers under urban renewal and model cities programs, much to the detriment of financially-stricken cities like Newark and Paterson which are now crying to Trenton for help.

What has happened to America? What has happened to New Jersey? Why cannot private industry provide transportation, housing and like services at a profit as it has done in the past? Because of government competition? Repressive regulations? Profit restrictions? You businessmen know the answer. The population cannot be blamed. It has increased only 18.2 per cent

in the past ten years while State expenditure has reached outer space with an increase of 270 per cent.

What are the trends in current expense budgets and capital needs? Up, up, and up, in total disregard of current economic trends! What services of municipal government should be made a county, State, Federal or regional responsibility? None! The cost would still come from the pockets of local taxpayers with a resulting loss of control by the citizens, plus an added cost for the trip up to the higher level of government and back. For this reason, any proposals for so-called Federal sharing should be dropped.

The Federation of New Jersey Taxpayers is opposed to the granting of power to counties, municipalities or school districts to levy and collect local non-property taxes. We oppose any increase in taxes in any form. We also oppose the unconstitutional so-called cooperative use of public and private capital for government operations. Mixing of public funds with private capital is immoral as well as illegal.

We have stated it before and we will repeat it again and again: Taxes must be reduced - government spending must be cut! The people must be allowed to keep more of their wages so that they can afford the services they need. They must not be compelled to become dependent in a country which guarantees independence! I thank you.

MR. WILENTZ: Thank you, Miss Unsel. Do any members of the Task Force have any questions? [No response.]

Miss Unsel, even though I respectfully disagree with practically every point that you make, I want to thank you for coming here and want you to know that the Task Force appreciates your presence here, as I gather you have been at other meetings.

MISS UNSEL: I would like to ask you something. Would you be opposed to the principles of the Declaration of Independence and our United States Constitution as written?

MR. WILENTZ: Perhaps we can continue that discussion

later, but right now we are going to proceed ---

MISS UNSEL: Well, you disagreed with my points and my points were based on the Constitution of New Jersey and of the United States. So I think this is where all the trouble comes in. We are departing into another field which is not authorized by our written charters.

MR. WILENTZ: You are entitled to your point of view and I am to mine.

MISS UNSEL: I think the Committee should consider these points.

MR. WILENTZ: I gather Mr. Meholick is in the audience now and we would appreciate it if he would give us his testimony.

G E O R G E T. M E H O L I C K: Mr. Chairman and members of the Task Force Committee, I am here today representing the Honorable Dr. Ralph P. Barone, Mayor of the Township of Woodbridge.

MR. WILENTZ: May I just interrupt one second, Mr. Meholick. Are you also appearing in some capacity on behalf of the New Jersey Municipal Management Association?

MR. MEHOLICK: No, sir, I am not.

MR. WILENTZ: All right. Thank you.

MR. MEHOLICK: The presentation that I am giving is a presentation of the Township of Woodbridge through its Mayor.

Mayor Barone asked me to express his regrets that he could not be here today. But I did review and go over with him very carefully the various points that he has made in his presentation.

I know you are busy and I don't want to take too much time, so rather than read his statement, I will review each point.

[Complete statement of Mayor Barone can be found beginning on page 107 of this transcript.]

It has been brought out that there are approximately five areas that we are concerned with. The first point is

the matter of education. Our educational costs in Woodbridge constitute almost 70 cents out of every property dollar of tax that is raised. And although we are the fourth largest school district in the State, the percentage of our total school revenues which comes from State aid is only 15 per cent, while the State average is close to 30 per cent. There are other similar communities with these kinds of problems. We are not unique.

The Mayor feels that we ought to seriously consider the Commission Report on State Aid to Local Government issued by the Advisory Commission on Intergovernmental Relations that was published in April 1969, and may I quote from one of its recommendations on page 2 near the top: ". . . assumption by the State of substantially all fiscal responsibility for financing local schools. . . and assurance of retention of appropriate local policy-making authority." However, because of the very dire situation facing our homeowner-taxpayers today, it is felt that some substantial increase as an interim kind of thing ought to be considered immediately, even before a restructuring, so to speak, of the State's tax system is completed.

Another problem that is facing many, many local communities is the matter raised in point 2 of flood control. Many cities kind of leave this to the tail end of their expenditures. Yet it is very important. We are at the moment faced with financing \$12 to \$15 million worth to alleviate flooding in our community. Many, many cities have the same kinds of problems. We feel that something ought to be done in terms of flood control and damage control.

The third point has to do with the matter of refuse and sewage disposal. This is another service performed by our local municipality, but again it is felt that this ought to be possibly a regional authority of some kind. Within the next four to five years, we will no longer be able to sit and talk about it; we will be inundated - we will be in real trouble with the matter of solid wastes. We feel

this kind of a resource should not be necessarily limited to the property tax, but ought to consider other kinds of alternatives in order to provide this service. It does involve ecology. It does involve the wasting away of resources, clean water, etc.

However, it is felt without substantial aid from some kind of a broader-based tax capacity, these facilities, which are long overdue, will simply not be built. We are at the moment in the midst of trying to combine solid and liquid waste together into one operation. As a matter of fact we had a public hearing on an ordinance just yesterday putting the question to a public vote: Shall we do this? Shall we treat solid and liquid wastes together in a given plant?

Point 4 that we want to raise - Although there are many other services that we feel ought to have some aid, we feel, at least as far as Woodbridge is concerned, again we ought to consider education, flood control, solid waste control, as well as air pollution and drug abuse.

We feel that home rule would remain substantially unchanged. We are just asking for a redistribution of Federal and State monies. But what we are saying is that we do not have the capacity nor the means to raise the kind of revenues that are going to be needed to meet these demands that presently are being asked of the local community. We cannot afford the necessary research and development techniques to do this. We feel that many of these are consumer oriented, that the problems, therefore, should be solved by private industry, by the private enterprise system, joining us in a team-work effort. But this means money.

In conclusion, what we are saying is that we need immediately, short-range, some kind of immediate State aid. Now there has been quite a bit of talk going on this year in many of the conventions - the City Management Convention, the Convention of the Mayors, and the other large municipal and other professional organizations - that there ought to be a Federal revenue sharing plan. We endorse the principle of

Federal revenue sharing. As to the mechanics of this, this ought to be worked out. But I think our main purpose, our main point, in this presentation is that we ought to look at alternative ways of providing us with the kind of revenues that we need.

Point 2, we ought to find and have the necessary research and development techniques to do this.

We think Woodbridge is outstanding in innovation and in means of trying to meet these kinds of problems. I cited the matter of the combination of the solid and liquid waste treatment plant that we presently have on the drawing boards. We are presently asking for Federal and State aid for it.

I would be glad to answer any questions that you may have related to this presentation or any other matters relating to it.

MR. WILENTZ: Thank you, Mr. Meholick. We appreciate Mayor Barone's concern about these matters to the extent of having someone here to give us the benefit of his views. I believe you will have some questions from members of the Task Force.

MR. WEATHERSBY: I just wonder in terms of the question of more revenue if you have suggestions or if the Mayor proposes new sources of revenue. Is he talking about new State taxes or does he have in mind a taxation program?

MR. MEHOLICK: A good example is the Bateman-Tanzman Bill. That has been pending for some time. That would have provided some stopgap help until a master development plan is completed. But on the local level, I think it is well documented that State aid, at least to the educational system, could stand a shot right now.

MR. FRANK: I am just curious - what is the tax rate of Woodbridge?

MR. MEHOLICK: We are About \$6.50 per hundred dollars.

MR. FRANK: Is that on a 100 per cent valuation?

MR. MEHOLICK: That is on a 50 per cent valuation. We recently had the town revaluated so it is fairly recent.

MR. FRANK: You also are a member of the New Jersey Municipal Management Association?

MR. MEHOLICK: Yes, I am a member of the New Jersey Municipal Management Association.

MR. FRANK: Are you convinced that the shifting of the responsibility of certain of these services, such as sewage and waste disposal, will end up as a cost reduction or is it your view that in any event it is a more equitable way of distributing cost?

MR. MEHOLICK: I think I can answer in the positive in both ways. It will be equitable and there will be a reduction in cost. I served as a city administrator in West Orange for about six years. They are a member of the Joint Sewage Authority. I was amazed at the cost to treat that city of about 50,000 - the annual cost of treating sewage - which completed the whole system, the interceptor sewers - they are emptying it, by the way, into the Arc Kill. It was roughly \$40,000 a year. So you see regional planning makes sense. It is effective, efficient and everyone shares, depending upon the amount of sewage that is put into the system. You are reserved a certain per cent, say, 10 per cent of the total flow and you are charged for that flow. And if you don't need it all, you can reserve what you need in the initial planning.

So I believe that regional solution unquestionably -- we have a regional air pollution committee now that has been recently organized primarily through the efforts of Woodbridge, which is taking care, we think, very well, of at least a start towards our problems of air pollution. We want to move into the area of drug abuse and other kinds of things. We are thinking of our solid and liquid waste solution. We are involved in a consortium with three or four cities. We think this is the way to do it. The boundary lines or corporate lines no longer are valid.

MR. FRANK: Turning for a moment to assumption by the State of substantially all fiscal responsibility for financing local schools, do you think that there really can be any

effective retention of local policy decision-making? For example, suppose the State allocates a certain amount per student, if that were to evolve, yet Woodbridge wanted to spend more. Do you see that being a conflict?

MR. MEHOLICK: No, I don't. I think the Constitution of the State, as we have indicated here in the statement, says there shall be a certain level of instructional conduct. We are saying that that is not being met and in many instances because of lack of funds. I am not saying that State aid is going to substitute for home role. At the moment, for example, the State has certification of teachers. The certification program in no way is affecting home rule. You still decide whether you want these teachers or not. Certification, I think, is a good thing.

So I think the certification, State aid, all of these kinds of things, merely insure some basic uniformity throughout the State. Whether you live in an urban area, a ghetto area, a rural area, or what have you, quality of education is a basic constitutional mandate of this State. The revenues needed to do this are mighty difficult to come by because of the many different kinds of circumstances that our communities are found facing. Many of the corporate areas were formed many years ago. As I understand it, Woodbridge proper - the corporate limits that are there now are almost 300 years old.

MR. FRANK: You don't see any danger to reducing the level of the educational standards in a particular community?

MR. MEHOLICK: I do not. What you are saying is that by raising others, it is sort of like a levelling process? No, I don't see that. I see an upgrading. I don't think anyone will tolerate the watering down of education. I see an upgrading. I mentioned the certification program. The stating that every teacher must be certified by the State certainly has not hurt anybody. That used to be a decision made locally.

MR. WILENTZ: Mr. Meholic, at these Task Force hearings, usually the mayors that appear are the mayors of the central

cities, the cities that are identified most prominently, certainly in the press and probably in the public's mind, as those in the greatest need. I wonder if you might comment on what seems to be a built-in conflict between the suburban areas and the urban areas. I am familiar with Woodbridge. I am familiar with some of its problems and the problems that the homeowners in Woodbridge feel affect them very badly. Ultimately when there is State aid available, there is always a question of distribution. The Mayor of Trenton was here. He drew certain comparisons between costs in Trenton and in Lawrence Township. He suggested that prior distribution of State aid on a State population basis or perhaps on a per pupil basis was immoral. I think that is the word he used. What is your position or what are your thoughts about this question of distribution of funds - and I refer particularly to the suggestions often made that in distributing State aid the peculiar needs and the peculiar burdens that the central cities have should be taken into consideration and that formulas for distribution of State aid should favor them over the suburban areas?

MR. MEHOLICK: There is no question that the major communities do have a problem in allocating the property tax, which is their main source of paying for the cost of the school districts. Many of the major cities are having problems in increasing their rateables. In fact, they are probably - I am speaking generally now - losing them. I have spoken to Mayor Nardi of Camden. I know some of his problems.

Now I do favor a formula developed by people who are competent in the field. I attended a hearing not too long ago in this very room where this subject was debated at great length. I heard Dr. Marburger and many, many other professionals who are much more qualified than I. But in the main, as I recall their recommendations, they did agree that there has to be some kind of formula that will take into account the economic, social, political, and all of these other ramifications that some of our major cities have. Indeed, many of the

problems still exist in the smaller communities. New Brunswick is an example of a smaller community with big-city problems. So you have to examine very carefully the nature of the community that you are speaking of.

I mentioned earlier the Bateman-Tanzman Bill. I know they went into great length in preparing that bill in setting up certain criteria that would provide eligibility as to certain kinds of funds, the amount, etc. I do agree - and I am sure Mayor Barone agrees with me - that there has to be some kind of an equitable distribution formula that is made up by people who know the field.

MR. WILENTZ: Do you have any point of view on the question of whether or not State aid should contain strings, should contain standards as distinguished from outright grants to municipalities?

MR. MEHOLICK: I feel, yes, there ought to be certain basic standards. And I think this is a mandate of the State to insure that certain standards are met, particularly if they are to become involved. I mentioned one earlier, certification of teachers to meet certain basic requirements so they can be certified to teach in the system. What other standards may be set up, I think would have to be determined again through a series of lengthy discussions and possibly public hearings. But I do agree there are some basic standards, yes.

MR. WILENTZ: Any further questions? If not, we thank you very much for coming here and giving us the benefit of your views.

Mr. Mark Jones, please.

M A R K M. J O N E S: Mr. Chairman and ladies and gentlemen of the Committee: I sought the opportunity to appear here today as a sort of self-appointed agent of the public interest. The background from which I do so is not only that of a citizen and taxpayer of New Jersey, but one who has devoted a couple of lifetimes to the study of how really to improve the scale of living of 200 million people.

This was carried on principally on behalf of the large philanthropists and the large foundations, the large corporations and the Federal government. Detailed description of it, of course, would seem incredible. So I omit it, I hope anyway. I would ask that the prepared statement which I have here and which has been filed with the Secretary be included in the record and that I comment on some of the basic questions which have been presented here by your questions and others.

MR. WILENTZ: Fine. We will see that it is included in the record, Mr. Jones, and you can just proceed in any manner that you see fit.

[Statement submitted by Mr. Jones can be found beginning on page 112 of this transcript.]

MR. JONES: Thank you.

I think it is important to consider the background from which you have to approach this question. The fact is that we live in an era of approximately 36 years or a generation, in which we have been trying as a nation to give practical expression to the dream of the idealists who began with the thought that all men are born equally intelligent and good and that it is only as their institutions corrupt them that they become something else. Therefore, if you will give them all an equal education, they will all be equally intelligent and good. And that is the basic philosophic principle which for a hundred years has been growing up and which now dominates our thinking, even though we don't know it.

From that point I go to the fact that we are in an era of false expectations. The effect of this exploitation of enlightenment which has roughly dated from about 1933 has resulted in a terrific inflation of education and of its possibilities and, of course, has left a terrific gap of economic illiteracy. That on a large scale is a very difficult thing to deal with.

