
Public Hearing

before

ASSEMBLY LOCAL GOVERNMENT AND HOUSING COMMITTEE

ASSEMBLY CONCURRENT RESOLUTION No. 145 (ACS)

*(Proposes amendment to Constitution to authorize Legislature
to permit municipalities to replace single tax rate system with
site valuation system for school and municipal tax purposes)*

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: March 10, 1999
11:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Michael J. Arnone, Chairman
Assemblyman Jerry Green
Assemblyman Donald Tucker

ALSO PRESENT:

Robert H. Levin
Joyce W. Murray
*Office of Legislative Services
Committee Aides*

Anthony Carabelli Jr.
*Assembly Democratic
Committee Aide*



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The Office of Legislative Services, Public Information Office,
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ASSEMBLYMAN MICHAEL J. ARNONE (Chairman): Sorry for the delay. We're going to open the public hearing on ACR-145.

Almost everyone here, I'm sure, is well acquainted with this issue. In essence, what it is, is a restructuring of the property tax as we know it. It will be a permissive tool. This is not for every municipality in the State of New Jersey. That will be defined and narrowed in the enabling legislation -- that if this particular amendment is favored by the public in November, then we will get to structuring the enabling legislation and define and narrow it in scope. The amendment in itself is broad and general in nature, which prevents it from being used in open areas and pristine areas, environmentally sensitive areas, farmlands, and places that we don't want to see it happen.

Here again I would like to say this is, certainly, not to be thought of as to be used by every municipality. And what it is, basically, is to set up a two-rate system. As most everyone knows, the property tax is a one single rate that is applied to both improvement and the land on a particular parcel.

What this sets out to do is to make two rates -- one rate for the land and one rate for the improvement -- and shift more of the tax burden onto the land than on the improvement. Now, the manner in which the property tax works today, especially in our urban areas, is that someone with a very high tax rate that does exist -- high tax on their improvements in that area -- sets out to improve their particular structure, whether it be a house, whether it be a business of any sort. The State comes in-- The municipality comes in and reassess that improvement and adds to their tax burden.

Now, what we-- And as a matter of fact, if someone has a parcel and keeps it vacant or allows it to run down to a great degree, the municipality has the option to come in and reduce the taxes on that particular structure.

What we set out to do with this is reverse that process. We'd like to reward those that build in our cities. We'd like to-- If we want to see more housing, if we want to see more enterprise, more businesses, then I would suggest we tax them less. This I thought of to be a very pro-business enterprise, very pro-business initiative. Unfortunately, I don't think it's-- There are certain segments of the business community that don't view it the same way I do.

However, we're going to get into some testimony here today. I kind of think-- I haven't counted up all the speakers, but I know we must have in excess of 15 people that want to address this particular Committee today. I'm going to ask those who want to speak here to try to keep their remarks down to about three minutes or so, and then once we make a run through everyone, if anyone wants a second opportunity, they certainly can have that. But I'd like to get, certainly, as many people to address this issue as they would like to.

We have one resident of the state that came here today, Teresa Twomey, who is an attorney and a professional mediator and a mother and also an active member in her community. She is from Teaneck, and she's worked tirelessly with the Teaneck Farmer's Market Committee and does a lot of committee activism and--

Ms. Twomey, would you like to just come up and make your remarks?

TERESA TWOMEY, ESQ.: Thank you very much.

I figure you're putting me first so that I can get out of the room if the baby starts screaming.

ASSEMBLYMAN ARNONE: Push the button. (referring to PA microphone)

MS. TWOMEY: The green light isn't coming on.

ASSEMBLYMAN ARNONE: You're on. It's the red light.

MS. TWOMEY: Oh, okay. Can everyone hear me okay?

ASSEMBLYMAN ARNONE: We can hear you.

MS. TWOMEY: I'm here because I'm very concerned that our communities, our cities, and our state-- I have a strong commitment to our future, part because I want my daughter to grow up in a state where she can go into cities like Camden and Newark and enjoy what they have to offer without fear and because I'm excited to be a part of something that is such an important opportunity for our state.

In Teaneck, many of us are working very hard to keep the community very viable and productive. And I believe that this bill will make it easier for us, and it will make our efforts have a longer-term success.

When I first learned about this type of taxation, I had concerns. I was concerned about open space, farmers -- my family background is farming -- the burden it would have on small towns and why it wasn't already being used. I was very cautious. I'm a bit analytical in nature. I got perfect scores on both of the logic sections on the L-STAT, the law school exam. And so I went over and over it to make sure that I really understood what this would do.

I'm happy to say that I can sit here today in front of everybody and support this bill.

I made sure that this bill specifically excludes areas where undeveloped land is used for open space and farmland and that this tax system would not burden small towns and suburbs in order to redevelop our cities. And I'm encouraged that this type of tax would benefit people like me if it were implemented in a place like Teaneck.

I'll give you one personal example. I want to remodel my kitchen. I have a very small, tiny, dark kitchen. I have a room available that is large that I could remodel into a bright, large kitchen that would be the best use for my home, but I do have concerns about what that's going to do to my tax bill if I improve my house that much.

With this bill I wouldn't have to worry about that. I would simply do what would make most sense for my house and build a bigger kitchen. My lot, however, the taxes may actually increase on because it is a large lot in the neighborhood that I'm in. However, I can understand that. I use more space than my neighbors. I can understand my taxes being a little bit higher because of that. But it rankles me to be taxed higher on something that comes out of my own effort, that is, improving my home.

I can understand why something like this is not already used. Change is frightening, it's difficult, it's confronting, it stirs up a lot of fears and uncertainties for us, but change is also the key to growth and progress. I can understand the fears of people who are now prosperous in the system the way that it is and that they might not want change, no matter how promising this may be for our cities, no matter what promise it holds, because they're

comfortable in the status quo. But our cities are not comfortable in the status quo. And in the long run, the current system isn't healthy for our state. I believe that this bill can help our cities out of the plight that they are in and be healthy for the state as a whole.

So I encourage everyone here, the Committee, the public, all of the interested parties to take a very careful look at this bill and really seek to understand it so that you can understand the possibility that this holds for the rebirth of even the most troubled cities in our state. I believe you will support it.

ASSEMBLYMAN ARNONE: Thank you. Thank you very much.

I would like to say, also, that this-- We have court stenographers here. I would like anyone who wants to address the Committee or address us here to please use the microphones and come forth. We don't want anyone from the audience yelling out because it's going to confuse the recording of this particular meeting.

David Welsh. Is David Welsh here?

Thank you for coming, Mr. Welsh.

DAVID T. WELSH: Thank you.

Good morning, my name is David Welsh, I'm a Vice President of Gale and Wentworth, L.L.C., of Florham Park, New Jersey. One of my primary responsibilities at Gale and Wentworth includes managing its development projects in the New York and New Jersey metropolitan area. Founded in 1988, Gale and Wentworth is a diversified real estate investment and services firm headed by principals Stanley C. Gale and Finn Wentworth. The firm employs 340 professionals who oversee a 20.3 million square foot

portfolio of office and industrial buildings, of which 15 million square feet is located in New Jersey. In addition, Gale and Wentworth owns or controls over 2500 acres of vacant land in New Jersey, which are in all stages of approvals for development, and is currently in the process of constructing approximately 1 million square feet of office buildings in New Jersey. We generate well over \$25 million in property taxes annually to New Jersey municipalities.

We at Gale and Wentworth strongly oppose ACR-145. Allowing the municipalities to impose higher tax rates on vacant land parcels will result in decreased value on the land, thereby making them less attractive to development due to higher carrying costs. This will encourage developers to look at other parcels out of state, thereby making New Jersey and its targeted growth areas less competitive and attractive to businesses. With respect to the land currently owned by developers, increasing the carrying costs will not create an incentive to build and will not revitalize our urban areas. Rather, it will have the opposite effect. Today, developers do not develop unless the project is justified economically. Construction lenders do not lend developers the funds necessary to build unless the projects make economic sense. Increasing the taxes on vacant land, which is not economically ripe for development, will not spur its development, but may even force developers, without deep pockets, to stop paying the taxes, ultimately, leaving the municipalities with the land and its problems. It is the market forces and not taxes which dictate economic development.

Raising the cost of holding vacant lands will discourage well-thought-out projects that take years of planning, such as developments like Park Avenue of Morris County in Florham Park and the Prudential Business

Campus in Parsippany, thereby leading to more piecemeal development. Under normal market conditions, these large development projects naturally take between five and ten years to fully develop. Developers build in logical phases of development based upon the market's demand for the product.

Even if the advocates of ACR-145 were correct and this bill caused developers to build as a hope to escape the tax burden, the demand would not be sufficient to absorb the huge influx of supply. Supply over demand was one of the primary causes of this area's last real estate recession. Artificially spurring construction in a market that does not have demand to balance the new supply will have a huge negative impact on the economy and the real estate community. This market fundamental was tested not too long ago. Interestingly, changes in Federal tax regulation in the early 1980s, such as the Economic Recovery Tax Act of 1981, which allowed the cost of property to be depreciated under an accelerated schedule over much shorter periods of time and allowed the property's losses to be offset with owner's ordinary income, gave developers an economic incentive to build even if the projects were not economically justified. Most of us remember that not too long ago the huge oversupply of development in New Jersey eventually led to the real estate meltdown of the early 1990s.

It was announced today, on the front page of the New Jersey Section of the *Star-Ledger*, that Gale and Wentworth, along with a larger consortium of dedicated business, and the Nets sports franchise have proposed a plan to commit in excess of \$300 million for a new sports arena in downtown Newark which will be surrounded by office buildings, stores, and a professional soccer stadium. It is our vision that this project will revitalize the State's larger

city of Newark. We feel ACR-145 may jeopardize our plans for this project. I can't think of a more perfect example of how ACR-145 may jeopardize this very real project.

In closing, we at Gale and Wentworth urge this community to consider the huge negative consequences which ACR-145 will inevitably cause and ask that the Legislature not approve this bill. There are many other more effective ways the New Jersey Legislature can aid urban revitalization and economic growth, such as the enactment of the Brownsfield and Contaminated Site Remediation Act. Gale and Wentworth would be open to assist in exploring these alternative approaches and would be pleased to discuss our thoughts with any members of the Committee in more detail.

ASSEMBLYMAN ARNONE: Thank you.

Just a few questions.

You stated that if tax is increased on the land that the value of the land will fall, which is possible. That may happen. But would you say that more land would come on the market if that is the case -- more vacant land if that were the case? Is that your experience?

MR. WELSH: I can't say that that would be the case.

ASSEMBLYMAN ARNONE: Well, like bonds, right? You raise one thing, the other thing goes down. If you raise the tax, the price of the land should come down.

MR. WELSH: Property owners don't want to take losses, and they would not want to sell their properties at lower values than what they've bought them at originally.

ASSEMBLYMAN ARNONE: Well, they'd be spurred on to develop it then or try to or just not want to absorb the higher tax on the land. Is that what you're saying?