I think it is useful to face the fact that the greatest development since Christianity has been the explosion of science and technology in the 20th century. One of the features of that explosion has been that the masses have been given a vision of the possibility of their being able to participate in the fruits of science and technology in their lifetime. So the expectations of the masses have been fanned by people who knew what they were doing and others who didn't know what they were doing and now we are in a real crisis of expectations. The unfortunate part of it is that even the most enlightened leadership gives no promise of being able to cope with it.

The nature of the problem basically that we confront here is not taxation. Taxation is not the problem. Taxation is an effect. It is not the cause. The cause is excessive spending. You have to face the fact that in the name of taxation we have diverted the attention of the people and the reasoning of the leadership so that we have got ourselves into the greatest inflation of the history of the country without realizing what we were doing. And I think that the professors and the politicians, of course, are as responsible for that, in fact, more so in certain ways, than anybody else. But we are there and the problem of what to do about it is basic in all these questions that you are considering.

The primary idea that is working against us in this inflation, which is, of course, an inflation of the public sector, mainly is the non-productive overhead expense of our economy, which is government. You may not have thought of it, but government is a non-productive overhead expense of the economy from an accounting standpoint and it, therefore, must be held in due proportion, the cost of it, at least, to production and the income of the people. Our failure to realize that during the past generation is probably one of the main factors in our present dilemma.

The non-productive overhead expense, of course, is a formidable thing. That consists of the expenditures of

the Federal, State and local governments of this country, which number roughly 76,000. This year the annual rate of expenditure of those units is over \$350 billion and it is estimated so far as you can determine the real product, that is between 50 and 60 per cent of the real product. We are not concerned about this apparently anywhere because no one seems to be willing to face it. But that is the basic thing we are up against and until we realize that there are very definite limits to spending by government, that we are not rich in the real sense of the term, we will continue to have these pains and aches.

One of the factors that has led to the overlooking of this elementary commonsense has been the development of self-interest pressure groups which, of course, have utilized the thought control system as well as the government to scream about needs in every direction and to put forward, I feel, goals that will be achieved for their benefit and others at the expense of the citizens and the taxpayers. The result is that the prevailing opinion with respect to the program and the policies of most governments is that it is based on at least 75 or 80 per cent self-interest pressure proposals and about 25 per cent the public interest. The idea of needs - I hear all these representations about services we must give, the government must do this and must do that - we have all these needs - every time I have looked into it, I have found out that the pressure came mainly from the people who wanted to get the money to spend. There has been no way that has been properly set up yet by which the real opinion of the people can be sought on meeting the needs, except some of this hokus-pokus that is involved in elections, which is a very rough and unsatisfactory method of exercising intelligence.

Now true growth is only from the bottom up; that is in the national economy as well as anything else. The putting forward of these illusions and delusions in the name of need is an effort, of course, to promote growth from the top down.

It can't be done. We haven't reflected that yet in either our thinking or our management of politics and government. You can't run a country if you are going to try and exploit science and technology on the basis of ignoring knowledge because the basis of knowledge is science and technology, and yet that is what we are doing, probably an 18th century approach.

As to the fiscal capabilities of municipalities, I feel that there is no crisis of the cities. There is just a crisis of those who would like to do things that will cost more than they can exact from the people that they are for the time being able to levy upon. You have your basic services, of course, but after that, the crisis is due mainly to the fact that the people that are managing things are not capable of figuring out a way to differentiate the essential from the non-essential and finance it without getting subsidies for their ignorance from somewhere else.

MR. WILENTZ: Mr. Jones, your time is up but I am going to give you one or two minutes more. Then we will have whatever questions there are.

MR. JONES: So I feel there are great possibilities in working out the economic thinking that should be based on a rational municipal system. But I don't see any signs of it anywhere because most of them are now chasing the butterflies of big money somewhere else and it can't be done.

As to the housing problem, I spent a year as staff director of the Joint Committee on Housing in the Senate and House in Washington and I can tell you that the housing problem is not at all what it is represented to be. The housing problem is primarily a problem created by the fact that the subsidy of privilege granted to the labor monopolies has caused them to price housing out of the market. Until they get back to that, they will keep looking for suckers to finance the subsidy they get and, of course, they will lose their opportunity and their market steadily while they are doing it.

As to education, of course, that is the basic cause of the situation. The people that started to put this socialistic approach over on us in the 1930's admitted that they were doing so and they have primarily brought it about by infecting our thinking with the propaganda that all that is the matter with education can be cured by more money. Also I would say to you that having studied and spent a great deal of time and money on the income tax, there are grounds for believing that an income tax is not a sound idea. You cannot maintain a going-concern economy with an income tax. We haven't found it out, so that is part of your problem. Thank you.

MR. WILENTZ: Thank you very much, Mr. Jones. Do any members of the Task Force have any questions they would like to address to Mr. Jones?

MR. FRANK: Miss Unsel who testified a little earlier stated in her written statement that she believes, I guess, that police, fire protection, water supply, sanitation, roads and basic education - and the word "basic" is in front of "education" - were rightfully responsibilities of the local government. And Mr. Meholick who was testifying on behalf of a city of no more than 100,000, which would not appear to have a housing problem or at least not appear to have any large welfare budget to meet, seems to indicate they have a problem meeting their costs solely for those types of services. And, indeed, I am familiar with a couple of other cities that in their effort to meet solely those costs are unable to meet those costs with their present property tax. What is your recommendation? To cut the cost of these services or that they increase the property taxes or what is your advice?

MR. JONES: Well, my advice is to start with the most serious infection you have which is the extremely inflated education. The principle reason that justifies compulsory financing of public school education through taxation is that it is supposed to prepare the individual to be a

responsible, participating citizen in a constitutional republic based on self-government, private enterprise, and individual responsibility. That is the basis of it. We have under this socialistic dream of making everyone equally intelligent and good departed from that. So the result is that we are carrying on in the name of education an awful lot of activity that will not stand analysis.

I spent a great deal of time studying that for a corporation which pays \$55 million a year in taxes for local education and we found out that we have to come back and redesign the program of education so that we can justify that part which is financed on a compulsory basis and also fit it to the economic resources or possibilities of the community. We cannot go on chasing idealistic butterflies with it. If we do, we have this same problem. So the thing to do with education is to reconsider the curriculum and the program of education and center it around the fact that more than half of the population is only educable to the point of some kind of vocational preparation so that they can sustain themselves in society and then adjust the rest of the education so that it will gradually give us a leadership that will not consider it their job to exploit the people.

The cost of education in New Jersey in my opinion might be cut at least 50 per cent. I wouldn't say that arbitrarily. I have given some attention to this in the case of local school boards, particularly in Princeton. While they are still up in the stratosphere in their idealistic dreams, the experience there plus in a great many cities under the large corporations is that we have both feet firmly planted in mid-air as far as the program of education is concerned.

MR. FRANK: One factual question - I didn't understand what you said about a \$55 million corporation.

MR. JONES: I was a full-time consultant to the President of the United States Steel Corporation for six years. One of the questions we had to consider was: How do we justify \$110 million in taxes paid, out of which \$55 million went to State and local people and that was to the schools? We found

out that there were a great many things that were questionable. But for a corporation like that to take the initiative in doing something about it would merely subject them to fire from every direction and probably not contribute anything because it would be ahead of its time. So we had to put it aside. But the problem still exists and every corporation that is paying out local taxes would have an awfully hard time justifying what they are paying out to the stockholders if they had to justify it.

In other words, what do you get? What are the results? What do they cost? What is the reason for putting up the money. If you apply commonsense criteria to it, you soon find that the \$65 billion we are spending this year for education is a frightful waste.

MR. WILENTZ: Any further questions, Mr. Frank?

MR. FRANK: No.

MR. WILENTZ: Professor Reock?

MR. REOCK: Mr. Jones, I believe I understood you to say that the real product of State and local government is only 50 to 60 per cent of ---

MR. JONES: I can't hear you.

MR. REOCK: Sorry. I believe I heard you say that the real product of State and local government is only 50 to 60 per cent of the level of expenditures by State and local government. Is that correct?

MR. JONES: I didn't say that.

MR. REOCK: I'm sorry.

MR. JONES: I said that the non-productive overhead expense of the economy, which consists of the Federal, State and local expenditures, is now running at an annual rate in the neighborhood of \$350 billion and as non-productive overhead expense from an accounting standpoint that represents between 50 and 60 per cent of the real product, although there is a big argument on how you compute the real product. The fantastic dream represented by gross national product that was in the headlines yesterday, you see, is just a

method of kidding the people.

MR. REOCK: I'm sorry. I misunderstood your statement. I have no further questions.

MR. WILENTZ: I would assume, Mr. Jones, that you favor the recent development of expanding our vocational education system in this State.

MR. JONES: I would redesign the whole program of education from the first to the twelfth grade so that it would prepare the individual to be a contributor and enjoy the fruits of the system of science and technology, instead of all of the hocus-pocus that is now going on. Because while they are nice people that are doing it, etc., they really do not have a conception of the need and then on that is superimposed these reforming enthusiasts of Teachers' College and Harvard who have led us way off on this detour. But we have to get back to where the majority of the people coming along are prepared to be responsible participating citizens and then, on top of that, sift out those who are educable to become leaders who will not repeat the mistakes of their predecessors - and that's what we are turning out now.

MR. WILENTZ: If I recall your statement, you traced the present tendency to over-spend and over-tax to about 1933.

MR. JONES: That's when it began because the reaction to the extreme pressure of the depression, naturally from the standpoint of psychiatry, would produce this effort to compensate. Of course, the frustration that you are compensating for was terrific. They found for ten years nothing they tried could work. Only when the war came along did they seem to get anywhere and, of course, that is highly questionable.

MR. WILENTZ: It started about with President Roosevelt, I take it.

MR. JONES: Well, that's the time, but he was only the leader of it. I can tell you this, in '34 or '35, I was at a meeting with the wild men, so-called, of Teachers'

College up there, representing some of the industries, and at a cocktail party at the home of Paul Mort, who was one of this group, he confessed to me that they had embarked on this program of social frontiersmen and they were going to try and go as far as they could with this idea that people are born equally intelligent and good and so on, and they were going to reform them by education. The thing they were going to use to do it with was the propaganda line which they had already started; that is, that there is nothing the matter with public school education that more money won't cure. And that has worked like a charm. They have gone through everything.

MR. WILENTZ: Thank you very much. Oh, I'm sorry - one more question.

MR. FRANK: What is the source of the quotation or citation that people are born equally intelligent. Who said that, when, and where can I find it?

MR. JONES: LeBon said that in his explanation of the origin and threat of socialism, writing 100 years ago.

MR. FRANK: Who?

MR. JONES: Gustave LeBon.

MR. WILENTZ: Thank you very much, Mr. Jones.

Mr. George Smith is next. If you would step down here, we would be very happy to hear your testimony. We are very glad that you could come here and very happy to stay and listen and we are not going to let our lunch interfere with your presentation. So just take your time.

G E O R G E L. S M I T H: Mr. Chairman, Mayor Sheehan and other members of your Task Force: On behalf of the State Board of Education, I appreciate this opportunity to present the unanimous views of our Board. As a matter of fact, as I witness you laboring here, I think all citizens of the State should feel indebted to men like you who are devoting your time to finding new and hopefully better means of financing the needs of the municipalities of the State.

Nowhere are these needs more apparent than in the area

of education.

In his special message to the Legislature on April 9, 1970, Governor Cahill stated that none of the critical problems facing the state "poses a greater challenge than the problem of revitalizing our education system."

"All of our cities," said the Governor, "are faced with incredibly difficult financial problems which only exacerbate the demoralization of teachers, students and parents. It is one of the ironies of our time that as the public demands - and is entitled to - greater performance from our system of education, the public treasury seems less able to provide means for the fulfillment of these demands."

As a direct result of the Governor's message last April, the New Jersey Legislature acted quickly to approve a new state school aid formula which, over a five-year period, will raise the level of state support for local schools from the existing 28 per cent to the current national average of 40 per cent. With full funding to that extent, the new incentive-equalization aid formula will mean an additional \$200 million a year in aid to local school districts. This action of the Legislature was wholly commendable. However, in all fairness I cannot be completely sanguine about the ultimate effect of the new formula upon the declining resources of our school districts. Although the incentive-aid formula will doubtless be of great help to many district, perhaps most of them, there are a number of factors that should discourage any impression that this legislation alone will solve all of our education cost problems.

The costs of education are continuing to rise at a rate much higher than originally contemplated by the State School Aid Study Commission. Inflation is a primary source of this unexpected increase in costs. But other factors, such as the loss of tax ratables in our major cities, higher interest rates on school construction bonds, and demands of the public for greater school services, are contributing to a general financial crisis in our schools.

Coupled with increasing expenditures is the rising resistance of local property taxpayers toward paying a growing share of public school costs. Last year, for instance, voters rejected 164 school operating budgets in New Jersey--an all-time high. The number of budget defeats has been increasing every year, and it would be futile to predict a reversal of this trend until substantial relief can be afforded to the taxpayer in the form of much greater state aid to education.

It may be of value at this point to demonstrate how actual school expenditures have been rising in recent years and to what degree we can anticipate a further increase in the years ahead.

In 1967, total day school expenditures paid for by local taxes were \$774 million. In 1968, they totaled \$882 million, and in 1969, they exceeded \$1 billion.

The total local, state and federal school expenditure in New Jersey in 1969, including capital outlay, was \$1.375 billion. In recent years, school costs have been rising at a rate of nearly 10 per cent a year. Should this trend continue, our most optimistic forecast for the next 10 years is that in 1979, the total annual expenditure for education in New Jersey, including local, state and federal shares, will be approximately \$3.5 billion. Under the new state aid formula, approximately \$1.4 billion of this amount would be accounted for by state aid. But an additional \$1.1 billion would have to be raised through local tax sources on top of the present \$1 billion. In my opinion, this gigantic burden on the local taxpayer cannot reasonably be imposed.

In fact, it is clear from the sobering figures I have just cited that local property tax relief cannot be expected from a state aid funding level of 40 per cent. A state level of over 60 per cent would be required for local districts to remain at the present school tax level over the next 10 years, and, of course, much higher levels would be required if local school taxes were to be reduced by any appreciable measure.

Accordingly, it is the opinion of the State Board of Education that New Jersey should begin now to explore the possibility of full, or nearly full, state funding of local public schools. The Board does not believe that funding at the level of 90 per cent or higher will in any way impede local control of education in areas that have been traditionally accorded to the school districts. Nonetheless, we believe that the local burden should be sufficient to assure budget control and local incentive in every district.

In all projections such as the one I have just made there is always a certain danger of overstatement. There is no certainty that inflationary pressures will continue, or that population trends are guaranteed. It is possible, for instance, that a reduced birthrate could lessen educational needs somewhat over the next 10 years, although this is improbable. According to the Bureau of the Census, the elementary school population in 1979 will have declined by 5 per cent. However, secondary school enrollments will be 11 per cent higher than 1969. Non-public school enrollments are also expected to decline by 7 per cent over the next 10 years, which will further add to the public school burden.

Another factor which could have a favorable effect on school costs is the movement toward a 12-month school year. For the most part, this development would tend to cut capital outlay, but it is not likely to have a measurable effect on operating expenses--in fact, it could result in greater expenses because of anticipated demands for higher salaries from teachers.

Any savings from a 12-month school year are also likely to be offset by the growing application of technology in education. More and more schools are being required--by the demands of commerce and industry and by the public-at-large--to train young people in such sophisticated skills as computer programming, bio-medical technology, oceanography and mechanics--all of which require highly skilled teachers and advanced and costly classroom equipment.

There is only one other hope for assistance, and that is from the Federal government. Federal aid to education has been rising steadily since 1966. However, last year the total Federal contribution to New Jersey elementary and secondary schools was only about \$40 million, all of which was in categorical aid which cannot be applied to local tax reduction.

Even if Federal aid were given to the states in the form of block grants or revenue sharing, as has been suggested by the Nixon administration, the prospect of additional Federal spending over the next 10 years in an amount which would have an appreciable effect on the state or local tax burden is still far from certain.

Although I have included capital outlay and other expenditures in the projection which I have cited, I would like to outline a few of the individual trends which the State Board of Education and the Commissioner of Education predict could have a strong influence on the level of state funding in the next 10 years.

These are:

1. Capital outlay--During the past school year, New Jersey school districts spent \$141 million for new classrooms. It is estimated that the total cost of construction per pupil, including furnishings, equipment, fees and land, is \$3,000. Even if this figure were to hold for the next 10 years, which is doubtful in view of inflationary pressure, the need for new classrooms alone in the next 10 years--based on an increase of 25,000 students per year--would be \$750 million. Experience indicates that replacement of substandard or outdated classrooms has been on a par with construction for increased enrollments. Thus, the total minimum capital outlay in the next decade can be estimated at approximately \$1.5 billion, excluding increases due to inflation. The recent commendable action of the Legislature in approving emergency building aid totaling \$180 million should have a measurable effect in reducing this burden.

Parenthetically I would suggest that consideration should be given to enlarging the scope of that special aid so that it could be available to other than the districts that are in desperate financial aid, which is the present limitation.

2. Vocational education--Governor Cahill and the State Board of Education have placed top priority upon a major expansion of the state's vocational education program in order that vocational-technical training will be available for up to 50 per cent of the state's secondary school students by 1980. The 50 per cent goal would result in an additional annual operating cost of \$116 million and a capital outlay of \$150 million by 1980. An additional \$130 million would be required for vocational education in post-secondary technical institutes and community colleges, according to the State Advisory Council on Vocational Education.

3. Transportation--Although the annual increase in transportation costs - that is bussing the students within the present prescribed limits - can be estimated at a fairly constant rate (7 per cent), there are several measures now before the Legislature which could have a profound effect on state expenditures. One of these (S 279) would require almost total transportation of school children and would cost upwards of \$70 million a year. Another bill (A-61), which reduces allowable mileage, would cost approximately \$53 million. Such proposals should be viewed with caution.

4. Special education--Cost of education services for handicapped children has been rising at a rate of 5 per cent a year. However, as more children who are in need of special education are identified, this rate of increase could be escalated sharply. It has been estimated that in New Jersey, fewer than 30 per cent of the state's handicapped children are

receiving special education services to which they are entitled by law.

It is estimated that an additional \$40 million in state aid for atypical pupils would be required if each child in need of such service were to receive it.

5. Early childhood education--In his special message to the Legislature, Governor Cahill said he was hopeful that the legislature will approve special state aid for pre-school children. At present, virtually the only pre-school education in New Jersey is conducted either through the federal Headstart program or in private day care centers. The Governor cited research studies which show significant gains in the achievement of children who have been brought into the educational process at an early age. He also noted that the greatest need for pre-school educational programs is in our cities and poor rural areas, which are least able to pay a reasonable share of the costs. It is estimated by the Department of Education that up to 80,000 children in New Jersey should be receiving early childhood education. The addition of this number of children to our public school enrollment would entail an annual cost of \$120 million.

There are numerous other areas where cost increases can be expected in the years ahead, such as greater participation in the school lunch program, improved school health services and full funding of the state's library aid program, but these do not significantly weigh upon the major expenditures which I have already outlined.

Finally, allow me to emphasize that the State Board of Education and the Commissioner of Education recognize their responsibility to strive for the wise and the most objective use of educational funds without impairing the ever present need to improve the quality of education. Two current examples are the consideration of a 12-month school year, to which I have referred, and school district reorganization, a very controversial subject at the moment.

In April of 1969, The State Committee to Study the Next Steps Toward Regionalization and Consolidation of School Districts in New Jersey recommended to the State Board of Education a plan which would reduce, through mandated regionalization, the number of school districts in New Jersey by roughly one-third. It was the consensus of the committee report that many of our school districts are too small to be run efficiently and should be consolidated into K-12 districts. This report proved to be politically unpalatable to many New Jersey residents because it was widely misinterpreted. However, the movement toward regionalization on a statewide basis is not dead. Just recently, the Governor's Management Study Commission revived the issue by stating most emphatically that recommendations for state-initiated regionalization should be submitted for legislative action as soon as possible. Noting that in the United States there has been a "generally beneficial reduction in school districts from 127, 649 in 1932 to 23, 335 in 1966, the Management Study Commission stated that in New Jersey "... too many small, inefficient, substandard curriculum school districts still exist." Other major groups, such as the New Jersey Taxpayers Association and the League of Women

Voters, also are continuing to press for school district reorganization.

"It makes no sense," says the Taxpayers Association, "to pour additional state funds into small districts which have too limited resources to provide a thorough and efficient educational program for its students." The State League of Women Voters, following its October, 1970, board meeting, stated that the League "supports reorganization of school districts in New Jersey as a means of promoting quality education and providing efficient and economical operation. . . . Reorganization should be accomplished through mandated state policy which permits maximum participation by the local community."

Again, Mr. Chairman, Mayor Sheehan, and gentlemen, I appreciate this opportunity to help in your deliberations if I can.

MR. WILENTZ: Mr. Smith, we appreciate your being here very much and taking your valuable time and I am sure some of the members of the Task Force would like to ask you some questions.

MAYOR SHEEHAN: Mr. Smith, in regard to the State Board of Education in the allocation, if you will, of the cost of education, the policies of the State in determining what costs will be the burden of the local municipality, first, in regard to the Bateman Commission Report, if in your judgment it is insufficient and ---

MR. SMITH: If in my judgment it is what?

MAYOR SHEEHAN: -- the amount of aid is insufficient -- It is not going to be anywhere near the 60 per cent or the 90 per cent that you think might well be an ultimate goal. And it has turned out to be even less than that in the first year. Are there policies that the State Board of Education could implement, if you will, to redistribute some of the costs? I am thinking in terms of things like the tenure, the fact that school boards negotiate with teachers and the local municipality does not have any say, if you will, until

it has all been decided, the current policies which result in a financial burden. Where is the relief or what suggestions would you have for relief to come?

MR. SMITH: You are asking a lot of loaded questions. There is no question at all that the recent legislation which, as I recall, has as its goal to raise New Jersey from its pathetically low 28 per cent of State aid to 40, is insufficient on the face of it. My own personal view is rather strong on this. I have observed among families, whether they have children or not, looking at their local tax bill, that 70 per cent of the total municipal tax in the instances I saw was for school purposes. In discussing this with Clyde Leib, he said in some cases it runs as high as 80 per cent. This is unconscionable. I hope, among other things, the Tax Policy Committee and you in your Task Force will devote yourself to finding a way not only to halt, but to reduce the amount of local taxes, because it has gotten to a point, as I indicated, operating budgets are so often rejected. Of course, it is true that one of the troubles is that too few people turn out when there is a vote on the question of the school budget. Nonetheless, the burden has become impossible.

On your question with regard to tenure - this is a very touchy question - there isn't any doubt at all that there are many instances where through indifference or lack of knowledge or too much casual consideration, tenure is granted and the municipality and the State are stuck for life with a teacher who should never have received tenure. I don't see how a change in the tenure law - and I would think it would be unfair to consider complete discontinuance of tenure - would materially reduce expenses. I think it might improve the quality of education.

As to suggestions, really I think, to give you an overall blanket statement, we are facing the fact that there seems to be - and it is pleasant to observe - more willingness at the Federal level to consider the need for the sharing of

its vast revenues. I think this Federal income from such sources is over two-thirds and this comes right from the people in our municipalities and in this State. I think that we must all strive for - and I can see no better goal for getting the aid that not only the municipalities but the State needs than to get a greater share of the vast millions that pour into Washington.

I have skipped around. I don't know whether I have answered your questions.

MR. WILENTZ: Mr. Weathersby?

MR. WEATHERSBY: I am sure there must be references on this, sir, but I was wondering - this figure of Federal aid to education for New Jersey - the per capita basis is a very low figure relatively. I wonder why. Maybe I can be answered by being referred to a proper study.

MR. SMITH: Do you want to speak to that [referring to Mr. Leib]? Mr. Leib is the expert here.

MR. CLYDE LEIB: It is true. New Jersey is not anywhere near where it should be in receiving Federal aid on a per capita basis. But the U. S. Office of Education doesn't allocate its money on a per capita basis, but on the basis of what they consider to be true wealth. New Jersey is very high in that area. Even though we are 7th or 8th in population, we are somewhere between 15th and 20th in the amount of money received for elementary and secondary education. But that is a Federal determination over which we have no control.

MR. SMITH: -- as yet. I think Mr. Leib's point is a very important one. In fact, we have had pointed out to us in many way that we get far less in the way of return of the funds that we in this State send down to Washington than is true of other states in the Union.

MR. LEIB: If I could just add one thing about Federal aid to education - that is, the bulk of that money goes to Appalachia and southern states, that is, Title I allocations, for the most part, aside from the major states such as New Jersey,

New York, Michigan and Pennsylvania. If you look at a breakdown, you would see what appears to be a disproportionate amount of money goes into the southern and Appalachian states from Title I which is the major source of funds to State education.

MR. WILENTZ: Thank you. Mr. Frank?

MR. FRANK: Mr. Smith, in your statement here you said that the report as to the regionalization of the school districts proved to be unpalatable because it was misinterpreted.

MR. SMITH: Yes.

MR. FRANK: I am not quite sure - what was the background of the misinterpretation?

MR. SMITH: I think from my observation, erroneously and I think probably in some cases unfairly, this was construed as a device to bring about bussing across district lines, with particular reference to Newark and the adjoining municipalities in Essex County. I don't feel hurt by this. It is a hard thing to get across the purpose and to avoid the speculation that sometimes give rise to strange conclusions. The principal opposition - I think this was your experience too, Clyde - was that people said, "This is simply a device on the part of the Board or the Commissioner or somebody to bus children across municipal lines for equalization purposes," which was not the idea at all.

MR. FRANK: But it would expand a school district.

MR. SMITH: Yes, enlarge a school district.

MR. LEIB: Very small.

MR. SMITH: Yes, very small. It wouldn't encompass all of Essex County or anything like that. The purpose fundamentally is to provide a more adequate educational program and more curricula than are present in many of our small districts. In fact, we have some districts that have no children at all to speak of. The other is to attain efficiency both in respect to saving money and the ability to employ better people

if the area is large enough to support it.

MR. FRANK: Do you see an opportunity there for a cost reduction of any substance?

MR. SMITH: Do you remember the figures?

MR. LEIB: The Management Study Commission Report has figures in it. I could cite those to you.

MR. SMITH: I don't think they would be gigantic, but I think it would be very worthwhile. It wouldn't solve the problem. It would be one of the many things which you are going to have to work on to achieve the ultimate objective.

MR. WILENTZ: Some of the figures you gave us, Mr. Smith, are ones that we have heard before in other hearings that this Task Force has had. But they are so astronomical that it take a while really to see what it means. I just want to recap what you have said to see if I understand what it means. You discussed the fact that educational costs are going up even faster than had been predicted and that the Bateman formula, for instance, the 40 per cent takeover, will clearly not give enough relief to the municipalities. You mentioned the possibility of a 60 per cent level and then at another point you said that we ought to consider something that approaches full funding, perhaps something like 90 per cent. We are now talking, as of this moment, 90 per cent of about one billion dollars and over a ten-year period, I don't think there is anyone who thinks that that one billion isn't going to go up unless something very, very radically different from present directions takes place. There is also, I assume, in your thinking the additional burden of the capital expenditures, which you estimated to be about one and one-half billion over ten years. Assuming 90 per cent of that gets taken over, which you haven't suggested nor have you suggested it the other way - you just suggested it for our consideration - you have two and one-half billion dollars, you have about \$400 million increase in vocational education costs. And just to get some perspective of the kind of dollars we are talking about, if the State attempted to take 90 per cent

of that over - I am not suggesting it should or shouldn't and I don't think you are either - but we are talking about three billion dollars, 90 per cent of which is \$2.7 billion, all in an effort to allow the municipalities to continue to function without either giving up education or without being totally crushed in their real estate tax base.

What I want you to comment on is not the direct agreement that the State should take 90 per cent of these costs over, but am I talking about the right kind of dollars here? Is this the dimension of the financial problem in education? Because if it is, I think the public ought to know it.

MR. SMITH: As a matter of fact, in the preparation of the statement, I felt that we were bringing very bad news to you and yet it would be wrong to hide anything and not place it before you and the Committee and the public for consideration of what to do and how to do it.

Let me take the last part of your question first. I referred to -- What is the statute, the special aid to school districts and capital expenses? What is the number of that?

MR. WILENTZ: The Emergency Construction Bill?

MR. SMITH: This came about really very interestingly - and I have no license for this except a personal opinion - and I mentioned increasing the scope of this. This came about, to oversimplify it perhaps, because the State Board launched upon a program of visiting various types of schools, not for ten minutes, but spending all day. It happened by coincidence that we were in Newark one day and I think within two weeks we happened to be in Jackson Township. In both of these places, the debt limit had been exceeded. The money was not available. Yet the need for classrooms was perfectly obvious. In fact, in Jackson Township, I was particularly impressed because the children were leaving their homes as early as six o'clock in the morning to fit into the split session program. Out of that, we were able to devise this program,

which has proved to be so far a very practical program for those municipalities fiscally unable to meet these needs. This was by the State taking over the debt service. We proposed \$180 million, I think, three or four years ago. This was reduced, and I think wisely, to try it out, to \$90 million - \$90 million worth of construction - and the debt service - I have forgotten exactly - but it represented two and one-half or three million dollars for the State. I think the bill has now been raised to a hundred even. This has been very important. Without even discussing the practicability, I see a way in this to avoid the State putting up a billion and a half dollars for capital needs and rather rely on a modification of this particular program.