MR. WELSH: Most developers can just -- or do not have the funds to -- by themselves to build developments. Most projects are funded with construction lenders and banks. And banks will not look at-- They're not going to look at just the incentive to build just to build. It needs to make sense economically for lenders to fund the developers the funds.

ASSEMBLYMAN ARNONE: Would it be a fair argument to say that if land -- the tax were raised on the land and the price of the land was to fall-- And you suggested a scenario of abandonment. Do you think that could create the scenario -- or maybe someone could come and gather up these parcels and develop them -- one large developer could come in then? It would be easier for him to develop these parcels.

MR. WELSH: Even if the prices for land-- Even when the land decreased, the carrying costs would more than overcompensate for an equivalent of higher land value because, even though the value of the land is less, the carrying cost would be more. We feel it would even have an expedient negative impact on the land.

ASSEMBLYMAN ARNONE: Oh, the value of that land is actually, in essence, the rent plus the tax. The capitalized difference between the rent and the tax that you pay -- that's what would determine the value of the land. It would fund its own level.

Now, the abandonment that you see that is going to occur-- Have you ever examined any of these Pennsylvania cities that have put this in? This

is not-- This has been around awhile. This has been around since the early 1900s in a couple of cities in Pennsylvania. I think, right now, close to 30 to 40 of them employ this and for quite a period. As a matter of fact, Governor Ridge, November 24, signed into law 996 more towns in Pennsylvania to use site valuation. Have you ever examined the history of this, of what's occurred in these areas, to see whether it works or doesn't work? Have you looked into that at all?

MR. WELSH: Yes, we're in the process of looking into that. From what we have looked at, we do not see it having the positive impacts.

ASSEMBLYMAN ARNONE: What area did you look at?

MR. WELSH: We're in the process of studying that right now.

ASSEMBLYMAN ARNONE: What area did you look at?

MR. WELSH: We're in the process of looking at that right now.

ASSEMBLYMAN ARNONE: In other words, your opposing this as you are looking into it. Is that it?

MR. WELSH: Correct.

ASSEMBLYMAN ARNONE: Your opposing this on the (indiscernible), as they would say in Atlantic City.

MR. WELSH: No, I don't believe so.

ASSEMBLYMAN ARNONE: Okay. That's fine. Thank you very much.

MR. WELSH: Thank you.

ASSEMBLYMAN ARNONE: Thank you.

Drew Harris -- Professor Harris from Fairleigh Dickinson.

What is your expertise at Fairleigh Dickinson, Professor Harris?

DREW HARRIS, Ed.D.: I'm a professor of management at the Business School, and in my capacity there, I study system structures that have people -- be sustainable over a long haul.

ASSEMBLYMAN ARNONE: We don't really quite understand the workings of the academic world, but let me ask you a question. Could you be characterized to be placed into the category of business-friendly or are you business-neutral or are you business-- What is your classification?

DR. HARRIS: I wouldn't be in business school if I weren't excited about business and about-- Let's face it, business is the engine for all of our prosperity, so I'm very much in favor of our businesses being successful, all of our businesses. And I'm here speaking in favor of ACR-145, and I'm very pleased to do that.

One of the things-- I have the feeling that because-- On the one hand, this is a very simple bill, but the implications are fairly complex. There would be a lot of misunderstanding here if we don't get a couple of things straight about the bill. What we're looking at right now is a constitutional amendment that would provide a structure whereby the Legislature could enable certain cities to take actions in changing the structure of the property tax. Now, it's not something that's going to address classifications of property, it's not something that's going to address specific assessments on specific pieces of property. This doesn't -- isn't going to allow the Legislature to say, "Oh, you can go and reassess the rates on one particular parcel." It's about the whole town. It's important to get that out there. It's also-- The simple part is that it's about lowering the taxes on improvement, that is, lowering it on our buildings, lowering on our factories, lowering it on our homes, and then raising

the taxes on site value, and that is real value, you know, not some fictional value.

So what it does is that it has both a very powerful carry-- And make no mistake about it, lowering the taxes on improvement is a very powerful carry. Every piece of development that we see -- every major development spurt in our cities here in New Jersey -- I lived in New York for a long time -- happen when there were abatements on property improvements, only those abatements, usually, were targeted at one particular group, one particular classification of buildings. This is an abatement for everybody.

When you look at this, it's not playing favorites, it's a level playing field, which is something that-- We in the business schools believe in market economies, we believe in fair competition. So this levels the playing field by giving everybody an economic opportunity to improve themselves. And it turns out that in the studies, and you'll hear some more from some economists here later about these studies, that that carrot -- that incentive to say, "Look, we're not going to punish you for building now," is a lot more powerful and potent than the so-called stick of saying "We're raising the taxes on the vacant land." It turns out that those two differences don't have the same coefficient -- the same multiplier. It is a lot more potent to say, "We're going to abate your taxes on improvements."

So this is a thing that would be good. It would be good for our large businesses, but it is also good for Main Street businesses, businesses that don't have a 10-year planning horizon. They're saying, "Hey, look, we see some demand. I need to expand my hardware store," or, "Hey, look, I got a printing press, and I realize I can get a second press on if I can put an

extension on my building here but to put that extension on right now means that I'm going to get penalized." And that little business person doesn't have the opportunity to go to the mayor of their town or to the Legislature and say, "Hey, give me a tax abatement." They don't have those resources.

This kind of law is really a law that gives everybody the opportunity to have the opportunity to build their businesses, to improve their homes without being penalized. So it really is-- It's like a tax abatement for Main Street. And it's a tax abatement for our larger businesses. I'm not-- Suspected there are going to be some folks here that are going to say, "Gee, we're afraid of what it's going to do to our business." Well, they haven't really -- I would suggest that they haven't run the numbers yet, and they haven't really looked at the evidence because-- I can spend all day up here citing studies from every continent on Earth, except Antarctica, where this has worked. It's been in a hundred cities all over the Earth. Not once has it created the kind of abandonment and disruption that you've already heard one person talk about here, not once.

So it's good for business, it's good for homeowners. I'm really excited that this is coming to my state, and this is my state. I've got a family here, I got a home, I got roots here, I got a future here, and this has got a possibility of creating a much better future for us.

ASSEMBLYMAN ARNONE: Thank you very much, Professor.
Michael McGuinness.

We've got Assemblyman Green and Assemblyman Tucker here with us. I failed to introduce them. Assemblyman Tucker is on my far left, and Assemblyman Green is third from my left.

Mr. McGuinness, I want to thank you for coming today.

I would like to say, before you make your remarks, Mr. McGuinness, I feel I'm in a very uncomfortable position because I've always been a friend of New Jersey BIA, and I see Mr. Woodford there. I'm one of the few members of the Assembly that has close to 100 percent voting record for business enterprises within our state, initiatives and bills and what have you. And I've taken the position that you don't love employees and hate employers, and I've realized the contributions they've made.

You know, many people from the construction industry and the builders have called and complimented this particular bill, and because they're not actually people with horns sticking out of their head, they go where they can make money. They have to go into pristine areas of the state, and they have to go to sprawling areas because that's where they can amass and accumulate the property. Now, we're trying to create this incentive for them to be able to stay in cities and develop in these cities. I feel badly that there is a misinterpretation here of the motives of this particular amendment. And hopefully maybe you could clarify that in your remarks.

MICHAEL G. MCGUINNESS: Thank you, Mr. Chairman. I'm happy to do my best to clarify those remarks.

I'm the Executive Director for the New Jersey Chapter of NAIOP. We are an international trade association for commercial and industrial developers. In New Jersey, we employ 25,000 people, represent over 300 million square feet of space, and pay \$300 million in property taxes. We don't take lightly our responsibility to the communities in which we build and to revitalization of the cities. That is one of our commitments.

With all due respect--

ASSEMBLYMAN ARNONE: Is the red button on there, Michael?
(referring to PA microphone)

MR. MCGUINNESS: No, it isn't.

ASSEMBLYMAN ARNONE: Push it.

MR. MCGUINNESS: Now it is.

With all due respect, NAIOP firmly believes that ACR-145 will do more harm than good to our economy. We also believe that it is poor public policy to change the Constitution for a proposal with very questionable benefits and likely negative impacts. Allowing towns to tax land and vacant parcels at higher rates as if they were improved is an odd way to attract industry and jobs. Why not provide an incentive for developers in the distressed urban areas such as tax-free zones, as has been done elsewhere, Michigan for example?

Given the economic resurgence that New Jersey is currently enjoying and that has finally made its way into our cities, thanks to the Legislature, Brownfields legislation, and the Urban Rehabilitation Subcode, etc., we do not see any valid reason to upset our current uniform method of taxation. Rather, more time is needed to allow those measures I just mentioned to reach their full potential.

Last evening, I received a fax -- a memo from a law firm out in western Pennsylvania -- Pittsburgh. We had been trying to understand this concept better, and we had reached out to our colleagues in western Pennsylvania -- in Allegheny County, Pittsburgh. One of the law firms out there, Pepper Hamilton, who has practiced in the area of real estate

development and tax assessments for the last 20 years, shared some information with us.

ASSEMBLYMAN ARNONE: Do they do a lot of land speculation, do you know?

MR. McGUINNESS: I'm sorry.

ASSEMBLYMAN ARNONE: Do they do a lot of land speculation?

MR. McGUINNESS: The law firm?

ASSEMBLYMAN ARNONE: Yes, that firm that you--

MR. McGUINNESS: Not to my knowledge.

ASSEMBLYMAN ARNONE: You don't know?

MR. McGUINNESS: Not to my knowledge.

But it is interesting to note that they, and some of the folks that they deal with, economic development professionals in western Pennsylvania, specifically Alleghany County, have identified the land value taxation system as problematic.

Although it is true that construction initially increased after this system was adopted back around in 1980 -- this is in Pittsburgh -- the high tax rate for land in Pittsburgh ultimately left a heavy tax burden on city taxpayers. And as a result, development in the city of Pittsburgh declined through the late 1980s and into the 1990s. More recently, prospective developers have sought tax relief for their proposed projects, without which they would be unable to proceed with development projects in the city, hence our fear that may not be the right solution at this time. In fact, we've been told that many studies -- and this is from the folks out in Pittsburgh -- in that area have shown that it

would be advantageous to abolish the tier rate tax system and establish an overall rate that would result in reasonable taxes for property owners in the city.

The dual tax rate system that currently exists in certain Pennsylvania cities has also caused a large increase in tax assessment appeals since the land taxes are so out of proportion. It also has had a harmful impact on small property owners since they are forced to build huge facilities, 30 stories high, to make it worthwhile to stay in these downtown areas.

ACR-145 has been labeled as a powerful urban revitalization tool. We fear that this is not the case. In fact, it may actually be a tool that will nail shut urban redevelopment opportunities.

Thank you for having provided me this opportunity to share our concerns. I would be happy to address any questions or comments.

ASSEMBLYMAN ARNONE: I have no questions of you, but I'm positive of one thing, Michael. I think that if you go to any city that's employed a two-rate system, you might find someone there who is a developer who might find it to be punitive to them. I think that if they opt to take land, hold it off the market for long periods of time, if they want to sit there and wait for incentive programs to kick in like you had mentioned -- you would like to see more incentive programs -- I think that -- not knowing anything about construction-- One thing you learn in politics very rapidly is that we know how to count. I think it's better to get an incentive program than to do one without it. So you make more money with an incentive program.

But the thought that comes to mind is what's occurring out in Seattle, Washington, right now with a guy by the name of Allen who owns the

Seattle Mariners. Now, Allen, if anybody doesn't know who he is, is one of the founders of Microsoft. He is a multibillionaire. He has threatened the city. He said to the city, "Unless you create some programs for me and build me a stadium, I'm pulling this team out of town." Now, I want to know why is it the residents-- Why is it that these long-suffering residents overloaded with property taxes have to come up with the money to build a stadium for Allen so that he can make millions of dollars? He can pay his athletes millions and millions of dollars to play ball and some poor guy with a family of two or four wants to go to the ball game and has to pay \$300.

Now, I don't know whether or not you apply your Keynesian multipliers and do whatever you want to these types of developments-- I think all the incentives are not created equal, and I would suggest to you that I would, as someone in office, have to examine each and everyone as they come. I just can't throw terms out like incentives and tax-free zones and everything else.

But again I appreciate you coming here, Michael.

MR. McGUINNESS: Thank you.

ASSEMBLYMAN GREEN: Excuse me.

ASSEMBLYMAN ARNONE: Assemblyman Green, would you like to address something to Mr. McGuinness?

ASSEMBLYMAN GREEN: I would just like to ask you the question, what would be the downside in urban towns, that you feel, would get hurt? I know I represent suburban and urban towns in my particular district. Over the years I've seen speculators just sit on property and not do anything

at all. Yet, in urban districts, it's rather hard to be able to get someone to come in because of the problems we've had.

I just want to get your version since you have mentioned, during the course of your presentation, that it would hurt urban communities with this particular bill.

MR. McGUINNESS: Sure. I think again you have to understand who we represent. We represent the office park industrial-commercial developers in the state.

ASSEMBLYMAN GREEN: Excuse me, when you make that statement, I like to feel-- When you make the statement that it hurts urban towns, it's not who you represent.

MR. McGUINNESS: I understand.

ASSEMBLYMAN GREEN: I like to feel that the statement you're making-- We should look at who it hurts in general, not just who it benefits.

MR. McGUINNESS: Right.

For those landowners and developers who have property in these urban areas, Newark, Jersey City, wherever, if they have, in the plans, a project that they would like to phase in over 10 years or more-- Raritan Center in Edison, I'm sure, took a lot more than 10 years -- 20 years. They would not take to kindly to the idea of being forced to hurry up the development and maximize the intensity and build up -- as opposed to whatever, because the cost of carrying the land was increasing -- the tax rate was increasing. So I guess all we are saying is in-- You have to do the math. But in those instances where the tax rates are going up quite dramatically from what they are now on these vacant parcels, which the developer had planned to develop but over

time, then they may decide -- it's on a case-by-case basis -- to walk away and look beyond the city where this isn't the case. If you're talking Newark, maybe they'd look in the Oranges or someplace where you wouldn't have that structure in place. They could develop their project more efficiently, more effectively. That's the example I would give you.

ASSEMBLYMAN GREEN: Other than the example that you're giving where it would benefit a firm that you represent, in general, then this particular type of program would not hurt urban districts, would you say yes or no?

MR. McGUINNESS: I'm sorry, one more time.

ASSEMBLYMAN GREEN: In your analysis of how it would hurt the long-range plan and the people you would represent versus what would be good for urban towns in general, would you say this particular program would be beneficial excluding exactly what impact it would have on a firm that you represent--

MR. McGUINNESS: I understand.

ASSEMBLYMAN GREEN: --versus what's good right now for urban towns in order to get them back on their feet and moving in the right direction? Would you say this particular bill will benefit?

MR. McGUINNESS: I don't believe, based on our understanding of what's happened in the cities where it's worked and our own dynamics here in New Jersey, that this would provide the benefits to the community -- the city that you're hoping it accomplishes. I don't believe-- We don't believe that's an association that that's going to -- it's going to do that -- that it's going to work. Who knows? It's a big unknown. We don't think that the -- what's

being laid out here would be enough of an incentive or a force to create development in the areas that you'd like development to happen, Asbury Park, Camden, Newark -- the cities. We don't believe that this alone is the way to do it. That's our generic--

ASSEMBLYMAN ARNONE: Let me be helpful here.

ASSEMBLYMAN GREEN: Mr. Chairman, I just feel it's such a blanket statement that we would hurt urban towns. To me it could be very misleading. That is the reason why I asked that particular question. Unless someone could really show me or prove to me that programs of this nature would hurt urban towns-- To me it just sends the wrong signal. That was the purpose of me asking that specific question.

ASSEMBLYMAN ARNONE: That's a good question that you asked, Assemblyman.

Let me be helpful here for a second. Maybe I could be helpful here.

This legislation is permissive. It's permissive. Towns do not have to adopt this. It's going to be very restrictive on how many towns can even use it. But if you have a case where you have a proposal -- a 15-year program to create this development in the city and this is going to hurt you, well then, what I suggest you do is you go up and you go to your urban mayors, you go up to Sharpe James and you go up to Bret Schundler, and you explain the situation to them, and they won't do it. They've got good intelligence. Donald Tucker will do the right thing for the city of Newark. They'll do the right thing for their community. They won't say to you, "We're going to throw this in,

we're going to do this to you, and it's going to really hurt you." Your argument is really before the municipality that wants to employ this.

But again I want to thank you for coming, Michael.

MR. McGUINNESS: Thank you, Mr. Chairman.

ASSEMBLYMAN ARNONE: Mr. Vincent, would you like to come forth, please?

Josh Vincent from Incentive Taxation.

JOSHUA VINCENT: Good morning -- good afternoon I should say.

ASSEMBLYMAN ARNONE: Mr. Vincent, prior to your comments, would you please address some of the comments that were made in regard to the history of this proposal -- of what's happened in some of these two-rate municipalities in Pennsylvania?

MR. VINCENT: Sure.

ASSEMBLYMAN ARNONE: Pittsburgh in particular.

MR. VINCENT: I'd be more than happy to.

I'll tell you who I am first of all. I'm Joshua Vincent. I'm the Director of the Center for the Study of Economics in Columbia, Maryland, and the Henry George Foundation in Columbia, Maryland.

The Henry George Foundation was founded in 1926 by several councilmen and the city assessor of Pittsburgh. They founded this Foundation because they were impressed with the effects of the two-rate site value tax that had been in place since 1913. They wanted to prorogate the idea, ergo they founded the Henry George Foundation. And we do research with the Center for the Study of Economics.

Essentially, I guess what I wanted to do today was to talk a little bit about what might happen in New Jersey, but it might be useful to talk about what has happened in Pennsylvania. This is what we do, we're a nonprofit educational foundation. We study Pennsylvania, we assist Pennsylvania's cities in the implementation of this program year in and year out. One thing that we have to be really clear about in western Pennsylvania -- let's take Pittsburgh for one -- is that this is perceived by many as a pro-business tax. Site value taxation has been in place since 1913 in Pittsburgh. Many academic authorities have studied the effect of the two-rate property tax, and they believe that it's led to greater development and redevelopment of existing parcels and properties. Professors Oates and Schwab of the University of Maryland have probably done the most exhaustive study on the two-rate tax. They noted a dramatic 70.4 percent rise in building permits issued in Pennsylvania -- Pittsburgh, Pennsylvania, compared to other Rust Belt cities, all of whom declined in that same period. We're talking Detroit, Youngstown, Rochester, Buffalo, etc. Pittsburgh, alone, had increases in building permits issued.

To say that it's pro-business -- I think we can be confident in saying that. The Downtown Business Improvement District of Pittsburgh was instituted two years ago, and it is funded entirely on a tax on land values. It has worked out for them. Such structures such as U.S. Steel Building, the Mellon Tower, they save annually on their property taxes, anywhere from \$850,000 to \$1 million a year in property taxes. The other cities that try the site value tax in western Pennsylvania are cities that are in big trouble, cities that depended on one steel mill for example. In one day that steel mill, which

equaled 30 percent of their tax base, was blown up. The steel collapse in western Pennsylvania has destroyed some cities. For example Farrell, Pennsylvania, is probably going to be going out of business by the end of this year. It's going to be subsumed by several neighboring communities. The communities that have tried this, Aliquippa, Clairton, Duquesne, McKeesport, they all credit the two-rate site value tax with giving them time because it is a tax abatement program for the regular taxpayer. Joe and Josephine Frontporch see a tax break when this program is put into place, and that's the bottom line.

What is a city? A city is people. Now, in Clairton it might be good to give away an enterprise zone for the old steel mill, but the vast majority of the town are just regular homeowners, they're regular workers, they're regular small-business people. They don't have any programs that exist for them, they never have until the site value tax came along. A house as is in Aliquippa or Duquesne or Clairton sees, in average, savings of anywhere from \$150 to \$400 a year. That makes a year for people that work for a living. That's why these cities have this program. As any elected official knows, they really are not going to implement a program that doesn't work.

I'd also like to straighten out a few other misconceptions that I've noticed over the past couple of days reading from people who are opposed to this program and out of the best intentions. In Allegheny County, Jack Saunders (phonetic spelling), who is the head of the Assessment Office for Allegheny County, reported, on the record, that assessment appeals, indeed, have overall dropped in communities that have the land value, or site value, tax. Why? Because most people, when they go appeal an assessment, they're bugged out over, "Hey, I just put new siding on the house, it didn't go up in

value \$20,000,” that kind of a thing. So Jack Sauders reports that he likes what they call the grated tax out there because it makes his job easier. In those towns, appeals have gone down. And that’s an on the record statement. I’d be glad to provide the documentation for that.

Also, just recently in Pittsburgh, (indiscernible), which closed down its store many years ago in downtown Pittsburgh, just reopened a new department store downtown. For a poststeel industry -- postindustrial city, that’s nothing short of a miracle. It took private investment, it also took a public-private partnership.

So I hope I’ve straightened out the story of what’s happening in Pennsylvania.

May I answer any questions on that or--

ASSEMBLYMAN ARNONE: Well, would you say it’s unbalanced in that the two-rate system is a success in Pennsylvania?

MR. VINCENT: Yes, I can point to one instance where it has been a success, and that’s because the city involved, Uniontown, Pennsylvania, put in a severe land tax and did not reduce the building tax commensurately. They went against the advise of this office and the experience of the other site value tax towns.

ASSEMBLYMAN ARNONE: Well, let me say-- Would I be safe in saying-- Mr. Vincent, would I be safe in saying that this is not a panacea, this is just one tool that a city can use?

I recognize, being a local -- Chairman of a local government, that there are many problems facing our cities. There are certainly social problems

we're all aware of. All these kind of problems do exist, and until we get about solving these type of spiritual problems, I don't think anything will work.