On the other question as to operating costs, I have been on the State Board of Education for 12 years and it has been shattering to us, as a matter of fact, to observe the obvious increase that comes about whether you like it or not as the school population continues to grow. And, of course, in particularly the last four or five years, the inflationary effect has been almost staggering. I have no remedy if inflation continues, which I hope it does not, and I have some hopes it will not. But I think when we talk about dollars on the one hand, the preparation of our children to take their place in life, properly prepared, is a great deal more important than the dollars involved. Yet, as you say, the total of all of the hard facts that I have placed here before you, which you have heard before, just can't be ignored.

MR. WILENTZ: That, I think, is the point. I wouldn't be concerned about bringing us bad news. The real concern we ought to have is that no one gives us the news at all. I think my recollection is the Bateman-Tanzman Report would have cost at one point somewhere around \$150 to \$180 million a year. It was financed at a level of about \$30 million, if I am not mistaken, and most of the concern has been about the gap between its present financing and the amount that it was thought to cost.

What we are learning today is that that is, while not a drop in the bucket, it comes close to it and that if you project educational needs as presently understood over a ten-year period - and no one has been able to suggest any substantial reduction in cost that I have heard thus far - you are talking about, depending upon the level of State takeover, something between \$1.5 billion and \$2.7 billion. And I am not suggesting that is within or beyond the capacity of the State. But I think it is something that our Tax Committee has to know and I think it is something the public ought to know too.

MR. SMITH: I offer this suggestion - that is, that whatever the new State tax may be, if the local taxpayer were relieved sufficiently of his present 70 per cent of local costs or 80 per cent, as Clyde said, his willingness to accept a State tax in lieu of local tax might be rather gratifying. On the other hand, should we call upon the local citizen to continue to carry a very sizable part of the school cost load and on top of that to increase his payments to the State, I think you would have something that would be completely impossible.

MR. WILENTZ: Do you see anything to be gained by way of costs or in any other fashion by changing the present method of teacher negotiation from a local district negotiation to a statewide negotiation? Do you have any views on that?

MR. SMITH: None I want to express now. It is true, as in so many other cases, that the skill in negotiations varies from municipality to municipality and that in some cases concessions are made that are probably not warranted and are nonetheless the base for similar demands in other districts. I think consideration has to be given to that, yes.

MR. WILENTZ: Professor Reock, do you have any questions?

MR. REOCK: Just one, I think. I think this was an excellent statement and should be very useful to the Task Force. I would like to preface the question really with a

review of some recent history as I have seen it. Going back to the last substantial increase in State aid, not the change in the formula this past year with a small increase, but back to the mid '60's, there was some hope at that time that the additional money from the State at that time would result in some property tax reduction or at least in stabilization. And, in fact, the figures I have seen indicate that for one year, there was some property tax relief, largely because the State aid was made available after the local budgets were adopted. But then if you look at the figures for subsequent years, you find that the level of expenditure and the level of property tax rates jumped right back up to what might have been a projected curve of previous years. In other words, the second year, the increase was double the annual increase.

In your statement you suggest going up to 60 per cent or even as high as 90 per cent State support for local school budgets, but suggest that budget controls stay at the local level. I wonder whether leaving as little as 10 per cent of the budget at the local level really would be an effective budget control or whether there are other devices that would have to be considered really as strings to the increased State aid program in order to provide some budget control.

MR. SMITH: I am not sure 10 per cent would be enough. Let me go back, if you have the time, ---

MR. REOCK: Certainly.

MR. SMITH: I have a great respect for the people who serve in municipal governments. I do not believe that every municipality is being operated on the most efficient basis. But nonetheless it is true that coincident with the largess of \$90 million a few years ago, every municipality as well as every citizen was facing this spiralling, which has been perfectly staggering in its effect. I don't know enough really about the facts to say if there was a more efficient operation in a municipality whether there might have been a continuation of tax reduction. I think nonetheless this is important.

On the point you last raise, I can imagine nothing more serious than to have complete indifference on the part of the local government or the local people as to how much is being spent for schools. While the statement says 90 per cent or even full, I personally would be opposed to full. I am not sure I am completely satisfied that 90 per cent is the right figure. The participation in providing money by the municipality should be enough so that they are more likely, if not certain, to exercise a control, a wise review, if you will, of the school expenditures. I share your view - I am not at all sure that 90 per cent would not be too much, that the municipality must have more than 10 per cent, to gain its keen interest in the amount of money that is being spent in a school district.

MR. REOCK: I was just wondering whether there were any other devices that might be applied to change the present situation in terms of where the control resides.

MR. SMITH: No, I don't know of anything that I could suggest as a panacea. It is a never-ending question, a never-ending problem. But there is no doubt whatever that when you are getting something for nothing, you have no interest at all in what it costs or where the money comes from. There must remain in the municipality a sufficient interest to assure the wise expenditure of all school funds from the State or local level.

MRS. SHEEHAN: Mr. Smith, when you say this control should remain in the municipality, by what means? Is this an election of the citizens or the governing body or the local school board?

MR. SMITH: No, the budget would be prepared, as I see it, in the municipality. And your governing body is going to do as you do now, you are going to review that situation and it is going to be presented to the State. What I am saying is that the municipality, including the governing body, should have a sufficient stake in this so that it would review this, if not with expertise, at least with sound

judgment. I cannot see anyone sitting in Trenton and determining precisely how much should be spent for each item in five hundred odd school districts.

MRS. SHEEHAN: What I don't understand though is, basically the governing body now does not really have any control --

MR. SMITH: It varies.

MRS. SHEEHAN: [Continuing] -- and are you suggesting that the same kind of control that now exists ---

MR. SMITH: No, I think it should be improved. You know the procedure where the operating budget is rejected by the public and finally you get into a contest and where there is an appeal to the board, without exception when the board has before it the question how much of the demand of the local board of education is right and how much is wrong, almost invariably there are things that are sought by the local board which are not granted and are refused as not being essential to the educational processes.

MR. WILENTZ: Any further questions? [No response.]
Mr. Smith, thank you again very much for the benefit of your experience.

We may have two further witnesses this afternoon, Kennedy Shaw and Professor Ylvisaker. I am not sure if they will be here. We are going to adjourn now for lunch and resume at 2:30.

[Recess for Lunch.]

Afternoon Session

MR. WILENTZ: Professor Ylvisaker, we would be happy to have your testimony now.

P A U L N. Y L V I S A K E R: Mr. Chairman, I am grateful for the opportunity to testify. I have to apologize for the fact, as you probably know, I have lost my capacity to read in the last few months and, therefore, I am submitting a written statement which you can read at your leisure. There is always a silver lining to every cloud. It means

that you don't have to hear me for an awful long time read my prose. [See page 116 for Mr. Ylvisaker's prepared statement.]

What I am saying in that document is what I have said a number of times publicly recently. I have tried to summarize it as quickly as I can.

First, I think your Commission and Task Force are coming at a very opportune time, not simply in the State's history but in the Nation's history. We have been struggling to accommodate to a jerry-built revenue system for a long time. It just isn't working. The Nation, the Federal government, is taking the major part of the best source of governmental revenue, which is the income tax. The states are beginning to buy in and to pass income taxes. But as we know, New Jersey so far has not decided to do it. It is one of the dozen or so states that still has not taken the plunge into what the politician would call very cold water.

There is no question in my mind that the State cannot continue any longer ducking the responsibility for adopting what is the best form of governmental revenue right now. We are being penalized within the State for not having done this and the people who are attempting, I think, the almost impossible job of running our older communities, as a matter of fact running all our communities, are suffering for want of the State's decision to take that step.

The very simple thing about the income tax which we all know is that you don't have to change the rate while the tax proceeds grow. I am not quite sure why it is that our political figures stick so long to the sales and property tax as the major source of income because politically it is a very tough form to work with. It is not only regressive - the studies have shown, for example, in Newark that the poor renters are paying in property tax more as a percentage of their income than myself and friends in suburbs like Cranbury. It is a regressive form of tax, but more than that every year in order to increase the revenue from it you have to increase

the rate and you have to face the irate taxpayer each year with that increase.

The Federal government has played some very interesting games in the last generation. It adopted the income tax and whether we know it or not, or realize it, the Federal government has successively reduced the rate of the Federal income tax since World War II. The exceptions which we remember, of course, are the surtaxes of the Korean and Vietnam Wars. But the long-term policy of the Federal government, which makes it understandable why the Congress and the President are so reluctant to get into the urban business, has been to reduce the income tax rate. Yet the proceeds have grown. What the Federal government has done is not participate to the degree a nation should in the "gutsy" cost of government. In welfare costs, they do not take their proportionate share. Also in sewage, water infrastructure costs, they are practically not visible. They have a lot of grant programs which give people the illusion of great Federal activity. But I am sure, as Mayor Sheehan knows, there is really not much money behind the games that are played with the grants' process.

I am arguing, therefore, that the Federal government has taken the major form of governmental revenue, the best form, and preserved it for its own use, successfully and politically. It has found it a good tax. The state has not had this tax and as a result has let local governments fend for themselves. In a sense the local government structure in New Jersey is very much like this nation was from 1783 to 1789, a loose kind of congeries of competitive jurisdictions, trying to make it, underneath kind of loose Articles of Confederation. It was interesting at that time that George Washington and his friends realized that you had to strengthen the central government and provide some kind of an economic unity so that the competitive aspects of the 13 states would not be suffered from.

The State of New Jersey has let its municipalities go on their own, as a result of which it has been "beggar

thy neighbor" for a very long time. And any community which has gone over the hill in age and where its property is beginning to become obsolescent is suffering an impossible political ball game. What happens, as we know, is the revenue diminishes as the needs increase.

The country has also successfully migrated its surplus population, Blacks from the south, Porto Ricans from the Porto Rican Islands, Mexican Americans, and the Spanish-speaking people, into our central cities and there they have accumulated a rate of dependency which is largely on the back of those municipalities trying to struggle to pay for it out of their property tax revenues. It is really an impossible job for a mayor of an older city to handle the circumstance. As we have seen happen in Newark and some of our older cities, a kind of cynicism develops which leads quickly to corruption. You don't have enough resources to take care of the general welfare. Therefore, there is a tremendous tendency to take care of your own and your friends by some iniquitous methods. This is what we have seen, calloused cynicism, begin to develop in some of these older communities. We are lucky to have the quality of mayors like Mayor Sheehan who are willing to take on the financial odds in cases like that. But it is not merely the over-central cities that suffer from this kind of inaction on a broad base tax. It is our newer communities as well.

When we dealt with the Meadowlands, I shall never forget the mayor of one of those small communities coming in to testify, saying that he took his kids out to do his muskrat trapping out in the meadows and he wished he could keep his territory, his municipal territory, virgin and pure from this kind of development. But the property tax system which said that he had to get 90 to 100 per cent of his revenue from it forced him to go shagging after industry and to make deals with industry which allowed pollution. Very quickly as a mayor he was doing what he didn't want to do as a human

being and a father, which was desecrate the land of the meadows. I can't forget that testimony and I have seen it happen in community after community in this State where the mayor, forced to take care of his own problems on his property-tax base, then has to chase after it where he finds it. The result is that this State now, like many other parts of the nation, is not doing many of the jobs that it should. Environmentally, we are not doing the job. In terms of housing, we are in a disastrous situation which the legislatures are now beginning to feel through the pressures for rent control that are upon them. The tenants are organizing and we are seeing the real estate interests and the home-building interests also economically suffering. One of the reasons - and there are a number of reasons obviously like short and tight money - but one of the major reasons is that a house with more than two kids at any income level costs the community more than it gets in property taxes.

Then we get the business of going to the factory and letting the neighbor take care of all of the housing. When a community, like Parsippany-Troy Hills, gets deluged with housing, then it is in a position which the property tax is not going to solve.

We are also penalizing our homeowners. When, for example, the Mayor of Newark, faced with a \$60 million deficit is asked to balance his budget, the first thought is, go to the property tax. But the property tax in Newark at 8.44 would have to go to 13 point something if it were to sustain that \$60 million deficit. You can't do it because in the older communities if you levy one or two more mills on the property tax, then what happens? You get abandonments. You lose more revenue than you actually gain from it.

We also are dividing our society in the State of New Jersey because of the property tax system. We are beginning to see the tremendous discrepancy between the cross section of incomes of a place like Newark and of other places. The most radical example on the other side, I suppose, is Teterboro,

which has managed, I think shamefully, to exist using municipal powers without any real social responsibilities whatsoever. I am intrigued by the fact if there is any community that believes in bussing, it seems to be Teterboro, and I say that with some sense of irony.

There are no magic answers in this business. But I would hope your committee, simultaneously with what is going on at the Federal government as well, would begin thinking of major changes. The Federal government is now talking about revenue sharing and it is very clear that they are going to ask the states to meet certain conditions if revenue sharing should proceed. One condition which I would strongly urge and I know is seriously being considered is that no state should get any revenue sharing from the Federal government that has not put its own financial house in order, that has not made a tax effort which is pretty clearly in most cases going to be an income tax, showing that it has done its job before it begins relying on the Federal government to pull it out. Also I think they are going to ask as a condition that the states provide affirmative housing programs and indicate how they propose to go about meeting the housing needs of their population. They are going to ask for the reformulation of the devices by which State aid is shared by municipalities and indicate some of these changes before revenue sharing will become effective or a state could avail itself of it.

Precisely at this time you have the chance - and I know a lot of us also have to be in on the decision, the legislature and the rest - to make a statement to New Jersey that says, we will put our financial house in order. We will begin adding the kind of revenues that will make it possible for people to do the job without the "beggar thy neighbor" implications of the property tax.

Now some of the other things that I said in the paper and I would argue strongly for are these: If we do move to an income tax in this State, I would hope that we strike a

bargain with the taxpayer. He remembers very clearly, as do our legislators, that when we enacted the sales tax and made the promise it would relieve the property tax, nothing of the kind happened. As a matter of fact, the sales tax was simply added, in effect, to the property tax and no relief was felt. I don't think we ought to fool our taxpayers. There is no question but what we need property tax, sales tax and income tax in some mix. But there is one kind of bargain that could be struck, in which the State would say in effect, "We will take off the property tax the cost of schools and we will finance the school system on a State basis out of the proceeds of the income tax." So in year one, the property owner sees he is going to have relief of his property tax. The advantage of that is obvious. The State of Michigan is moving with Governor Milliken kind of precariously in the lead in saying that education is really a State responsibility and to guarantee to the citizens of the State, no matter what areas they live in, whether they have real estate rates or not, their kids are going to get an even break in the state school system.

It is very clear too that I think we ought to move to centralize the welfare costs. The State has already moved to take over three-quarters of the welfare costs in the State. There are some loopholes and gaps still remaining. I would argue very strongly as an interim step the State assume all welfare costs in the State and then that we all band together and ask the Federal government to assume welfare costs ultimately entirely as a national issue. There is no question that the dependency of this country, now localized and put on the backs of individual mayors, is really a national responsibility and can best be handled as a national system.