So I realize that that is a necessity. We understand that transportation needs to be improved, school systems have to be improved, all these factors must to be improved. This is just a tool just like one of the walls in the four walls that are here. It's just a permissive tool. Would I be safe in saying that?

MR. VINCENT: It is part of the toolbox, yes. It's a little different in that this is something that applies to everyone where you don't have to sign up for it, you don't have to qualify for it. Unlike most abatement programs which do, indeed, down tax buildings, you don't have to be a big shot, essentially, to get it. Everybody gets it.

I have testimony, I'd be glad to submit, from mayors of the Pennsylvania towns from the size of Washington, Pennsylvania, about 15,000 people, Mayor Anthony Spossey, to Harrisburg, Mayor Steven Reed, who said that -- in his letter -- with 90 percent of the property owners seeing a tax reduction in Harrisburg because of the land value tax, they've also seen \$1.2 billion in new investment since the land value tax has been implemented.

ASSEMBLYMAN ARNONE: In Harrisburg?

MR. VINCENT: In Harrisburg, Pennsylvania.

The site value tax is featured in all of their commercial and industrial development literature. It's a tool.

ASSEMBLYMAN ARNONE: Am I correct in saying-- Does my memory serve me correctly that in 1974, Harrisburg was listed as one of the 10 most depressed cities in the country?

MR. VINCENT: According to Mayor Reed's letter, it was the secondmost distressed community in the United States 15 years ago under Federal criteria. And now it's gained all-America city status several times in the 1990s.

ASSEMBLYMAN ARNONE: Well, I think it's a tremendous tool, personally. I don't think anybody should even get emotional or upset about this issue. I just think you ought to get in your car and you ought to take a ride to Asbury Park, New Jersey, and you ought to take a ride to Camden, New Jersey. I'd like them to look up and down the street and tell me what harm can be done by doing something like this. These are towns that are, literally, on the floor. This could be an important tool for a town like this.

But thank you very much, Mr. Vincent.

ASSEMBLYMAN TUCKER: Mr. Chairman.

ASSEMBLYMAN ARNONE: Yes, I'm sorry.

ASSEMBLYMAN TUCKER: Just one-- A couple of questions-- I have been to Pittsburgh, and I'm familiar with land-based taxation. It was considered in the city of Newark approximately about eight years ago. I know-- I chaired a committee of the council -- entertained the possibility. And we went directly to Harrisburg, we went to Pittsburgh, we went to Scranton, and we met with representatives of your corporation -- or members of the city council.

How much time did it take, in regards to the conversion from-- You currently, now, have a mill system-- What I'm dealing with is, how much time did it take to convert your division of taxation from the area of land only from the point of improvements? In other words, your old system was

improvement, and then you had improvements in land. How much time did it take to convert it, and what process did you use in order to get to that point? Because that is critical because that establishes the base from which you move forward.

MR. VINCENT: Well, you're certainly right in saying that assessments are an important part of what we're talking about. There are some places, even in Pennsylvania, where they don't separate the land and buildings. In other words, if Chester, Pennsylvania, wanted to use this program, they couldn't because there is no split. And I'm not prepared-- And nobody's prepared to get a reassessment going that would do that kind of thing. However, in New Jersey and most places in the United States, we -- the land and building split is already there. This program just shifts the rates around, and you don't touch existing improvements. For example, Pittsburgh has a terrible assessment system. Anybody will tell you that. It is heavily politicized, and so on, unlike, by the way, New Jersey or Maryland or any places that have professionalized assessment system.

To go from a land tax -- from the flat tax to a site value, or land, tax would be very easy administratively. In fact, the city of Harrisburg offers its software and its expertise to communities that have decided to use the site value tax. They settled, years ago, how to do it, and it's not too hard. You've got farm towns like DuBois of 5000 people. They're able to handle it. So if they can handle it, I'm, of course, confident Newark or any other New Jersey city could.

ASSEMBLYMAN TUCKER: Are you familiar now or can you at least explain how that process works? Because what you're dealing with is--

You're talking about a conversion. What I'm concerned about is how you did it, and the other factor is how long. The bill, currently, talks about a phase-in period of approximately five years. What I'm trying to get to is how much time it took Pittsburgh to do that -- Harrisburg doesn't matter -- Pittsburgh -- there's a major one -- to do that because that is one of the cities that are similar to the urban areas of New Jersey.

MR. VINCENT: Well, it's very flexible. Pittsburgh started its graded tax -- they call it -- in 1913. And they, incrementally, dropped their building tax rate by about 11 -- 10 percent to 11 percent a year, and then they stopped for 50 years. In 1979, they increased it more. A city that is also similar to New Jersey's cities is Allentown. They've dropped their building tax rate in their city charter every year for the past four years. They're going to stop until they get half their revenue from land, half their revenue from buildings.

The switch over is-- Any good high school algebra student with a good computer could do it. It's really-- It's not a big administrative changeover, and since you don't play with the actual assessments that exist, you don't have to worry about that. Our Foundation has always recommended a slight shift and also giving a city the flexibility to stop at any point that it chooses. Suppose Jersey City, for example, wanted to drop the building tax rate, eventually, 30 percent. They could do that over a period of four or five years, and so the transition would be very easy for anybody that might possibly be inconvenienced by the site value tax program. Of course, on the other side of the coin, in Jersey City, you'd see homeowners -- almost all of your

homeowners and more than half of your commercial properties enjoying slight, but ever-increasing, reductions in their property tax bill each year.

Always take it slow. It took us years to get into this mess with our current taxes. It's going to take us a little while to get out.

ASSEMBLYMAN ARNONE: Thank you very much.

MR. VINCENT: Thank you.

ASSEMBLYMAN ARNONE: We have Elaine Kennedy from the New Jersey Conference of Mayors. She'd like to come forward.

Elaine.

The gentleman with her is not her bodyguard. It's the mayor of Howell.

E L A I N E K E N N E D Y: Thank you, Mr. Chairman.

We are here today in support of ACR-145. The New Jersey Conference of Mayors Legislative Committee met last week and unanimously voted in support.

The NJCM views this bill as permissive in nature. It would create a tool that allows each municipality to choose to study and determine whether it's in the best interest of their residents to use the system or not. Under the proposal, qualified municipalities would be permitted to replace what is sometimes an antiquated single tax rate system with one which is based on a single rate for real property while improvements to land and personal property would be taxed at a lesser rate for school and municipal tax purposes. The bill would allow municipalities to classify and impose different tax rates to be phased in over a five-year period.

The Conference of Mayors applauds the Committee and the Chairman for proposing an innovative approach that could result in property tax relief and the redevelopment of some of our State's most blighted areas. The Conference supports the constitutional amendment and welcomes the opportunity to assist in the development of the enabling legislation which will begin to address the property tax burden on New Jersey's residents.

With me today is Mayor Tim Konopka of Howell Township, and he would like to present testimony.

ASSEMBLYMAN ARNONE: Well, anyone in the room here that is not familiar with Mayor Konopka, I can say that he is one of the more courageous mayors. He is from a district in which I'm from. We're of the opposite political faith, but I admire his courage in stepping forth and being a defender of the suburban areas in which we all live -- the pristine areas and wanting to prevent sprawl. I think I've heard the Mayor say that we save our cities, we save ourselves.

Mayor, you should be complimented for that position, and I welcome you. Thank you for coming down here today.

MAYOR TIMOTHY KONOPKA: Thank you, Doctor.

Once again good afternoon, ladies and gentlemen of this distinguished Committee.

To familiarize you briefly with Howell Township-- In Monmouth County, there are 53 municipalities, and Howell Township is the No. 1 town in landmass, approximately 64 square miles. It is a very diverse community of much open space and farmland still which we're working very hard to protect and to save. About 37 percent of our town is open space. Again it's also

diversified with a suburban area as well as light industry and commercial development. The areas of high property taxes and neglected properties are as much of a burden on our residents as they are throughout the state.

I'm also a member of the New Jersey Conference of Mayors, and I'm here to urge you in support of this Assembly Concurrent Resolution 145 which would provide municipalities, such as Howell Township, the tool to encourage redevelopment to aging buildings while, at the same time, preserving our precious open space and farmlands. Howell Township has a diverse mix of residential, commercial, industrial, and farm land. The proposed site value taxation will provide an opportunity for municipalities to consider and adopt ordinances to allow a tier taxing system. This could address the varied property values in Howell and encourage landowners to improve their properties without their property taxes skyrocketing.

Of course, as a former mayor, Doctor, you can appreciate that.

It would allow land to be taxed at a higher rate than the structures that are built on that land. This will redirect developments to areas that have already been developed and where the infrastructure already exists. Our rural lands will be preserved because the site value tax will require that urban lands will be used for its highest and best purposes. It will also assist in the revitalization of the state's urban areas by lowering the cost of construction and rehabilitation attracting businesses to downtown districts and recreating core business districts. This initiative is a significant step toward the restructuring of our property tax system in New Jersey. This proposal will address the inequities in the present single tax system and provide real property tax in the urban, rural, and suburban areas.

We welcome the opportunity to assist in the developments of this enabling legislation, which will establish a criteria for qualified municipalities, under the law to maintain the protections already afforded to open space and farmland preservation.

On behalf of the New Jersey Conference of Mayors and the Township of Howell, I urge the Committee to approve Assembly Concurrent Resolution No. 145.

In closing, I'd like to emphasize that again, Doctor, I applaud your courage and your vision for taking the steps to introduce this legislation.

The Governor, as everybody knows, has now been pushing for open space preservation throughout the state. Just recently, a \$98 million bond issue was approved for that endeavor, but that's not enough. We need this legislation, which will nicely complement that initiative by the Governor, to help redirect the energies back into our dying cities. This is most urgent. If you do that and you achieve that, which this legislation will do, you will encourage the regrowth of our cities throughout the state, and that will, indeed, lessen the burden on the suburban sprawl.

I am a Mayor of a community that is fighting now, every day, this problem because we don't have the legislation that we need to protect our communities. With this legislation that will lessen the burden upon communities, such as Howell, so we maintain a beautiful quality of life in our town, protect the precious God-given farmland that we have because remember, once it's destroyed, it's been destroyed forever. And it just makes sense to revitalize and rebuild our cities.

I think it's a win-win situation for everybody involved. And again, Doctor Arnone, I applaud your courage and your vision for introducing this legislation.

ASSEMBLYMAN ARNONE: Well, I want to thank you very much, Mayor Konopka, for your charitable remarks, but I'd like to share some of that credit. We have, with us, some -- Community Affairs. We have Mary Marciante who is representing the Commissioner here. But the Commissioner has led the charge in the State of New Jersey and is constantly charging our Committee with her smart-growth policies and wanting to rebuild our cities. She has made mention that this is going to be part and parcel of our urban tool kit, which cities take advantage of now -- the Rehabilitation Subcode, the urban site acquisition program upstairs and downstairs, and a multitude of programs that she's instituted to save our cities. And this is going to be included in that tool kit.

But I have to say that you don't get far in this business without support of the administration. And Commissioner Kenny has been out in the forefront to save our cities, which she has made a paramount issue.

But again I want to thank you for coming down here, Mayor, and pausing from your busy schedule.

Thank you very much, and thank you, Mrs. Kennedy.

MS. KENNEDY: Thank you, Mr. Chairman.

ASSEMBLYMAN ARNONE: We have a few other gentlemen here. We have two gentlemen here from a realty group.

Angelo Cali, is it? And Steven Shapiro. Would you both like to come together, and maybe one can speak for the other? If you both have separate remarks maybe you can concise them into one remark so that we can--

STEVEN A. SHAPIRO: Mr. Chairman, Mr. Cali couldn't be here this morning.

I'd like to address the Committee this morning on my take of all this.

My name is Steven Shapiro, and I am Director of Real Estate Tax for Mack-Cali Realty Corporation in Cranford, New Jersey.

ASSEMBLYMAN ARNONE: What are you by trade? What are you, an accountant?

MR. SHAPIRO: No, I am a--

ASSEMBLYMAN ARNONE: Specialize in assessments?

MR. SHAPIRO: I am a certified appraiser and property tax consultant and tax appraiser. I was going to get into my bio.

Prior to my employment with Mack-Cali, I was President of Steven A. Shapiro Associates, an ad valorem tax consulting and valuation firm in New York City. Prior to the formation of my company, I spent four years as an assessor for the city of New York, assigned to the Borough of Staten Island, just across the Gothals Bridge, a scant 10 minutes from Cranford where I work now. In total, I have practiced in the field of real estate taxation both publicly and privately for 21 years.

I have chosen to depart in a somewhat different direction from the statements expressed here today and focus not on hypotheticals, but my personal experiences with the human side of sweeping land taxation policy as

a New York City assessor in 1982. I feel the parallels and even the eventual outcomes may give us pause to rethink this proposed legislation or at least reexamine the consequences of its imposition on the individual small landowners.

A little history. In 1981-1982, as an outgrowth of well-meaning uniformity in taxation legislation, vacant land throughout the city of New York was reclassified and revalued at a commercial rate level. The associated added tax burden although not rate induced, nonetheless increased vacant land tax levies to a level that in my assessing district of 8000 parcels witnessed more than 3000 appeals. In 1982, the bulk of appeals were small, individually owned parcels that could yield potentially one to four homes. In most instances, there were no immediate plans for development.

Between informal and formal tax commission hearings, having actually called for police protection at times, I in my 20s first truly came to understand the power to tax and, more important, the effect of such power to tax inappropriately and indiscriminately on the individual. You and I and the individual landowner.

I think, even with the best of intentions, we oftentimes, in our haste to create meaningful policy, get caught up in what we believe to be the greater good. I am here to tell you today the remnants of the heartbreaking account of individuals who were forced to sell small pieces of vacant land at severely depressed levels, due to the prohibitive carrying costs, are still with me today.

These lands, oftentimes, were owned by older taxpayers designed as a means for retirement income in either the planned sale of what was

believed to be an appreciating asset or development of the site. Post-policy land values were so depressed in the outer boroughs that lending institutions were forced to foreclose on mortgaged property due to the inability to carry the land accompanied by a loss of all equity. Land was walked away from and taken back by the city for nonpayment of taxes. Land was foreclosed upon by private mortgages. Devalued land, in many instances, was now insufficient to collateralize homes and other improved properties. The pain was very real and very profound.

Yes, revenue would be increased. Yes, speculators would be forced to develop or hold and pay tax levies far in excess of previous levels, or perhaps sell to more opportunistic and deeper-pocketed speculators. However, once again the greatest pain was at the expense of those who could least afford it, the individual taxpayer. The belief that the logical outgrowth of the increased taxation on vacant land would be manifestly expressed in the expansion of development was not realized in the outer boroughs of the city of New York.

It was not until several years later that the city granted residential vacant land tax relief in the form of protections to those who owned small, low-density residential land in the outer boroughs. By this time, the damage was done and countless individuals lost either their land or a considerable percentage of their investment.

Now, from time to time when I review an old case or report of mine of that period and I look at the demographic information on housing starts and permits, I can only think about the elderly immigrant couple who came before me as an assessor in 1982. You see, they believed that wealth should be invested in something tangible such as land. Their two-acre site was

their nest egg, their retirement. In one fell swoop, a full 30 percent to 35 percent of its value was lost given a shortsighted and not very well analyzed change in land taxation policy. I don't know, to this day, what the ultimate disposition of their land was, but I do know that the site has been developed for years for pleasant detached homes constructed by a reputable builder. I can only assume, with their lack of ability to carry the land, they sold out some time ago at a depressed price.

As I look at these very impressive construction permit statistics from other states, I will let others debate the validity of the numbers. I will wonder, though, how many original owners actually partook in any development and benefited financially from that development.

How many other couples were forced to sell their retirements, investments, their legacies at depressed prices?

Yes, statistics can be truly impressive and sometimes awe inspiring for by their nature and power to demonstrate, effectively eliminate the anecdotal, or in real terms, the individual or the individual landowner. Yes, in the presence of such impressive statistics, I ponder how many other individuals were left along the side of the road as we marvel at such impressive numbers.

In conclusion, Mr. Chairman, New York City may not be equatable, in many instances, with small municipalities in New Jersey; however, neither should we accept such statistics from Pennsylvania, Maryland, nor other states as a basis in fact for fast-tracking ACR-145. The ultimate price to pay if wrong is damaging. I have witnessed it. The ultimate price and time to cure is prohibitive, confusing, and reinforces taxpayers' belief that local government does not work.

Mr. Chairman, I ask you here today not to necessarily derail this fast-track legislation, but to take a breath and study the issues on the individual municipal levels, always with an eye toward equality and safeguards for the small, individual landowner.

Thank you for your time.

ASSEMBLYMAN ARNONE: Thank you, Mr. Shapiro. In fact, you can stay seated there if you would like. We have with us Mr. Gwartney -- Ted Gwartney -- Professor Gwartney who is a -- who teaches assessments and evaluations of land. Maybe if you have any questions, Professor Gwartney can shed some light on them for you.

Professor Gwartney, some of his concerns are genuine. I think he is deeply concerned about some of these difficulties. If you could address some of them.

T E D G W A R T N E Y: Yes, I will.

Just for background. I became very interested in this whole concept when I was in college. That was 35 years ago. I became an appraiser at that point and later became an assessor. I have my MIA, which is a professional designation as an appraiser, and I worked in the assessment field for 20 years. I am now teaching appraisal at (indiscernible) College. So I've had some experience. In fact, at one point, I was responsible for the assessments of more than 150 cities and villages. I know exactly what it is to meet with the taxpayers and discuss with them the results of changes. I've also studied how this has been implemented around the world in various places.

Basically, what I would share is the fact that, generally, the results have been very positive. In some cases, they've been neutral, but cited in the

example of New York was the one that was a disaster. I want to point out that in the case -- in the case of New York, it was a very poorly researched and adopted policy that should have never been adopted. And I'm sure that that mistake would never be made in New Jersey. I'm certain that the towns and villages would study the impact of what they're doing. So New York is not really comparable to New Jersey. And the type of policy that was adopted in New York was not adopted anywhere else in the world that I'm aware of.

Generally, where this has been adopted in some 900 jurisdictions around the world, it's been a gradual and over time type of adoption. The results have been positive for the most part. Certainly, it encourages development in the urban centers, and this is why the environmental movement-- Many of the organizations have adopted this as a good policy because it saves the rural and suburban land, and it saves the farmland from being eaten up. It only makes the best sense to use our urban land first and to be sure that there is proper development. This policy encourages redevelopment of land. This policy encourages development in building.

For eight years as an appraiser, I also worked for financial institutions, for banks, insurance companies, and real estate investment trusts. I found that it was easier to get a loan from a financial institution where there was some recognition of land value taxation in that community because the land values tended to be more stable in those communities and because the banks could see the real equity of the development of the community and the growing values of those communities. So the idea that banks are not going to make loans is false. Banks like this policy and will make loans, probably at

lower rates, also because they see the safety. (indiscernible) --part of the loan rate is the risk involved.

Finally, in terms of appeals-- My experience with appeals, when something of this type has been adopted, is that the appeals come from a different source, usually from land speculators. The homeowners, the businessmen, the industrial communities usually benefit.

Here in New Jersey, for example, I've done a lot of appraisal of industrial and commercial property. In all cases, these properties would benefit from this type of policy. The only ones who really don't benefit in the short run are the land speculators. However, in the long run, they would also benefit. They would benefit because of the increased opportunity for development of the land that they're holding. They would benefit because of the general health of the community and the fact that the community and the state was becoming stronger.

So I really don't see any losers in this. I really see that this is winners. It's a win-win situation, and even those who think that they will be hurt in the short run are going to be benefited in the long run.

ASSEMBLYMAN ARNONE: Let me--

Mr. Shapiro, if there are any questions that you could ask Mr. Gwartney that possibly could shed light on this--

MR. SHAPIRO: Yes, well, I'm glad we agree that New York City was a disaster. It was a scant 10-minute distance.

And you are right, New York City isn't New Jersey. However, when I do look at a borough like Staten Island, it probably should have been a part of New Jersey. It's a lot alike. It's probably less developed, at least at

the point in time where I was a municipal assessor, than all of the areas just right over the bridge. It was a disaster.

Again I think we also agree that to avoid the disaster of New York City maybe we should take this off a fast track, maybe we should devote that extra time in really looking at the problems that we reinherent in the change in New York City.

I do disagree in one area. I, as a landowner -- the acre and a half I have adjacent to my home I see not as a professional, as a taxpayer. If I see additional tax which is going to burden me, you can bet I will be the first person at the assessor's door. I think the statement was incorrect. I do think there will be a backlash. I don't want to be an alarmist. To what extent the actual taxes will increase on the small landowner, we don't know, I don't know. I guess my fear is that they will be somewhat like New York, and they were brutal, and they wreaked havoc. I just ask for continued study in this area so as to avoid--

ASSEMBLYMAN ARNONE: Two quick points--

MR. SHAPIRO: Sure.

ASSEMBLYMAN ARNONE: Number one, this bill has been introduced in the New York Senate. Are you aware of that?

MR. SHAPIRO: No, I wasn't.

ASSEMBLYMAN ARNONE: This bill (indiscernible) evaluation is on the move in the state of New York.

Number two, you're aware of the fact that we don't do anything at all with assessments.

MR. SHAPIRO: I agree.

ASSEMBLYMAN ARNONE: We don't touch assessments. We have nothing to do with saying how much anything is worth. We just talk about the rate.

Professor, would you like to respond to his remarks?

Did you ask a question? What was your question? Or did you make a statement?

MR. SHAPIRO: No, I made two statements: one in which I agreed and one in which I disagreed with one of his statements.