Similarly with health, President Nixon very shortly will be putting before the country in effect the beginning of a national health insurance scheme, which begins to nationalize the health responsibilities of this country. If we begin moving up the basic costs of health, welfare and education, begin relieving the mayors and the municipal leaders of the inequities of the property tax, it is pretty clear

that we are going to have effective, decentralization as well. Because then remaining will be certain hardware costs that appropriately can be borne at local levels. Although here too I would enter some suggestions which may or may not be acceptable to many people. I would guess probably a number of our hardware costs ought to be centralized. I would like to see the State, for example, develop a State water and sewage system, utility corridors, in effect, in which water and sewage and other grants would build toward a State delivery of these capacities rather than by individual municipalities.

I would also like to see the counties in this State begin assuming by contract, as Los Angeles County has done, a number of municipal functions, particularly of those municipalities that are too small really to give efficient delivery of some of these hardware services. We can debate which of them might appropriately be brought to the county level, but it is clear we ought to move in that direction.

I guess I am saying then in effect what is pretty obvious. If it is obvious, it is pretty tough political medicine, I know. It is very hard in this society to gain votes by going out for taxes. But I do think the State has reached the point where we can't play games anymore, where we are going to have to roll up our sleeves and take it as a State income tax for reasons which I have cited to relieve the property tax, to begin lifting certain of these burdens off municipalities, and then to be free, I think, to perfect what all of us do want, which is citizen control of certain things which make sense at the local level. Access to teachers, to police and to our officials should be increased at the local level. And I don't think it is inconsistent to begin centralizing costs and in some cases the administration of these services, while decentralizing and making more accessible the officials who run these programs.

The A, T and T system is exactly this. It has nationalized its revenue and capital systems. It is a national communication

system with compatible technology. Yet at the same time, all one has to do is dial 8 and you get into the complaint system. They have also effectively decentralized the management of many of these services. I don't think it is inconsistent to move simultaneously in two directions. But if I were to state a general principle, it would be that financing of these things be probably on a higher basis, and access and complaint on a lower basis.

I would be very happy, Mr. Chairman, to answer questions. I am sure that some of what I have said is not very palatable, yet I must say from what experience I have had, somebody has got to say it pretty soon.

MR. WILENTZ: Thank you very, very much, Professor. I am sure there will be questions. I don't know whether to call you Commissioner, Professor, Paul or what.

MR. YLVISAKER: The students call me Paul.

MR. WILENTZ: I don't know whether it is palatable or not; it is good to hear what has got to be said. I wonder if Mayor Sheehan has any questions?

MRS. SHEEHAN: When you talk about the income tax, you included the idea that there would be some mix of sales tax, property tax and income tax. Would you consider the possibility that there could be as part of your bargain a substitution of perhaps the income tax in lieu of the sales tax or do you feel that the combination of the three is really necessary?

MR. YLVISAKER: There is no question but that you could substitute. However, we do have machinery in place for the sales tax. We have also begun to adapt the sales tax in many different ways so it is less regressive than it has been. Speaking from the governmental side and for future governors and legislators, I would probably say, keep in force what you have - don't give up "nothing," but try to alleviate the burden on the less happy of those taxes. Relieve the burden first on the property tax. Relieve the burden second on the sales tax. But keep your income tax as the major one.

Incidentally, Mayor Sheehan, if I could indicate one other way in which the central cities need that income tax - at present, if you recall - well, you have the problem in New Brunswick of State facilities and public facilities which locate in your territory and you have to serve them with police and all the rest - colleges more and more with police. The irony of that is, it is good for your city to have those services; that is, it is a good thing to have the economic activity going on. The merchants like the fact that they get a payroll. The problem is that the Federal government is the only one who benefits from the location of those services in your community because they tax the income from the people who teach there, who work there and the rest. You get nothing. You only get costs.

The same thing with the Medical School when we tried to place it in Newark. The mayor then, whoever the mayor might have been, had to think twice. Because while it meant in the case of the Medical School the fourth largest payroll in Newark, it was a cost to the city. And what made sense for the people made no sense to the municipality. It went in there. But it would make a lot more sense if that payroll were taxed for municipal and State purposes.

What we are coming to by the device of trying to help Newark out in its extremes is something that none of us like as a general solution, not even Mayor Whalen of Jersey City. You let Newark have a payroll tax. It's all it can exist on right now. It has to have it. But it is a poor substitute for a State tax because it leads to competitive disadvantage of precisely the city that needs that service. If I were a businessman with a 2 per cent levy on my business in Newark, I would think very seriously of getting out.

MRS. SHEEHAN: We discussed that a little bit this morning. Mayor Holland was here from Trenton. It could be a worry and a problem.

MR. WILENTZ: Any further questions? Mr. Weathersby?

MR. WEATHERSBY: I would like to ask a theoretical

question. Leaving alone all political practicalities, do you think in the long run it would be better to move toward a Federal income tax alone with proper return to the states and simplify it in that fashion?

MR. YLVISAKER: I am a little leery of a system in which you have to in effect wait for the other guy to allocate you your share at his discretion. I think we could consolidate the administration of that tax; that is, you could fill out a single form or just add a 10 per cent factor of what you are paying the Federal government. But I would like to see the State free to determine its own rate and to be able to say, "This is our share. We are not coming to you for a share of revenue that you might give us this year because you like us and next year not give us because you don't."

MR. WEATHERSBY: It could be brought together in one process?

MR. YLVISAKER: In terms of administration, yes. And you might consider very carefully what is happening in Maryland. In talking to the Brookings people, Joe Peckman, who is one of the really able guys in this field - Joe is preaching now that probably all states ought to adopt the Maryland Plan. Roughly, as I understand it, it is that the state enacted an income tax requiring each municipality to add a 25 per cent levy for its own purposes. This mandated then relief for the property tax and also got the local politicians out of the box of whether they would or they wouldn't. They had to. Then they were given the option of moving from 25 to a 50 per cent override. They started at 25 per cent. Nearly all of them have now moved up to 50 per cent.

I made a recent check in behalf of Newark of other states where they have gone to payroll or municipal income taxes or state income taxes. The experience is all universally favorable. While nobody ever solves the revenue problem, they are finding it a good deal less painful now that they have moved away from the property tax.

MR. WILENTZ: Mr. Frank?

MR. FRANK: Mr. Smith, who is President of the State Board of Education, said this morning or rather at Noon that the local municipality should still retain a reasonable or some share of the cost of the school system - I think he said 10 per cent, but he wasn't holding it to any fixed amount - basically on the theory there would be more of a sense of urgency or concern or responsibility or hard look at the budget of the school system than if there was no responsibility at all by the local municipality. Indeed my guess is that A, T and T has some kind of a profit center concept, pursuant to which they make everybody responsible for some charges and they have to account for it. Wouldn't you think there should be some device retained such as that?

MR. YLVISAKER: I like the general principle, but I am not so sure I would agree with his technical answer to it. Let's start with this: The State of Michigan began its assumption of local school costs with the idea that they would pin it heavily on local tax effort. Then they discovered that the wealthier communities usually do pay more for education because they value it, apparently by their culture. What happens if you leave the municipalities with some share of the cost or with the option to spend more, you get back into the old competitive system where the wealthier bid away the teaching resources from the poorer communities. It is a subtle little problem that I think you have to watch pretty carefully.

The second thing that I would say would be, I am not sure that financial control is more important than performance control of a school system. Let me indicate what I mean. We are seeing, of course, a lot of concern over how much we are spending in the schools. Sometimes I think that substitutes for the controls which I would like to see, which is holding teachers responsible for performance. You know, are the kids reading, after a given period of time, at a proper rate? Are they being able to handle the basic skills? The neighborhood forms of control more recently I think have

been more directed at that, which I regard as the proper kind of supervision than probably at the financial side.

I am sympathetic to the fact that you do need local responsibility. You don't want to give it away, but there are some of the subtleties that I would raise.

MR. FRANK: What about the other subtlety that a particular community, perhaps more wealthy than another, might feel that more should be spent for education than provided by some state formula? What problems do you see coming out of that?

MR. YLVISAKER: Precisely the one I mentioned, that when they have the freedom to set it at their own level, they will bid away the resources from other places and you will get discrepancies in education.

MR. FRANK: Do you think their answer will be that they will enlarge the private school system in that area?

MR. YLVISAKER: They may do that. There is no way of locking that particular door. Americans always will have the right to educate their kids privately. I think that is properly joined to the thing that I said, that it is a concern. Interestingly enough, as I talked with the Black community where bussing has become such a tough, tight issue, with the disastrous results you saw in the feelings here in Trenton, the concern of the Black is not simply of the fact that he wants his kids to be in a mixed situation, probably less so. What he is afraid of is if you let his schools go all Black, then the White dominant majority won't spend money on them anymore in proper proportions. And the only way they are guaranteed that their kids are going to get equal education is to keep them with the Whites so that the Whites will continue to put an equal source of money in there. It is something that few of us realize in the Black attitudes. This is what I am really getting at, that we can't let the educational system become the happenstantial result of who can pay for it and who can't.

MR. WILENTZ: I take it that what you are talking about

is a truly equal kind of educational system. In other words, the property owner in one municipality doesn't bear more proportionately than another because no property bears any educational tax and education is paid for in accordance with some notion of ability to pay, based on an income tax. Then the money comes back through some kind of formula recognizing the varying needs of municipalities and you really don't get to the question of worrying about local control of the budget because what they get back is the budget. --

MR. YLVISAKER: That's right.

MR. WILENTZ: [Continuing] -- and not one penny more to be raised by the municipality.

One aspect of that concerns me. You are going to relieve the property tax and presumably at that point the municipality will have this refreshed ability to raise funds for other purposes. If everything goes well, funds will be raised for proper purposes and spent intelligently. But it may not go well. And I am wondering whether or not with this truly astronomical amount of money that the State would have to put in to finance 100 per cent of education - figures in the neighborhood of three billion dollars are what Mr. Smith mentioned as a possibility over ten years and he is not adding it up to ten years - that's about where it would be going - are you giving up the possibility of allowing the municipalities to retain a substantial amount of their educational costs and instead of, in effect, an untied grant, which is what this education money is in some respects, would you want to consider using some of that money for housing or for other kinds of grants to the municipalities with strings? In other words, the same old question: Are you not taking a vast amount of State money and when you pay the whole educational bill it is in a sense without strings, although it can have strings in the educational field, but you are not leaving yourself an awful lot of money for other kinds of incentives to municipalities? Suppose you saved \$100 million of that one, two or two and one-half billion dollars and said we

want to use this for some kind of inducement for housing.

MR. YLVISAKER: One of the biggest inducements to housing would be to take the school tax off the property tax very simply because right now the property tax amounts to about a 20 per cent sales tax on housing. Housing is the thing that we want the most and really we are doing some strange things. We are penalizing with the highest sales tax that we have the very commodity that we want the most. If you talk, as I know you do, to developers, in New Jersey when they come in and take a look at the possibility of development, the numbers never come out right, one of the major reasons being the kind of property tax that has to be borne in that development. I would say just by removing that, you would probably do more than \$100 million in direct subsidies to municipal governments for housing.

The other things that are required to ease the housing problem of the State are not so much money but certain forms of municipal restrictions which are artificially induced because of the property tax. As I said, if you have to pay your way through property tax, you don't want families living in your community. If, on the other hand, the schools were paid for by the State and off the property tax, then that individual family isn't going to be a threat to you financially as it normally would be. So I see this one thing.

The other thing is you would then begin to ease off some of the games that are played through zoning and building restrictions, etc. We have seen municipality after municipality go to one-, two-, three-acre zoning. In my municipality you can't build a house under the present building and other codes for less than \$45 or \$50 thousand. That is because we are scared stiff of school kids coming in.

So I would say that one thing would begin unlocking a whole series of restrictions that have put us in the housing bind that we are in.

MR. WILENTZ: Would you think of tying the State aid to education, since it would presumably be the greatest

portion of State aid by far, much, much greater percentagewise than it is now of total State aid -- would you consider conditions unrelated to education? In other words, would you use this as some kind of carrot for other municipal improvements?

MR. YLVISAKER: Yes, I think so. There is going to be one problem. When you start horse trading, we all bring so much to the table, you overburden the bargain after a while. We all have our own kind of ideas what we ought to put in. But one of the things that I would certainly put in as a restriction on any aid to any municipality of the State is that if they want the benefits of State productivity, they have to take an equal share of social responsibilities in the State and they have to be willing to shoulder their share of the housing burdens of the State and the others. Then, in the same way I suggested the states ought to be required to have an affirmative housing plan before they cut into the Federal kitty, I would say municipalities in this State ought to show clearly how they are meeting the housing needs of their people in the adjacent populations before they get the benefits of the State tax.

MR. WILENTZ: Getting back to the function of this Tax Policy Committee, I assume that you would regard it as entirely proper, if not absolutely essential, that recommendations concerning making our tax structure equitable and rational be concerned with a lot more than simply fiscal problems.

MR. YLVISAKER: Yes. I think if we are going to do some major things in the State - and it is overdue that we do them - it has to start with a "re-do" of the revenue system. It is going to be tough.

What I would like also to have understood - I have given you kind of the bare bones of the major skeleton of the changes that have to occur. There are a lot of ways of tempering them. Since we have had to adjust to the tax system as it is, you will find a lot of inequities when you

shift. In the act of shifting, there will be hardship cases. I would hope that much of your research right now would look into easing the transition, the shift from one to the next.

Some other little ideas: You might look at the Wisconsin idea. There is no reason why we can't do it even here. In Wisconsin, on the property tax, the elderly report at the end of the year how much property tax they have paid as against what their income is. If the property tax goes beyond a certain percentage of their income, they get a rebate. If they have no income and they are still paying property tax, they get a grant from the state. It is a negative property tax like a negative income tax. As I think we know, the problem of housing the elderly and property taxes is particularly acute in this State.

MR. WILENTZ: Do you have any position on the basic recommendations of the Musto Report concerning strengthening county government?

MR. YLVISAKER: I have been terribly happy with that Commission Report. I think it is one of the highest quality Commissions we have in any of the state legislatures. I like the outlines of it. They have in effect said that the county has the potential of being an efficient administrative unit for many purposes which are now decentralized below that level. And I suggested earlier that we use that Los Angeles tradition of beginning by contract to work with certain municipalities, not just riding in rough-shod, but taking by contract some of the municipal services.

Now let me make a very blunt statement. In this State the county has largely been a political organization, not an administrative entity and it doesn't have right now the competence to take on administrative functions. Freeholders don't have legislative powers. They control only about forty some per cent of the employees and of the expenditures of the county. They are all under independent boards and commissions. The optional county charter plan that is now before the Legislature - I think it is S 513 - makes a lot

of sense. There is one little problem. I gather that some of the county people now in charge got a little nervous that only 10 per cent referendum can force a change in the county government. I understand that kind of concern. But certainly we ought in this State to begin building the county up with an administrative capacity. Let me repeat again though, a lot of skepticism exists among the voters. That could be simply because they have seen the county up to now playing political games and it hasn't developed administrative competence.

MR. WILENTZ: You served a fair amount of time in State government and I wondered if you had any idea, any ball park figure about the kind of revenues we are talking about. We were somewhat, not astounded because we had heard it before, but the educational costs go way, way beyond even what was discussed in the Bateman Commission Report. If you have any comments about the kind of dollars we are talking about, I would like to hear them. If you feel there is no point in it, that is O.K. too.

MR. YLVISAKER: First of all, let me make a theoretical comment and then go on to some practical results. I think we are going to have to be educated, citizens and legislators alike, to the fact that from here on in we are in a very tough financial bind in government. The reasons are quite simple. Government costs are largely service costs and the costs of services in our society are escalating faster than the hardware costs. We have been able to manufacture at reduced costs or stable costs because we automate labor out. But in government services, labor is the end product. It is the bureaucrat, the tax collector, the doctor, the public health physician, that kind of thing. And those costs are now rising because those skills are in short supply and they are becoming unionized. All these public service employees are exerting tremendous bargaining pressure on the wage bill. So as you move into this, you are going to find

in health, in education, in the welfare services, in all these field, escalating wage bills going faster than the general rise in the population. At some point we just can't continue to pay each of those escalating wage bills. You will get the confrontation with the service workers. I don't like to predict the future for the next decade, but here it is. Mayors, governors, legislators, are going to be up against some tough union situations. The teachers are one of the toughest union situations that you are going to run up against right now. Mayor Lindsay has discovered how rough the sanitation workers' situation is. As we unionize further and further, the police properly are asking for their share; the firemen, to the degree we begin professionalizing, will ask for theirs.

This is why in a way it is probably important that we begin to get the State into these affairs more and more. Because, at some point, we are going to have to judge between apples and oranges. How much education can we buy as against how much health, as against how much welfare, as against how many bureaucrats, as against all the rest of these things? If you allow this to happen in too localized a fashion, you won't get a very effective result. A mayor can't stand up against some of the unions that are now facing him or her.

I don't predict any easy next decade. Quite the contrary, it is going to get rough. But if we all understand what the ball game is, then I think it is easier to contend with it. And, as I say, I would much rather that the Legislature get into the act so that it can make these judgments of how much of one as against how much of the other.

MR. WILENTZ: You think perhaps the State should become the bargaining agent for the employers in the school districts at this point or soon?

MR. YLVISAKER: Well, let's say that you obviously will be caught right in the middle; in serving both and hoping to do so equally, you will be torn apart right down the middle, because, as we have seen in education, the boards of education

against the teachers, the legislators representing both -
I don't envy you in this position.

MR. WILENTZ: But you think it should be a state-wide function?

MR. YLVISAKER: Yes.

MR. WILENTZ: Professor Reock?

MR. YLVISAKER: May I add, by the way, that one of the imperfections in the Urban Aid Bill, as you know, is that the formula is a very tricky formula. It has also been limited too much. There are a lot of other cities besides the big six to be helped. I am now making Mayor Sheehan's point for her.

MR. WILENTZ: She only made it three or four times in the earlier session.

MR. YLVISAKER: Not only that - I thought we played politics at the State level when that Urban Aid Bill went through and we mandated payroll increases in municipalities with no assurance that we would continue to support those payroll increases. It was "law and order" a year ago in the election campaigns and so we easily gave police and others raises. Many of them deserved it. It meant that the State intervened, gave the raise in effect and then walked out of it and left the mayors and the councils to continue to pay those bills.

MR. WILENTZ: Professor Reock?

MR. REOCK: No questions.

MR. WILENTZ: I almost hate to let you go, Paul, because I know there are so many more things you could tell us about. We appreciate your coming here very, very much.

MR. YLVISAKER: Thanks, and I really do wish you well. I know how tough it is. There are a lot of us out there who are kind of rooting for you right now.

MR. WILENTZ: Thank you.

We are fortunate to have Mayor Blatz here from Plainfield. Mayor, if you would take the witness stand, we would like to hear from you. Thank you for waiting.

F R A N K H. B L A T Z, J R.: I don't know whether I should just say, "ditto," to Dr. Ylvisaker or not. It never ceases to amaze me after three years of watching him that he can come in and expound in a very organized and articulate manner, I think for 24 consecutive hours, without ever looking at a note or pausing or saying "er" or "ah."

I really find an awful lot in common with what the good Doctor said so far as what I wanted to say, so I will try to be brief as I go through my notes here and then subject myself to any questions you might have.

I strongly feel that unless there is major alteration in the system of financing municipal services in the near future, a city such as Plainfield and many others just like us will not survive. Unless there is a statewide revision of the taxing system, the annual "Big Six" Urban Aid Bill will become the "Big Ten" and the "Big Twenty" or the "Big Twenty-Five" Urban Aid Bill.

I haven't come here to ask that the State subsidize all of our activities and all of our finances or undertake the responsibilities at the local level which truly belong at the local level, but rather that perhaps you can create a set of conditions, a framework of reference, in which we can survive.

Presently I feel our State system drags us inevitably toward financial collapse.

I don't even claim that taxes per se are too high compared to the way people are taxed in other countries in this world of ours, but that they are unfairly and disproportionately high in cities like ours because the burden is not evenly distributed throughout the State. As an example, the average sales price of a home in Plainfield in 1970 is \$22,000. The real property tax there is \$1,118. In a contiguous neighborhood in another county less than a mile away, the tax would be \$480 on a \$22,000 home. I submit that this is unfair and to a large extent why the Urban Aid Bill had to come into being in the first place.

In short, the present tax system makes the older cities of New Jersey undesirable as locations for new commerce, industry and housing and places the cities at a disadvantage in the competition for the growth necessary for survival.

I would like to review very briefly for you the economic history of the City of Plainfield. I don't selfishly mean to talk just about Plainfield - and I am sure Mayor Sheehan knows exactly what I am talking about - but to furnish an example that is typical of many middle-sized cities in this State today.

For the last several decades we kept up our well-established tradition of honest, non-partisan government. Our 50,000 residents live in an area of six square miles and we are the cultural and economic center for a population of approximately today a quarter of a million.

In the past, our city government consisted mainly of traditional housekeeping duties that were financed by an ample supply of upper-income housing, a good downtown viable business district and a variety of industry. Today, because of the socio-economic problems we have encountered, that picture has drastically changed. The city government now through charter change is a strong mayor-weak council form of government and we have become forced by economic necessity to involve ourselves in a myriad of new Federal and State programs, some of which have no continuity to the real needs of our community, but they are a means by which we can bring dollars to our community and put citizens, if for no other reason, to work in income-earning positions.

In the future, I clearly expect more demands to fall heavily on local government. Very much unlike our newer and wealthier neighbors, we have to plan urban renewal programs for large areas of our city. We must likewise supply additional facilities for a rapidly growing school population as well as equipping our police and firemen with increasingly sophisticated and, therefore, much more expensive

equipment. Other needs just beyond the horizon will have to be met - pollution, mass transportation and flood control. Our present financial condition allows us no flexibility at all in dealing with large problems.

The growth in demand for municipal services is not unique to our community, but I think what is unique and what the Doctor addressed himself to is that a large portion of our residents today are members of a poorly-educated, badly-trained and socially-ill adapted lower middle class. Thus, in addition to being expected to meet the normal increase in the need for services, we are asked to service a rapidly increasing populace who by their own very nature and makeup require more services. This is the problem of the urban markup, by which we mean that the demand for governmental services is greater in cities that have more lower-income people. The real capsule of it is that poor people are expensive. They require more educational programs, more job training, more health care, more social agency work, more police and fire protection, and more remedial services.

There is no way the normal expenses, coupled with those of the poor, can be paid for when there is no growth in the tax base of a community. The problem of Plainfield is that it is not growing, it can't grow, and it has no way to grow. We have 4 per cent vacant land - 6 square miles. In our own case, we have added nearly \$1,200,000 in new taxable property in the last 5 years. This has brought us additional tax revenues of \$140,000. The demands for increased services during this same 5-year period has added to our municipal budget \$7,200,000.

The causes of our slow attrition are several, but perhaps the most important, and the most impossible to alter, is the accident of history which put Plainfield in its particular geographic location, as a separately incorporated core of what is really now a large city, rather than in the midwest or in Florida where annexation might be possible.

Other causes are the national and statewide demographic and economic shifts which have taken place during the last quarter of a century, over which we have no control. Our housing, our streets, our schools, save our new high school and library, our factories and our commercial facilities, which were prime before and during World War II, are aging and then again are clearly less competitive and less desirable in a society that is now enamored with new roadside shopping malls, modern industrial parks and new large expansive single-family residences on large plots of land. As I said before, we are without land on which to erect new buildings, housing or factories. We have no major highway and thus are denied probably the third major asset that would keep the local economy viable. In short, our resources are gone, our costs are increasing and we really have no place to go for money or for aid but to this location right here.

We aren't asking you to pick up the entire tab of our problems, but we need someone to put a rope down and a system of help that will allow us to address ourselves to the very serious problems.

I am not here to request any particular solution. Short of a new tax, such as a graduated income tax, we would at least ask your consideration for an equalized statewide property tax. If such a system were instituted today, it would result in a statewide equalized rate of 3.56 per \$100 valuation as against Plainfield's present rate of 5.40, thereby giving immediate relief to the extent of 34 per cent to the property owner in Plainfield.

I suggest the devising of a formula of distribution that would take the urban markup, as I referred to it before, into account since it will cost cities such as ours more to deal with the types of problems we have than it costs our surrounding and more affluent neighbors.

I am willing to even go to the extent, since it is so prevalent, if our neighbors who are affluent and are good neighbors, generally speaking, are not desirous of

aiding us in providing housing stock and the value judgment becomes that a city such as Plainfield must become a housing stock for the poor in the central Jersey area, of not shying away from that responsibility. I only ask that our neighbors contribute their fair dollar share in providing us with the wherewithal to deal with this housing problem. We will become the housing stock for the poor if that be the case, but give us the wherewithal to do it and pay a little more for the privilege of not having to dirty your hands and deal with a housing crisis or low-income people.

The problem is very compounded in the Plainfield area. As many of you know, South Plainfield, Piscataway, Berkeley Heights, Warren and Clark have all now beautiful new industrial parks within the last five years. But there is no housing for the labor market for the thousands of workers who must work in those particular corporate golf courses. They are living in Plainfield and they are creating a great deal of additional municipal costs for us - educational, police, fire and other municipal services.

In conclusion, I would just again say that I really ditto in a way what Dr. Ylvisaker said in his organized presentation before he got to the questions. It is probably exactly what I would have liked to have said and said as well as he did. If you have any questions, I will be glad to answer them.

MR. WILENTZ: Mayor, thank you very much. Ordinarily one has to see an individual with his or her own touching problems to feel personally touched. But I personally feel that your presentation was poignant and touching about the City of Plainfield.

Mayor Sheehan?

MRS. SHEEHAN: No questions.

MR. WILENTZ: Do you have any questions, Mr. Frank?

MR. FRANK: If we had a State equalized rate of, say, 3.56, do you have any thoughts on what would be the theory pursuant to which the State would distribute back

to cities? Would you start with so many dollars per student and then perhaps so many dollars per person and then somehow weight it because of these factors of -- What was the term you used?

MR. BLATZ: The urban markup.

MR. FRANK: -- the urban markup? How would you put some figures on that?

MR. BLATZ: As an attorney we always hate the hard questions like that. I was with you all the way, as you put it. I think that you start with the school system and then you start perhaps on a per capita basis also. Then we must devise a factor for the urban markup. I might say that perhaps a way that we could find that-- I think many of you are aware of the law suit which Mr. Ruvoldt has started in Jersey City, which we have just recently joined and I believe Mayor Kramer's community has joined. In that suit, Mr. Ruvoldt by way of computer, etc. has certainly come up with a lot of formulae that he feels could be applicable for, let's say, compensatory education. In other words, take an area where we can't achieve a statewide equality of education just on a dollar basis because of the makeup of particular school districts or the districts within a community. So, therefore, there has to be some compensatory money, some compensatory education made available to those students in a more disadvantaged situation. Could we not expand that formula that he uses or the thinking that goes into that formula and say in the same type of community you have that demand for more police service, more fire service, which also could be computed into a formula? It certainly would be no truly panacea-type formula that would be applicable and help everyone. But I think we could devise a formula which would aid us.

MR. FRANK: May I just add that I thought that both you and Professor Ylvisaker presented lucid and very perceptive testimony.

MR. BLATZ: Thank you. I hope that you will be

able to do something for us.

MR. WILENTZ: Mayor, what is your reaction to Professor Ylvisaker's suggestion that the State take over the entire education bill?

MR. BLATZ: In general principle, I am almost totally for it. I think Mr. Frank raised a very good point about some degree of local control because I envision to a point, when Dr. Ylvisaker got to the end, that the State is going to take over the entire cost of education. And obviously, I think, you are going to have a statewide educational system, which means a statewide teachers' union and statewide principals' union and administrators' union. You are going to be confronted with the possibility of statewide strikes rather than municipally-oriented strikes.

MR. WILENTZ: Assuming you got that strike problem out of the formula, how does it ---

MR. BLATZ: It becomes more appealing to me, but I wonder how you are going to accomplish that. There is a need for some local control, but again going back to what Dr. Ylvisaker said, I think performance is the better criterion. Taxpayers are very satisfied when they are satisfied with the performance of the educational system. Plainfield would be not as badly off as it is if our school system was not in the throes of a great deal of instability now. People in Bernardsville pay high taxes but they are very satisfied with their public school system and they quietly pay their taxes. But in Plainfield, it is unstable and they complain about it because maybe some of the children are in parochial schools or in private schools and they don't like paying the dual educational bill.

MR. WILENTZ: You indicated that short of a graduated income tax, you might want to have an equalized property tax. Would you prefer not to be short of a graduated income tax?

MR. BLATZ: I think it is a much more equitable tax.

MR. WILENTZ: You mean to have the graduated income tax. You made some reference to the urban aid and the method of calculating that. What was your reaction to urban aid programs of the past which in dollar figures were much, much greater than what is presently referred to as urban aid? What I am referring to is the redistribution of 10 per cent of the sales tax funds based upon a straight population calculation and increased school aid based on a straight per pupil calculation without any weighing whatsoever of urban markup.

MR. BLATZ: Of course, I feel there is an inequity in either type of distribution. You feel like the younger brother who sees his older brother get all the candy at Christmas time and he doesn't get any. We were close and, of course, we lobbied very hard because there were several urban aid bills with different formulas, with different population makeups. But to me, that is such a short run. I think the Governor has definitely recognized that it is a patchwork type of relief, that it doesn't really address itself to the real underlying problems.