MR. GWARTNEY: His suggestion, basically, was to take it off the fast track. I would disagree with that. I think that the bill should be passed. Obviously, once the bill is passed, it is going to be considered by each city separately, individually, so it is on the slow track already. And to study it or put it off, I think, is just denying the public the opportunity for growth and for going ahead with something that's positive. This is not something that is new. It's been used all over the world. There are hundreds of examples. And if you had a study, you really wouldn't learn any more than what you already know. You have all the facts already. So I would recommend that you adopt this bill, that every city that wants to do this seeks counsel of people such as this. The Center for the Study of Economics can help to give them impact studies, and so forth, and the (indiscernible) decisions.

ASSEMBLYMAN ARNONE: Well, I'm not proud to say this, but I think people on a municipal level-- Assemblyman Tucker-- He is also a councilman in Newark -- probably -- ultimately smarter about what's right for their town than I am.

As you said, it's a permissive piece of legislation.

Mr. Shapiro, if you went to Assemblyman Tucker and explained to him how it's going to be very harmful for his city if they put this in, I don't think he will do it. I give him credit for that.

I wouldn't say that we should deny him the option any more than I think you should say that Asbury Park shouldn't have this tool, even though you don't go to Asbury Park, even though you have no business concerns there. Maybe they should do it.

Thank you very much, Mr. Shapiro. You are very enlightening.

MR. SHAPIRO: You're welcome, Mr. Chairman.

ASSEMBLYMAN TUCKER: Mr. Chairman.

ASSEMBLYMAN ARNONE: Do you want to have a comment?

ASSEMBLYMAN TUCKER: Yeah, I think it's important to pinpoint that, as I indicated before when we were making this presentation, specifically Newark-- This was an option that was considered by the city of Newark approximately seven years ago. There were major public hearings that we held dealing with the conversion of land-based taxation, and primarily because there was no legislation at the State level, we were not able to do it.

I want to be very frank. There were positives and negatives in regard to dealing with from the different communities, residential communities, the industrial and commercial community. Those public hearings were held on it, and people made representation on it. But, as I said, it wasn't that we said yes or no. The Corporation Council advised us that we were not able to do it because there was no enabling legislation at the State level. So it's not that we have not looked at it, that we have not explored it, or that we're not knowledgeable about dealing with it. It's the fact that we did

that seven years ago. I'm not sure what the reality would be pending the approval of this particular bill. I think we do a similar situation of calling for public hearings, getting community input, and be guided accordingly.

MR. SHAPIRO: I certainly agree with you, Mr. Tucker. I think it should be done by all municipalities. I think knowledge can never hurt. As an analyst, it's the only way that I would know how to make an informed decision. And the last thing I want to see is anything rushed.

MR. GWARTNEY: You had raised the--

ASSEMBLYMAN TUCKER: I think we need to be clear. This is permissive, so it means it would not be mandatory. So automatically-- I know in Newark, what we would clearly do is call for those public hearings to be reenacted at again and, basically, hear directly from the residents as to which way to proceeds on it. We would not just automatically approve this or disapprove it. I want to be frank and state that.

MR. SHAPIRO: I agree, I think it's prudent.

MR. GWARTNEY: Assemblyman Tucker, you had earlier raised the issue of cost. To my view, the only cost is going to be the time that you take in considering what you want to do. The assessor does have the ability to implement this without going to extreme cost in terms of redoing things. In terms of the amount of time it takes from the assessor's viewpoint, it should be minimal time. You do have a reevaluation scheduled which will also give you good values upon which to base any future decisions upon.

ASSEMBLYMAN ARNONE: Thank you very much, Mr. Gwartney.

Thank you, Mr. Shapiro.

Helen, we're going to try to expedite the hearing. Is it safe to say that you're the League of Municipalities?

H E L E N Y E L D E L L: (speaking from audience) The League of Municipalities is in full support of this bill, Assemblyman, and we do commend you in introducing this legislation. And we support this bill because--

ASSEMBLYMAN ARNONE: I'm sorry, Helen, you have to come forth and speak into the microphone. It's not being picked up for the reporters. (witness complies)

MS. YELDELL: The League of Municipalities is in full support of this bill. We actually commend you for introducing this concurrent resolution. It is a sound concept. And most of all, it is permissive, and that is why the League really supports this bill.

We agree with you, Assemblyman, that it is not a panacea. It is a tool, one that can be used permissively by qualifying municipalities. And that qualification will be determined by the Legislature once this bill gets through.

The activities under this bill actually unlock the opportunities for growth and job development and job creation. This is a bill that we think is a winning situation. We fully support it. By increasing the tax on land, the owners will either develop the land or sell to others who will develop the land. And contrary to the views that have been exposed earlier, we do not see this as a disincentive for business enterprise, but rather as an opportunity for enterprise. Land should only be productive if it is being-- Land should only be profitable if it is being put to productive use.

With that, the League does support this bill.

Thank you very much.

ASSEMBLYMAN ARNONE: Thank you very much.

We do have some time constraints, and I have maybe seven more speakers in opposition, and I think a lot of you came together.

Is it possible, Mr. Woodford, that we could get one or two representatives there -- we have someone from Hartz Mountain here -- that could sum up--

Mr. Magrini, would you like to take a position? I think we've kind of heard most of the arguments here in opposition.

Would you like to come up with him, Mr. Woodford?

R O B E R T A. W O O D F O R D: (indiscernible; speaking from audience)

ASSEMBLYMAN ARNONE: Well, we've got a little time constraint because we've got another meeting at 1:30, and it's about 12:40 now. So if you could keep your remarks as pointed as possible.

A L L E N J. M A G R I N I, E S Q.: Mr. Chairman, I didn't come here-- I'd like to keep my remarks separate. I've prepared them, and I think we have a separate and unique approach to this.

Good afternoon. My name is Allen Magrini. I am a Vice President of Hartz Mountain Industries, Inc. I'm here to testify in opposition to ACR-145.

By way of background, I have both a master's in city planning from Rutgers and a law degree from Seton Hall, as well as a bachelor of science degree in business administration.

ASSEMBLYMAN ARNONE: Good school. I went there, too.

MR. MAGRINI: I'm both a licensed professional planner and an attorney in the State of New Jersey and have always practiced in the area of real estate and, particularly, urban redevelopment.

My employment background-- For some nine years I was director of economic development and the executive director of the Paterson Restoration Corporation for the city of Paterson. Most recently, for the past 10 years, I've been the Vice President of Hartz Mountain Industries, and I'm responsible for the management and development of their urban redevelopment projects. So I have a background and experience in urban redevelopment.

Hartz Mountain Industries, Inc., is New Jersey's largest private real estate owner. Hartz has developed an excess of 35 million square feet and today, currently, still owns and manages some 32 million square feet of that space. The vast majority of Hartz's real estate holdings are in the urban counties of Hudson, Essex, Passaic, Union, and Bergen, as well as developments in New York City. With regard to specific projects and development locations: in the city of Newark, Hartz has developed an excess of 3.2 million square feet; in the city of Jersey City, over 1.1 million square feet of space; in the city of Elizabeth, over 500,000 square feet; in the village of Ridgefield Park, in a redevelopment area that was formerly a municipal landfill, an excess of 1 million square feet of commercial space; in the town of Weehawken, 1.8 million square feet; in the city of North Bergen, an excess of 1 million square feet; in the city Harrison, 1.2 million square feet of space. That totals approximately 9.8 million square feet of space. In both-- Now, in Hudson and Essex counties, other properties total an excess of an additional

15 million square feet. So in those urban counties, we've developed, owned, and managed an excess of 25 million square feet of space. Again within those municipalities I've discussed, Hartz owns land where an additional 5 million square feet of commercial space could currently be built.

Hartz is a well-experienced redeveloper of properties in New Jersey, and over the past years we've taken advantage of and worked with, both through ourselves and through our tenants, many of the urban revitalization programs that have been initiated by the State of New Jersey and implemented by the cities. These included the New Jersey redevelopment statutes and programs, tax abatement programs, the various programs of the New Jersey Economic Development Authority, tax-exempt bond financing, the Local Development Financing Fund, direct loans, land acquisition. We've been involved in numerous Urban Enterprise Zone projects, special improvement districts, Brownfields redevelopment projects. We've taken and used the Business Employee Incentive Program, initiated by this State, and the Federal Urban Development Action Grant Program.

Just to give you a little bit of background, Hartz is an urban developer. Our properties are all in northern New Jersey and a vast majority of them are in the cities. We've done much work in the city of Newark with Councilman Tucker. We are very familiar with the programs and what it takes to control and to bring a development to fruition in the urban areas.

Based on that background, I submit to you that ACR is not a program that you would want to implement, and I submit that it is a disincentive to redevelopment projects in urban areas, especially the large companies such as the Hartz Mountain Industries and other developers.

One of the major features of ACR-145 would be to allow qualified municipalities to raise taxes significantly on vacant land, and that's under the notion that there is a whole community of urban land speculators that currently exist. I submit that there is no such community and that it is excessively costly to sit and hold vacant land. It is not something that you would choose to do. It is not a prevalent practice in New Jersey and, in particular, in urban areas where the cost to carry land is exceptionally high today.

The second misnotion is that if there was truly a market out there for these lands, the market forces itself would force their redevelopment. Most of the development -- in fact, I would submit, all development is driven by the market. It is not driven by carrying costs.

To understand Hartz's position I think you have to consider the redevelopment process and what it takes to get involved in a piece of property. A particular property in an urban center that may have been used once and it's a redevelopment project -- that creates a whole host of new steps and activities that must be undertaken. Associated with all those steps are additional costs. You have initially the cost of the acquisition of a property; in many cases, the site clearance costs; you have environmental testing, analysis, and remediation costs which often, in this state, can take an excess of four to five years to complete and remediate a substantial site; you have the cost and expenditure of engineering and architectural fees; cost of obtaining governmental approvals again which in New Jersey can be a very difficult, time-consuming, and expensive program; you have legal expenses; the cost of installing on-site

infrastructure improvements; and the cost of installing off-site infrastructure improvements, which are allowed for under the State statutes.

If you take all of these costs, where you're looking to induce a developer through again all the economic development programs that the State has put into place to come into an urban area, to invest its money, to make those up-front capital expenditures, to take the risk that by the time it can get through that process that the market still exists, and now on top of that throw the burden of a substantial tax increase, I submit you're doing a disservice and discouraging development in urban corridors.

I submit that based on my professional experience and background as an economic development professional and the experience of Hartz Mountain Industries that ACR-145 is not an appropriate action that this Committee should consider taking. I believe it's a disincentive to development. I also believe that it is, currently in its form, very poorly drafted. It provides no guidance or direction. There are terms within this amendment that have been fought through this Legislature in the past. There is the term of personal -- pops up. Nobody has been able to explain why that is in such an amendment, but the Legislature, in the past several years, has addressed that issue and chose not to tax personal property. I'm not sure if this is another avenue to raise that and bring it back to the forefront.

ACR-145 is the equivalent of special purpose legislation at this point, but it has to be a constitutional amendment first. There are surely certain towns, Asbury Park -- maybe you've mentioned Camden -- where there are properties that are being held by individuals. There are other methods available to the State of New Jersey, through its redevelopment agencies, where

those properties could be acquired, condemned, and offered for redevelopment. To amend the Constitution to allow for a completely new taxing structure is very inappropriate.