MR. WILENTZ: Would you regard it as one of the proper functions of the State Tax Policy Committee to address itself directly to this question of housing?

MR. BLATZ: Very much so. It is all interrelated. If you just address yourself to the fiscal problem, the revenue problem, without addressing yourself to the repercussions of what you are going to do with the money once you have it, then you are not really addressing yourself to the problem. The fiscal problem arises because of the other problems.

MR. WILENTZ: And vice versa perhaps. Would you regard it as an adequate solution if all we did was to enable Plainfield to become the housing stock for the poor or do you think it would be our obligation to figure out some way to have other municipalities share the housing burden?

MR. FRANK: It might be a rhetorical question.

MR. BLATZ: That's a very nice leading question. The ideal end result, of course, is to have your complete mix of the spectrum in our society, especially in this highly urbanized area of the northeast. We are not, in my opinion, going to survive in this country unless we can do that; that is, integrated not only racially but socio-economically. I think the duty is there to try and do that.

I have a very nice home in Plainfield and I like having a nice home and respect other people who want to have nice homes. But at the same time, I feel I can live in a community where there are lower income people and moderate income people and Chinese and Blacks.

MR. WILENTZ: Any further questions? [No response.] Thank you very much, Mayor.

MR. BLATZ: Thank you very much.

MR. WILENTZ: We enjoyed your testimony and it was most helpful.

Mr. Joseph Gannon has indicated he would like to appear to testify. Mr. Gannon is the Executive Director of the Democratic State Committee and we are very happy to have you here.

J O S E P H G A N N O N: Thank you, Mr. Chairman. I sought an audience because I was a little bit alarmed up until you asked your last question.

One of the great concerns that I have in terms of the solutions which your Task Force and the entire Commission would offer would be the inevitable result of creating, if you will, economic concentration centers with the poor in one closely-knit area, albeit subsidized by the moneys of the more affluent coming in from the suburban areas.

As I listened to the testimony of Mayor Blatz - and incidentally he is my mayor, I having moved to Plainfield

about four months ago - it seemed to me that if we were to present to the population in general the concept that we can throw off our social responsibilities by providing money and, as I term it, economic concentration camps in centers like Plainfield, I don't think we would answer the solution to the State's problems at all. I think on the contrary we would probably build ever bigger ones, albeit that they were not fiscal ones, essentially.

In that connection I have listened closely to most of the testimony you have heard today. And it occurs to me somewhere along the line the Commission should favorably consider some form of incentives which will provide job opportunities to our less fortunate economic citizens and give them an opportunity to live in suburban centers as well as urban ones. Specifically I think that when your Commission reports, I would hope that they would caution the Legislature to consider the subsidy of rail or other mass transit facilities which would take advantage of not only bringing the affluent to the cities but conceivably bringing the less economic fortunate back out into the suburbs not only for job opportunities but also for recreational facilities as well. This we find, politically speaking, is one of the real great difficult problems which we face.

I think I have given you the thrust of what I had to say relative to the economic or socio-economic conclusions which were offered to you earlier this afternoon.

There is another area, something I would like to say relative to education and its funding. As we have heard here today, approximately 70 cents of every tax dollar is being spent in that field. As we heard earlier today too, it was suggested that possibly a public hearing relative to whether or not we are spending our money properly in that area should be called and those who would be most accountable urged to testify. I have a few thoughts relative to that.

First of all, the question of whether or not plant usage or capital investment is properly utilized seems to me not to be a decision of the educator himself. It occurs to me that we have a fantastic field of waste here. As my very fundamental accounting indicates, we perhaps utilize our school plants approximately 30 per cent of the time. I arrive at this by virtue of the fact that our normal school year is 180 days, which is already less than half of the calendar year, and I point out in addition to that that for the most part we are using them from approximately 8:30 until 3:30 in the afternoon. So when I cite a figure of 30 per cent, I think I am being generous. I think that certainly something has to be done relative to this. This, of course, means taking on the education community establishment. As a professional politician, such risks are not normal to me, but I think someone has got to stand up. We have to start questioning this kind of public expense, which isn't directly related to the educational end product.

I am pleased to note in the same breath, of course, the recent movements in our professional educational circles dealing with accountability. There have been recent articles published and speeches made relative to the fact that many of our professional educators are seriously considering some kind and form of over-all testing services which would prove that we are in fact turning out a good school product. I think this is long overdue. This is something that I think this Commission could quite righteously demand and suggest in the strongest of terms. We cannot continue to fund to the tune of \$800 per pupil on the average in the State our public school system and then turn around and have Assemblyman Richardson testify during last week that most of the children who graduate from the Newark school system are functionally illiterate. Something is very wrong. I think the time to call that to the public's attention is when we are talking about dollars.

These two specific thoughts which I wanted to

make, I suppose I have more than taken your time to make and I won't go into any more details.

It just occurs to me that there is an argument somewhere and somehow to force the redistribution of our population, using tax incentives, so that we get away from this tremendous concentration between the first mountain of the Watchung Chain down to the Raritan and the same argument applies from Trenton in the north down as far as Camden along the Delaware. Between these two corridors there is a large expanse of land which is virtually poorly populated, at least so far as spreading the demand for the State, which I think can be rectified primarily through tax devices which you gentlemen and you Mayor Sheehan are best equipped to suggest.

MR. WILENTZ: Thank you very much, Mr. Gannon. Do any members of the Task Force have any questions?

MR. FRANK: The proposal which we have heard here today and have heard before about eliminating that portion of the property tax of the local municipalities which is geared to service the school costs and having that assumed in effect by part of a new proposed income tax - that doesn't necessarily contribute to or eliminate any of this economic-ethnic concentrations. Were you saying that in some way if you did that ----

MR. GANNON: I simply suggest that if you singularly address yourself to that one problem, that, for example, if you adopted Mayor Blatz's proposal to provide in effect some kind of substitute for what we are doing now, which would have the end result of, let's say, lifting some of the fiscal burden, but also providing or almost dictating, economically dictating, that the poor shall continue to live in one concentrated center, you do not solve the problems of the State.

MR. FRANK: But the remedy for that may have nothing to do with the tax policy.

MR. GANNON: In my judgment in real measure it

does.

MR. FRANK: You think it could be effected by a tax credit?

MR. GANNON: I suggest to you that the sources of that solution are also rooted in fiscal measures, that, for example, if you provide some method or manner in which it pays for a community to have a proportion of lower-income people in the community, then you also begin to solve the socio problem, which could be aggravated by simply saying, "O.K. We'll contribute some money from around the State and keep all the poor in Newark."

MR. FRANK: What, in particular, would make it advantageous for a community to have less advantaged people?

MR. GANNON: It seems to me, for example, that there could be, in fact, a tax penalty for a community which by zoning design or by fiscal design in some way or other decided to keep itself lily white and higher income. You could very well enact some kind of legislation which would, in fact, be a penalty for that community to do so.

MR. FRANK: We have heard the carrot -- or I guess what we have heard is partially a stick and what has been suggested is that every municipality would have to have a certain percentage of housing units for the elderly and perhaps low-cost housing units. Is that the type of thing?

MR. GANNON: That is conceivable. But I think you should even consider methods beyond the carrot. In other words, as opposed solely to incentives, there might also be negative results, negative economic results, built into a tax formula which would increase their load if they were not willing to take upon themselves in their own community a certain percentage of lower income people.

MR. WILENTZ: Any further questions? [No response.]
Mr. Gannon, thank you very, very much. We appreciate your coming here and giving us the benefit of your thoughts. Thanks a lot.

MR. WILENTZ: Any further witnesses? If not,
we will conclude the hearing at this point.

[Hearing Adjourned.]

PRESENTATION OF RALPH P. BARONE, Ph.D.

MAYOR OF WOODBRIDGE, NEW JERSEY

TO

NEW JERSEY TAX POLICY COMMITTEE

TASK FORCE E

ASSEMBLY CHAMBERS

STATE HOUSE, TRENTON, N. J.

DECEMBER 16, 1970

PRESENTATION TO NEW JERSEY
TAX POLICY COMMITTEE
TASK FORCE E

As Mayor of a community of approximately 100,000 population, with about 2/3 of its property taxpayers being small homeowners, who are already over-burdened by an almost confiscatory property tax, I beseech you to recommend to the Governor and Legislature that our State's entire tax system must be reconstructed to alleviate the severe public finance crisis facing New Jersey municipalities -- urban and suburban alike.

Your topic today is limited to the important sector of this immense problem which deals with service levels, costs and allocations, therefore, may I respectfully submit the following brief observations and recommendations for your consideration:

(1) EDUCATION -- Educational costs in Woodbridge constitute seventy cents of each and every local property tax dollar -- and although we are the fourth largest school district in the State, the percentage of our total schools revenue which comes from the State is only 15%, while the State average is close to 30%, double ours!

I'm sorry to add, however, that our schools' costs problem, although severe, is not unique. There are numerous municipalities with somewhat similar problems -- all of which stem from inadequate State Aid!

There is no valid reason why any of New Jersey's school districts should receive less than an absolute minimum of 40% of their revenues from the State. This figure would still be below the national average, which is close to 50%! Therefore, I recommend that the State, under a complete restructure of the tax system, assume its proper responsibility as placed upon it by the New Jersey Constitution (Article VIII, Section 4), "provide for the maintenance and SUPPORT of a thorough and efficient system of free public schools." The first recommendation in a report on State aid to local governments issued by the prestigious Advisory Commission on

Intergovernmental Relations (Report A-34, April (1969)) stated the need for: "...assumption by the State of substantially all fiscal responsibility for financing local schools... and assurance of retention of appropriate local policy-making authority." However, because of the very dire situation facing our homeowner-taxpayers today, some substantial increase, at least to the minimal subsistence level of 40% of needed revenue, must be forthcoming from the Legislature immediately, even before the restructuring of the State's Tax System is completed!

(2) FLOOD CONTROL -- Other than education, there are still other areas of public finance that I feel should have their revenues derived from a much broader base than that presently manifested solely by the very unfair and regressive property tax. I refer to major capital expenditures beyond the existing financial capacities of municipalities, for example, unlike most municipalities, Woodbridge has attempted to correct the serious flood problem that has existed almost as long as the 301 years of our Township's corporate existence. Yes, despite the fact that figures of more than 12 to 15 million dollars were estimated to be needed to alleviate flooding, our town fathers have embarked on this expensive, but essential comprehensive flood control project. Of course, the bonds for this project (since it clearly can not be done as a "pay as you go" current expense budget item) will be adding tremendously to our municipal debt even though the project is being spread over a ten-to-twelve year period so as to minimize the tax impact.

Also, since many of the tributaries that cause flooding in our township also travel through other municipalities, our "gutsy" approach will not completely eliminate all our flooding until these other towns do likewise! Thus, since we have been unique in trying to solve the problem alone (if our capital budget still allows), these other communities will not do so unless they receive help from the State. Therefore, I feel that municipal and intermunicipal flood control projects should receive

substantial state financial assistance (which should also be supplemented - not replaced -- by Federal assistance).

(3) REFUSE AND SEWAGE DISPOSAL -- Another service now performed municipally, that I feel can, and should be, shifted to appropriate inter-municipal regional authorities, is that of refuse and sewage disposal. Again, because of the massive, almost incomprehensible sums needed to construct such facilities, municipalities, limited to property taxes for their revenue, are unable to properly provide for this crucial, ecological enigma.

Therefore, without substantial aid from the broader-based tax capacities of the Federal and State governments, these new facilities, which are already long overdue, will continue to be delayed--thus creating more and more irrevocable damage to our environment, especially our urban rivers and waterways. This aid from "above" MUST be forthcoming as soon as possible!

(4) Although there are other municipal services that may be brought before you as in need of State and Federal Aid, I feel, at least as far as my town is concerned, that if the State (in conjunction with Federal funding) would provide us with the cost of education, and substantial aid (from 70% to 90%) towards massive, but necessary, capital expenditure projects such as flood control and sewage-refuse disposal, then, the remaining municipal services -- at least for the decade of the 1970's -- would be within the capacity of our local property taxpayers. (Of course, I have excluded welfare as a municipal cost because there appears to be no debate whatsoever remaining that the costs for this program should be 100% Federally and State funded.)

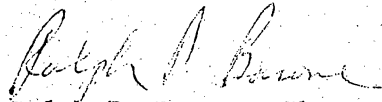
(5) "Home rule", in its presently limited state, would remain unchanged by my above recommendations. Except for some possible, minimal

review by Federal and State officials, the subjects discussed above would not need any shifts in control away from "home rule".

Thank You for your kind consideration of my presentation. I hope that after you complete your deliberation on the subjects with which you are charged, your recommendations to the Governor and Legislature will cause the much-needed, and long overdue, revision of our patch-quilt State tax structure so as to more efficiently -- and most importantly, -- more fairly, provide the revenues needed to fund the essential services of municipal government.

Thank You again,

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ralph P. Barone".

Ralph P. Barone, Ph.D.

Mayor, Woodbridge Township

To New Jersey Tax Policy Committee
Task Force E
State House, Trenton, New Jersey
December 16, 1970

Statement of Mark M. Jones
P. O. Box 268
Princeton, New Jersey 08540

Service Levels, Costs, and Allocations

I appreciate the opportunity to appear, as a citizen and taxpayer of New Jersey, in the role of a self-appointed agent of the public interest. I think the time has come when we should be realistic about the reasons which led to the appointment of the Tax Policy Committee and its Task Forces.

The chief reason is coercion resulting from the rise and domination of self-interest pressure groups over the past generation and the half-baked economics which they have embraced and put over on government and the people.

Self-interest pressure groups not only have built up a controlling position but have succeeded in slanting more and more legislation as well as pressuring its enforcement. This has moved us in a direction which prefers or privileges perhaps 5 percent of the population at the expense of the 95 percent, which is ignored. It is a case of domination by selfish interests and disregard of the public interest.

This trend has had an important effect also by way of preventing the logical development of a governmental management system which is concerned with representing the public interest in an efficient and responsible manner. The disregard of fundamental economics and mathematics by selfish interests and their pressure upon government to do likewise has brought about the greatest inflation in our history. It is our first inflation of the kind, and it has occurred almost entirely in the public sector. Its seriousness may be indicated briefly by pointing out that since 1933 it has resulted in destruction of the purchasing power of our money to such an extent that the value of the dollar, compared with that of 1933, is now down in the vicinity of 16 or 17 cents. A primary question, therefore, is whether we are going on to complete destruction of the value of the dollar, as the French did with the franc in 44 years beginning with 1914, or whether we are going to stop the degeneration and re-establish a new and sound position.

It is from such a background of causation that I venture to refer briefly to several concrete fundamentals rather than to attempt a theoretical and technical analysis of a nebulous topic such as "Service Levels, Costs, and Allocations."