I also submit that it's contrary to the State's goal to set forth a State Redevelopment Guide Plan. I firmly believe that it will act as a disincentive, which in the guide plan is very strongly looking to do. If you look at recent programs -- the Brownfields programs again designed to encourage redevelopment-- Where a developer would be looking to come into a municipality to get involved in a Brownfields Program, an environmental remediation program that again could take years, the burden of an additional tax is a true disincentive and why, I submit, would force you to look to nonqualified municipalities for your work.

I believe this is also both bad and conflicting policy. And again, in fact, would be a disincentive. The most difficult part of preparing for today was really to try to stay within the time limit. You could go on for hours, I think, on the impacts that this bill may have.

Nowhere did you see here today or in any of the other hearings where I've participated-- There's been a lot of talk about the tremendous growth in building permits in these towns where it had-- At the last public hearing, and he couldn't be here today, Mr. David (indiscernible) provided information from publications from the State of New Jersey that showed that during those same time periods building permits, in terms of dollars and volume, increased at a greater percentage in the State of New Jersey than in all those municipalities in the town of Pennsylvania. So while there has been

growth -- nobody doubts that -- without that taxing program, New Jersey has realized greater growth.

I submit to you-- I think this is on a very fast track. I would ask that a recommendation be made to back it off. I would offer my services and those of Hartz to sit with the members of the Committee to work on this to really truly analyze it and to not rush it forward. I think if there are specific areas where there is a need for immediate action, there are many avenues currently available in the State of New Jersey, and this is a very drastic step to take.

Thank you very much.

ASSEMBLYMAN ARNONE: Let me ask you a question. Do you have any vacant land in Newark?

MR. MAGRINI: Yes, we do.

ASSEMBLYMAN ARNONE: You have a lot of vacant land. So in other words, this would be a hardship to you if we taxed--

MR. MAGRINI: Well, let me give you an example. We have, within one block of Penn Station, 4.2 acres where we've built 1.2 million square feet.

ASSEMBLYMAN ARNONE: Do you use incentives on that? Does the State give you any incentives?

MR. MAGRINI: The city of Newark reentered a tax abatement that's really to the advantage to Blue Cross and Blue Shield. We have a vacant portion of that site. There is 1.2 million square feet of development on it. There is approximately 1.2 acres vacant where we can build an addition 500,000 square feet. We would love to commence that tomorrow. The

infrastructure is in, the site has been remediated. The issue right now is to find a tenant and a market.

ASSEMBLYMAN ARNONE: Let me ask you a question on this parking garage--

MR. MAGRINI: So yes, it would have a tremendous impact on a piece of property that we have a very, very significant investment in.

ASSEMBLYMAN ARNONE: Let me ask you about this parking garage that you're putting up for the Prudential building.

MR. MAGRINI: Okay.

ASSEMBLYMAN ARNONE: Is that a vacant land?

MR. MAGRINI: Yes.

ASSEMBLYMAN ARNONE: How long did you own it?

MR. MAGRINI: Six years.

ASSEMBLYMAN ARNONE: Six years.

In other words, you had a pretty good tax bite for those six years. In other words, you had a pretty good tax write-off.

MR. MAGRINI: No, actually we acquired that property at the same time we acquired a 500,000 square foot abandoned office building in downtown Newark from Prudential. That building Hartz acquired has spent \$54 million to renovate. The State of New Jersey is a tenant in approximately 250,000 square feet. The Essex County court system occupies four stories of the building. That vacant parking lot provides parking for the judges and now for Prudential, as part--

ASSEMBLYMAN ARNONE: I'm not concerned with what it does.

MR. MAGRINI: As part--

ASSEMBLYMAN ARNONE: You're in partners with the Newark Economic Development Corps that you're getting -- What are you getting? -- a \$5 million Federal grant from, right?

MR. MAGRINI: There is an Urban Development Action Grant--

ASSEMBLYMAN ARNONE: Right.

MR. MAGRINI: --of \$5 million that is being put into the project that-- It's important to understand the whole project.

ASSEMBLYMAN ARNONE: I'm not saying it's wrong.

MR. MAGRINI: I understand.

ASSEMBLYMAN ARNONE: I'm not trying to say that, but I'm just trying to say the impetus of holding a lot of vacant land is to wait for something to come to drop on your lap like that.

The point I'm trying to make, also, a \$3 billion corporation like Hartz-- There are urban areas in this state that are literally comatose. Okay? Asbury Park -- I've used that example before -- three building permits in seven years totaling \$60,000. You want to deny them this tool. This is what you're saying. An urban area-- They're not asking you for any money, they're not asking for a handout, they're not asking for anything. They just want the tools to be able to help themselves -- as a permissive tool. You want to deny that to them.

MR. MAGRINI: I don't believe this tool works.

ASSEMBLYMAN ARNONE: Pardon me?

MR. MAGRINI: I don't believe this tool will work.

ASSEMBLYMAN ARNONE: It doesn't work?

MR. MAGRINI: I believe it will be a disincentive.

ASSEMBLYMAN ARNONE: Irrespective of working in all these other towns, irrespective of 996 more towns going to employ this in Pennsylvania-- The results are in. You say it doesn't work.

MR. MAGRINI: I'm not sure the results are in.

ASSEMBLYMAN ARNONE: Say you don't like it, but don't say it doesn't work.

MR. MAGRINI: As we discussed, there was testimony at the last hearing where building permits and starts in New Jersey were greater as a percentage increase than in those municipalities.

ASSEMBLYMAN TUCKER: Mr. President-- Mr. Chairman, I'm sorry.

How long has-- You're talking about the vacant land that is directly adjacent to the Penn Station development in that area. Let's look at the whole question of Waverly Yards. Now, how long has Hartz Mountain been in the process of developing that?

MR. MAGRINI: We've owned the Waverly Yards property approximately 10 years.

ASSEMBLYMAN TUCKER: All right. I think the point that's being raised is that the land-based taxation would immediately say that you would either develop that within a quick -- a fast period of time or a new developer would be selected to move it. The point that is being raised is, I think, that again this is not mandatory, but in fact, permissive.

I really believe the question is that when we look at it, we need to understand that if, in fact, developers wait a long period of time, it is not to the

benefit of the cities, to be very frank on that. And it is to the benefit of the cities to increase the land-based taxation, which would spur development and not wait 10 years. That is a major period of time.

So obviously, the question is that if, in fact, we had land-based taxation, then either Hartz would develop it in less time or a new developer would be selected. I think that that's the point that is currently now being raised right now.

MR. MAGRINI: I think in that particular property, from the time of the acquisition of the property-- It took a little over four years, working through the State Department of Environmental Protection, to do the testing, analysis, the retesting, the environmental remediation, the retesting to get the property to the point where it is certified acceptable to the State of New Jersey and remediated, which we've done, all at the expense of Hartz. So there is a very long process. During that time, we were penalized with the taxes. I submit you would not do that. Since that time-- And real estate development is very, very much tied to markets. In the mid -- early 1990s to not too long ago, the market grew very difficult. There was very little development, not only in the cities, but in New York suburban areas. Real estate development is tied very much to marketing. There is nobody in this room who's going to tell you -- or has any idea of the business will tell you that, "Because my taxes are increased, I'm going to spend tens of millions of dollars to put up a building without a tenant." That is not going to happen.

ASSEMBLYMAN TUCKER: No, I think the question is not that you would spend tens of millions of dollars to put up a building with a tenant. The question would be that either you would pay a higher tax on land or

another developer would come in and pay those particular taxes. It forces development. That's what it does. Land-based taxation doesn't allow you to landbank. That's the whole point that Pennsylvania is interacting with. It doesn't allow you to landbank and to invest. It says that you need to develop as quickly as possible.

MR. MAGRINI: Vacant land is not a very good investment.

ASSEMBLYMAN ARNONE: You have seven lots there. You're paying \$26,000 on those seven lots. Someone else is picking up that tab of whatever the tax rate we're going to have to require to run the governments in. I'm suggesting to you that you're doing that on the backs of a lot of poor people of the city of Newark.

MR. MAGRINI: I'm sorry, I don't know what seven lots you're talking about.

ASSEMBLYMAN ARNONE: Lot No. 1, 2, 3, 14, 21, 22, and 28.

MR. MAGRINI: You're on the Prudential parking site?

ASSEMBLYMAN ARNONE: Yeah.

MR. MAGRINI: Okay.

ASSEMBLYMAN ARNONE: You're paying a total of \$26,950.80 to carry that property, which is pretty damn cheap. That's pretty cheap. Now, I'm going to suggest to you that there's a part where corporate welfare takes off and corporate greed sets in. And I think that you're not a not-for-profit organization. You'd like to present yourself like you're doing this or you're doing that and what you do in these cities you do with the value of incentive. Someone else is picking up the tab to assist you. Now, I'm not saying the word profit is a dirty word, but yet, on the other hand, you've got to at least allow

a community to want to avail themselves of this system. They've got their hand out, they're looking for help. They're not asking for money, they're just saying, "Pay your fair share," that's all. I think it is a poor public position for Hartz to take to oppose this type of legislation and say to the people of Camden, say to the people of Irvington, "No, no, no," because you don't want to pay more in property tax. That's what you're saying.

MR. MAGRINI: I think it's-- Let me just back up on that project. Again it was a vacant 500,000 square foot building next to that property that was acquired. That building Hartz spent \$54 million to renovate -- of its own money. Okay? They completely renovated the building. I will submit to you that there are 3000 jobs in that building where there were none. The taxes on that building -- all one project-- The taxes on that building went from approximately \$100,000 to -- today we pay over \$800,000 in taxes on the building.

With regard to the vacant lot, if you could build it, believe me, the last thing we would want to do is own that. The development that's going on today is Prudential Insurance Company came to the city of Newark and wants to spend in excess of \$60 million to renovate four office buildings to relocate over 1000 new jobs in Newark. One of the things they needed was a parking structure. Our lot happens to be right next to their building. In fact, when it's done, it will be a nine-story parking structure, an interconnected--

ASSEMBLYMAN ARNONE: I'm not faulting the project.

MR. MAGRINI: No, I'm letting you know--

ASSEMBLYMAN ARNONE: Don't misunderstand me. I'm not faulting the project.

MR. MAGRINI: There is no speculation here. If we could have done this project four years ago and put tenants into that, we would have loved to have done it. The problem is, in real estate, you have to have the market. When the market is there, you take advantage of it. The city of Newark has worked with us, they've ripened the city. The city, right now, is taking advantage of a lot of activities. You heard the fellow from Gale and Wentworth today. The new stadium -- you have the art exhibit -- a tremendous amount going on there-- It has nothing to do with land speculation, it has to do with the market. It is now a very good market.

So I somewhat object to you picking the Prudential lot.

ASSEMBLYMAN ARNONE: I just picked it up because I saw the paper.