The Problem

The first proposition that I submit pertains to the basic problem that confronts the Tax Policy Committee and all of its Task Forces. The overall problem is not taxation. It is excessive spending. The property tax is not

a key factor in the situation. The key factor in the property tax category is the increasingly excessive spending on public schools. Impartial estimates suggest that as much as half of the amounts now being expended on the public schools may be questionable.

Demands for Services

My second proposition is that so-called demands for services from government, which are supposed to call for more and more spending and taxing, are synthetic and artificial, and have little relation to the real public interest. Few come from the people. Most come from self-interest pressure groups, organized to use government as a front behind which they prey upon citizens and taxpayers. The most pressure comes from political agencies and spenders employed in government. Most of them blatantly ignore the question that comes first - how a so-called need might be met by some private means rather than to put it over on government at the outset.

Federal Taxation

Federal taxation is another important factor in the economic and tax problem of New Jersey. Its impact no longer can be disregarded. The public interest and a return to sound economy require that the State government confront this question and start a movement which will deal with it from the standpoint of the long-range interests of the people and the State. It is not a matter of resorting to a palliative in the name of revenue sharing, as is being proposed by political spenders seeking more to spend. The Federal tax take is now so excessive that it should not be called taxation. It would be more accurate to call it embezzlement or expropriation.

The Accounting Principle

The accounts of government usually are on what technically is called a cash basis. This is the simplest form of accounting. It is supposed to serve to keep track of the flow of revenue on the basis of cash receipts and cash disbursements. However, a system predicated on it meets needs only when there is no important amount of cash to be controlled and managed. The cash basis for government accounting was rendered obsolete long ago by the growth in amounts and in the volume of transactions. It is not possible really to face the basic situation in this respect in New Jersey unless we work out an accrual system of accounting. Until then, we will not be able prudently to keep track of and manage the enormous sums as well as properties now to be sustained in any reasonable way.

Results and Costs

Government at almost every level is still only half-baked with respect to confronting the elementary requirements of responsibility and management in the handling of the affairs of the State. The principal reason for this is that no adequate provision is made for the assessment or measurement of results and costs. Until program-making begins with an assessment of each project to be financed according to its results during the immediately preceding fiscal period, together with an assessment of costs for the same period, there is no reasonable basis for determining whether the project should be continued. As a rule, a spending project should be considered for discontinuance once in each fiscal period either because of its possible failure to meet the need for which it was established, or because it has succeeded in meeting the need and is no longer necessary.

Statistical System

In the absence of a comprehensive picture of the existing statistical system for the New Jersey economy, one can only surmise about it. That it is a hodgepodge of accumulations, not put together according to coherent principles, is probably a proper inference. Such a hodgepodge leaves out of consideration proper measurement of value and the need for activities carried on by State and local governments as well as the impact of the activities of these governments upon the citizens and taxpayers of the State. Also, it does not provide the proper information about adjoining States and particularly the many pertinent factors about their competition with New Jersey.

The Appropriations System

The appropriation-making system of the State government also suggests more of an expediency hodgepodge aimed at keeping on keeping on. It apparently begins in mid air and proceeds from the top down instead of from the bottom up. It results principally from the fact that the press and the politicians have joined together to condition public opinion to believe that the logical starting point in making up a spending program for government is with needs. This means, of course, every kind of need that can be conjured up by anyone who thinks he might be able to use the government for selfish purposes. We now hear a constant clamor about crises of the cities and crises in spending for this or that program of government. All of which is phony. There are no crises except in the minds of politicians who want to get more money to spend without justifying it.

There is only one logical basis on which to predicate spending by

government. That is to begin with amounts reasonably available to spend on the nonproductive overhead expense of the economy without subjecting the taxpayers and citizens to undue strain in maintaining their scale of living. Government does not come first. It is supposed to be for the people.

The Image

Finally, I suggest that the image being projected by the State government as to its attitude with respect to the economics of a nonproductive overhead system, is of the greatest importance. If each problem which crops up is to be discussed in terms of increasing spending and perhaps increasing taxes, it naturally tends toward further unsettlement in the public mind and heightens the widespread belief that the wild and baseless spending of recent years will be continued. On the other hand, if the public statements made by public officials with respect to such matters proceed from the standpoint of prudence and responsibility, it will soon result in a different state of mind and less concern on the part of the public generally. At the present time, we are in what some call a recession and others call the early stages of a depression. This, of course, is primarily due to the psychology of the public as it reacts to reckless and unintelligent statements of political authorities. Most thoughtful persons are concerned about the signs of spreading revolt among citizens and taxpayers with respect to excessive government spending and irrational taxing.

"Government is a trust, and the officers of the government are trustees; and both the trust and the trustees are created for the benefit of the people."

- Henry Clay

TESTIMONY OF PAUL N. YLVISAKER
BEFORE
GOVERNOR'S TAX STUDY COMMISSION

November 24, 1970

Thank you, Mr. Chairman, for the opportunity to present my views to your commission. We, who are newly on the outside, don't envy you your task. You are at the center of the most critical issue facing New Jersey. In the long list of things this state must do, tax reform has to be first, both in importance and time.

Right now, New Jersey is fighting its tax system -- that is, if anything as chaotic as our revenue-raising methods can be called a "system." Presumably, we levy taxes to raise the money needed to do the things people want government to do. But the result is often just the opposite. Many of the things we want to do, and should do, cannot be done, simply because they run head-on into the tax system that raises the money to do them. We are all familiar with the absurdities that result. In fact, we may be too familiar with them. We have learned to accept the unacceptable.

How much sense is there in a tax system that makes it financially undesirable for a municipality to be the site of a park, or a college or a museum? What logic is there in raising money to pay for schools in a way that forces municipal governments into the demeaning business of putting up barriers against families with children? Why should a factory that pollutes the air, water and landscape be looked at and chased after as a tax asset? What kind of tax system is it that forces our once thriving urban center into a virtual bankruptcy? Why should we force municipalities into a merciless competition that threatens to make losers of everyone? This is what we do with our present taxes. And to top it all, we accept these bad results in the name of a package of taxes that is regressive, inequitable, and hard to administer.

While there are a lot of things wrong with New Jersey's taxes, anyone who has worked in or with local government knows that the worst of all is the property tax. No state is as hooked on the property tax as New Jersey is. We are approaching two billion dollars a year in property tax collections. This would be an enormous burden if it were spread evenly across the state's population. It is the equivalent of a 20 per cent sales tax on housing or a six per cent gross income tax, no deductions and no exemptions. We would almost have to triple New York State's income tax rates to produce as much as the property tax extracts from our residents. But even worse, the tax is not spread evenly. From one municipality to the next, the burden varies. Our Teterboros get off cheaply while our Newarks are given cruel and unusual punishment. And within municipalities, one taxpayer may be under-assessed while his neighbors down the block are being over-taxed. The property tax is a difficult tax to administer even with ideal laws and assessment agencies; New Jersey's are certainly short of the ideal.

The pressure of the property tax distorts development patterns in the state. In our older cities, private construction of housing has stopped. In the rest of the state, zoning designed to hold down property taxes helps to price most New Jersey families out of the housing market. Even if interest rates drop back to more tolerable levels and mortgage financing becomes more available, the property tax will continue to stifle housing in this state unless there are fundamental changes. It has become almost a cliché in New Jersey for people to warn that the property tax "is approaching confiscatory levels." When you see the abandoned, vandalized buildings in Newark and our other old cities, you realize that they have passed the point where an additional levy will bring any additional revenue. It will only drive out the home-owners and taxpayers who remain.

It makes sense for some of our government services and planning to be done regionally, but the local property tax makes it impossible to do such sensible things. The legal experts tell us that our state and federal courts are getting ready to throw out many of the zoning

practices which prevail now. This, too, would be sensible. But if it happens without fundamental changes in our property tax system, the results may be extremely painful for even those municipalities which until now have found sanctuary in exclusionary practices.

The property tax is the major source of revenue for running our public schools. If it were a good source for this revenue, then maybe we could accept all the other evils the tax perpetrates. But we don't have even that consolation. You are all familiar with the statistics that show some municipalities able to provide money for education with a moderate tax effort while others cannot provide minimal levels of education even with crushing tax rates. This is unfair to thousands of our children, wasteful of tax money in the long run, and some people think it is even slightly illegal, since our constitution says it is the state which has the duty of providing for a free public school system for all of our children.

Finally, the property tax is a constant obstacle to doing many of the things that are necessary if we are to avoid the Kerner Commission's forecast that this nation is headed for racial and class division, "two societies, separate and unequal."

Thus, I think we need to reform the ground rules of our tax system, if we are to make any headway against our most serious problems. That reform has to start with the property tax. If we walk around that issue, then we head further into the quicksand of unjust, counter-productive tax policies.

We should seek a new tax system which is based on ability to pay, which reduces the competitive scramble among municipalities, which grows as our economy grows, and which produces results we can live with.

The first principle I think we should follow is that income taxation, not property taxation, should be the keystone of our tax system. A graduated income tax is the most equitable way to raise government revenue. It has the added advantage of producing revenue growth that outpaces the economy without increasing the rates. Increasing

affluence and inflation force continuous rises in sales and property tax rates. A graduated income tax produces more revenue as affluence and inflation drive up government costs -- what the economists call "income elasticity." A study by the Brookings Institution recently pointed out that federal income tax rates have been reduced during the past two decades while producing vastly more money. What other tax could make that claim?

I would not like to see an income tax simply piled on to New Jersey's present heap of taxes. I am not one of those who thinks that an income tax is good for the soul, whether you need the money or not. It has been pointed out that New York State has a tax system much like New Jersey's except that it imposes an income tax and provides a higher level of state aid to schools and municipalities. The percentages are different in New York, but their prospects are no better than ours. The key mistake New York made is that it enacted a full array of taxes without doing anything significant about its property tax.

I believe adoption of an income tax in New Jersey should be coupled with abolition of as much of the local property as possible. This would both sound policy and sound politics. Done properly, it would produce good results on housing, education and development patterns. It would also assure taxpayers that for the first time, there would be visible property tax relief.

The most sensible portion of the local property tax to abolish is the local school tax. It is the cause of most of our bad zoning, bad planning, municipal competition and unequal education. Our schools should be financed by state taxes. I know an income tax would not provide enough money to replace the entire local school tax. But it could replace most of it. If we must still tax real estate to pay part of the school costs, then the state should levy that tax at a uniform, statewide rate. This is what Governor Milliken proposed in Michigan and it has been endorsed by leading educators. It removes the motive for fiscal zoning and provides a mechanism for equal educational opportunity, regardless of where a child lives.

Newark is New Jersey's prime city, the headquarters of principal firms, and the primary case of our failing fiscal system. Its critical financial position can no longer be ignored -- or callously dismissed as a case of municipal corruption. A new mayor is making a new start -- even offering to pay most of the costs by a local tax effort -- if only the State will allow him. He can't add to the property tax without losing his taxpayers. He is ready to risk a payroll tax. What really makes sense would be for the State now -- and not after the safety of next year's election -- to face up to the immediate necessity of a state income tax that would recognize the State's obligation not just to its principal city, but to the hundreds of its other municipalities who have been consigned by our present tax structure to the moral and fiscal bankruptcy of beggering themselves and their neighbors.

I am sure that state financing of local school costs could be done without taking away the local power to set school policy.

Use of an income tax would provide the state with a mechanism to solve some of its other tax inequities. Instead of trying to make the sales tax equitable through exemptions -- an effort that is bound to lead to special deals and injustices -- we could eliminate the exemptions and pay rebates on the basis of income. In the same way, it would be possible to provide an equitable housing rebate to elderly people. The \$160 property tax deduction our elderly will get next year does nothing for those who rent their housing, an obvious injustice especially since their rent includes the property tax that the owners pass on to them.

I hope your commission will look at the hodge podge of taxes which are collected by the state and returned to municipalities through a variety of miscellaneous formulas. These include the bank stock tax and taxes on public utilities. We should see whether these taxes are being distributed in a way that is just and productive, or whether they include inequitable windfalls.

I believe that fundamental tax reform must do something about the critical condition of our central cities. With few exceptions, they are in terrible financial shape and they are not improving. We all have become conscious of the situation in Newark in recent months.

Abolition of the local school tax would provide some help for the central cities, since it would reduce their local property tax burden. It might also set in motion long-term development trends that would make the cities economically viable. But in the meantime, the central cities must get special help.

One constructive step would be for the state to pick up, on an interim basis, the full cost of welfare in New Jersey. This would ease the property tax burden in the central cities and their suburbs. I don't advocate this as a long-term program. The federal government must take over financing all welfare in the nation. It calls the economic tune and it should pay the piper. New Jersey should take the lead in pushing for federal assumption of welfare costs, and I don't mean through some feeble words and gestures. It should actively use every resource it has to get the federal government to do its proper job.

In addition, we should reform and expand the urbanaid program that has been in existence for two unsatisfactory years. We are now distributing \$12 million a year to the six largest cities according to a formula that reads like something from Alice in Wonderland. Far more money should be put into the program. Some of it could come from the \$25 million which municipalities get as a return on the sales tax. The money should be paid to those municipalities, regardless of size, who tackle the state's most difficult social problems. -- those who provide housing for the poor and near-poor, who zone for people and not against them, who take on the welfare burden, who provide sites for heavily used tax-exempt facilities, who accept regional responsibility.

Any municipality that takes on such urban responsibilities should qualify for aid and the formula payments should be large enough to make it worth their while. If our old urban centers continue to be the only municipalities that take on these social burdens, they will get the lion's share of the urban aid, and they will need and deserve it. If developing areas which foresee their urban futures decide to take on such problems in exchange for state urban aid, we may open up housing and environmental choice for many people who now have no choice.

I think we should press for the same principle in any federal revenue-sharing legislation. Otherwise, revenue-sharing could become simply another inadequate crutch for state and local governments. For those who look to federal revenue-sharing as a future pot of gold that will buy us out of our financial problems, I would advise healthy skepticism. The amounts of money being talked about-- and it is only talk, so far -- will not do enough of a job. The revenue-sharing legislation lying dormant in Congress now would build up only after five years to an allocation to New Jersey not large enough to cover a one-year increase in our state and local budgets. And when such money should ever start flowing, I personally would argue that not a dime of it should come to any state that had not straightened out its revenue systems and made the kind of a tax effort that a shift to an income tax base and an equitable formula of distribution among its own municipalities.

I know I have put before you some suggestions that involve the most sensitive and controversial issues facing this state -- an income tax, constitutional change, welfare financing, educational financing, aid for central cities. Politically, many of these things would be tough to do. But I believe the alternatives would be much worse. I respectfully urge you not to back away from what is politically uncomfortable when such great issues are at stake. You represent what

very well may be New Jersey's last real chance to do something constructive about its tax system. Two hundred years ago, another group of Americans risked not only their civic and political comfort but their lives to make the kind of fundamental changes that were necessary for our society's continued welfare and survival. The time has come -- is a fact long overdue -- for another exercise in statesmanship and courage.

Thank you, again, Mr. Chairman.

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