MR. MAGRINI: That happens to be a very, very successful urban redevelopment project, and I will match that with any other project you want to talk about.

ASSEMBLYMAN ARNONE: I'm not talking about the project, I think it's a great project.

MR. MAGRINI: It's a very good project.

ASSEMBLYMAN ARNONE: I'm not talking about the project.

MR. MAGRINI: I am here to say to you that I don't believe this legislation is practical and makes sense, and I don't believe it will achieve the goals or the notions that you believe it will.

ASSEMBLYMAN ARNONE: Assemblyman Green.

ASSEMBLYMAN GREEN: Yes, I'm happy that you asked him that question because he answered my question in terms of-- If we had the

ability, whether it's your firm or any other firm who's there who's here this morning feeling this is not the right way to go-- Just what you said a few minutes ago-- You went and made an investment in a piece of property that was, basically, only bringing in \$100,000 of taxes. Because that was an investment that you made, now it brings in a revenue of \$800,000. So that's a prime example of what my position happens to be. In our urban towns, we have property tied up with -- nobody's doing anything whatsoever with it. And when someone had the ability to come in and do something with it is a prime example. The benefit can come to municipalities. Everybody has knocked Newark, but I'm glad, sitting here next to Donald today, everybody recognized the growth Newark has, as well as Hudson County.

You're talking about urban areas that have a hell of a lot of potential. What about the urban areas, Central Jersey, South Jersey, who don't have transportation, airports, etc.? Those are the ones that are really getting hurt tremendously by not having the ability to benefit from the kind of program that we're talking about today. We're, in fact-- I represent the city of Plainfield. We haven't had any major development within the last 30 years, yet still we have people sitting there with property that don't want to do anything whatsoever. If we have the ability to tax them on that particular property, that's more revenue for the township; by the same token, it might force them to cut a deal with somebody like Hartz who would come in and develop the piece of property.

So that's the reason why I'm supporting it because I recognize the fact that the bottom line is that we have to force situations if we want to somewhat be fair to the taxpayers and some of these other urban areas that

don't have the benefit of a Newark or a Jersey City or even Secaucus. We're five or ten minutes away from New York.

ASSEMBLYMAN ARNONE: Thank you very much.

Mr. Woodford, I'm going to try to accelerate this. We have a gentleman here -- a Professor Tideman, who is a professor from Virginia Tech, who is also with us today. He might like to add a little something. And you, Mr. Woodford, can ask questions almost directly to him.

MR. WOODFORD: I'm not here to ask questions, Assemblyman. Thank you for the opportunity to speak.

I'm Bob Woodford, First Vice President of New Jersey Business and Industry Association. I just want to tell you that our position which, based upon the language of this proposed amendment, is one of opposition. It was based upon the position developed by our Taxation Committee. I believe there are no developers on that committee. We invited Professor Harris, whom you've heard from, and also a representative of the Industrial and Office Parks Group -- I'm sorry, Properties Group to present arguments, pro and con, and had been studying the language of the amendment itself. We think--

To get to the language of the amendment first-- The language permits a municipality either to tax land more heavily or to tax improvements more heavily. I know of nothing in the testimony today or in the studies that we have become acquainted with that argue for taxing improvements higher, and yet there is no-- If this is based on a site value concept, the language of the constitutional amendment proposed will permit either a higher tax on improvements or on land. I don't understand the theory of this. I know this

may not have been in the original bill, but it is in the language of the measure that came out of the Appropriations Committee.

ASSEMBLYMAN ARNONE: Well, the intent is, Bob, people want to do the right things for their towns.

MR. WOODFORD: Well, if the theory is that we need to tax land more heavily, then it seems to me that half this proposal runs in the face of that theory.

Secondly, there are some things done in the amendments here that are very much of a concern. First, we don't know who are qualified municipalities from this language. That's left to a later day. I know it's a tough question to iron out who will be qualified, but when you go into something like amending the 1947 Constitution uniformity provision, there ought to be a very clear road map for where we're going. And there is no way of knowing from this legislation who will be qualified or even, after listening to the mayor of Howell Township talk about the importance of farmland, even to know who has -- will be termed to it -- have such substantial farmland under preservation or open space or environmentally sensitive space to be ruled out of this process entirely. Now, presumably, if you are not one of those communities who was denied the right to a dual tax rate because of your farmland, open space, and environmentally sensitive land, then what farmland, open space, and environmentally sensitive land you have will be subject to the higher tax on land. If the intention-- There are cross-purposes in constitutional provisions if that occurs.

There is a provision in this amendment that says that you can phase in but in no more than a five-year period. Now, Allentown,

Pennsylvania, is phasing in over ten years. Pennsylvania permits a longer phase in. It would seem to me that if a municipality is going to move to a much steeper tax rate on land than on improvements, they might want a longer period of phase-in than five years for several reasons: first, to cushion the impact on taxpayers, and secondly, to provide those who hold land and are looking to develop it with more of an opportunity to respond to the (indiscernible) of this proposal.

We are also concerned, maybe unjustifiably so -- but coming from our standpoint there is nothing more important than the uniformity provision of the State Constitution and nothing more endangering to economic development than a classified property tax that would subdivide land and improvements into business -- I mean commercial and industrial and other. The language, to us, is not sufficiently clear to prohibit subclassification. We don't believe it's the intent to subclassify, but we would like to see strong language that prohibits a subclassification in land and improvements under this proposal.

Looking at the economics of this and the history in Pennsylvania, frankly most of the studies we've seen and distributed to our Tax Committee before their consideration were done by partisans -- out-and-out partisans of the concept. Now, they may be accurate in all respects, but we would really like the benefit of a study objective and impartial by a New Jersey group, like the Council of Economic Advisors or the other similar groups in New Jersey, who could take a look at our circumstances, look at the question of who should be qualified municipalities if we move in this direction, look at the potential negatives and positives, and take another look at Pennsylvania's experience.

I mean, to say that Pittsburgh has had this law since 1913 and to know, at that same time, they've gone through terribly depressed economic times since 1913 and good times is to tell us too little. And we would love to see a study conducted here before we move into this and to begin with a selective targeting of a pilot program in communities like Camden and Asbury Park that would give us some experience by which to judge this program's impact.

Thank you.

ASSEMBLYMAN ARNONE: Well, you know, Bob, just looking at some of your comments, the Constitution deals with assessed true value of property uniformity. It doesn't deal with tax rates.

MR. WOODFORD: It does deal with--

ASSEMBLYMAN ARNONE: We're not doing anything with this.

MR. WOODFORD: Uniformity provision also says under -- under the same general tax rate. We are changing that by amending this. In Article VIII--

ASSEMBLYMAN ARNONE: In Article VIII--

MR. WOODFORD: Under general laws and by uniform rates-- I don't have a copy of the Constitution with me.

ASSEMBLYMAN ARNONE: What would it take--

Well, you know, municipalities now have the power. If they really wanted to do harm to the business community, they have the power now between zoning and master planning and activities to zone their towns the way they want. They could zone out businesses, they can do a lot of things. Of course, you could challenge them, but there are a lot of ways to do harm that municipalities have now that you feel that we're going to do.

“Property shall be assessed for taxation under general laws by the uniform rules. All real property assessed and taxed locally by State... Assessed accordingly to the same standard of value except as otherwise permitted... And such real property shall be taxed at the general tax rate of the taxing district...”

I don't read that into that. I see where it says the general tax rate.

MR. MAGRINI: Well, the general tax rate of the taxing district--

ASSEMBLYMAN ARNONE: That's the one tax rate. That's why we're amending it. We're making two tax rates out of it.

Well, what would it take for the BIA to say we endorse this amendment? What would it take? Now, be mindful we've had six amendments drafted and each one's had a pitfall in one way or another. You cannot use statutory language in an amendment. You can't use language in an amendment that in three years may not be there anymore. You can say urban aid municipality for example.

What would it take?

MR. WOODFORD: Well, I think--

ASSEMBLYMAN ARNONE: Ten-year phases?

MR. WOODFORD: I can't-- I think-- We have to run through our committee any proposal, but the direction we would move in would be to-- If this is going to be a site value tax proposal, then it should be one that permits higher tax on land than improvements and not either because there is no theory behind that. It is sort of a conflict.

ASSEMBLYMAN ARNONE: Just giving latitude to the government to set the rate wherever they want it.

MR. WOODFORD: The provision should be quite clear in denying the right to subclassify within land and within improvements. Certainly, a longer phase-in period should be permitted. This is permissive for a municipality.

ASSEMBLYMAN ARNONE: Well, you know, we had a committee meeting on this. BIA could have come up there and given any suggestions they had. We would have entertained them. We look for a consensus, we don't look to ram things through. BIA never said boo. They never came to any meetings.

MR. WOODFORD: We were still in the process of studying this, and frankly, I didn't know, as of March 5 when our committee met, what direction they would take on it. They raised some serious concerns that -- other concerns that they raised that do not pertain to the specific language of the proposal, but pertain to the assessment process where today. As a property owner I, frankly, don't care what value is placed on the land and what value on the improvements. I care whether or not the fair market value of the property, as a whole, is reflected in an assessment. You're going to open up a lot of arguments when we have to accurately, separately determine the value of land and improvements when there are real-dollar consequences.

ASSEMBLYMAN ARNONE: Right.

MR. WOODFORD: And in some cases, where there is not much of a market for that land, that is going to be a very difficult process for everyone leading to conflict and litigation.

ASSEMBLYMAN ARNONE: I want BIA to be friendly to the amendment because I really want you to be friendly to it, and I want to try to

conform it to where your comfort level exists. But it's hard to find out where it is at this late stage. This has been introduced--

MR. WOODFORD: Assemblyman, I came to your first hearing, and there was no bill to be reviewed.

ASSEMBLYMAN ARNONE: This has been around for three years.

MR. WOODFORD: At the first hearing of your committee there was no bill available. It had not been introduced yet. The second hearing -- I sent someone to cover that hearing because I had a conflict, but we had a full report from our researcher who covered that, and then the language changed. The Assembly Appropriations Committee came up with new language, which is different from your original bill, and we have problems with the language they came up with. This has been an ongoing process. We've tried to educate ourselves. I've been making calls to people like the Pennsylvania Chamber of Commerce and to others to get some additional input because we felt that the information we had was--

ASSEMBLYMAN ARNONE: Let me tell you where we're at.

MR. WOODFORD: Yeah.

ASSEMBLYMAN ARNONE: The enabling legislation-- We're toying with the idea of either restricting it to one, two, three towns; restricting it to urban aid towns; restricting it to UCC communities; restricting it by density, where one resident -- 4000 residents in one square mile. We haven't really hammered it out yet. One thing I can tell you safely is that it is not going to apply all over the state. It is not going to be very liberally applied. Obviously, the number of communities that would use it would be very

restricted because we want to see it work, and it will work. I've read recent editorials in business magazines where they talked about 566 towns that are going to grab this and what they're going to do with it and everything else. I don't know. A lot of people are putting two and two together and coming up with five. But I'm traveling on the premise this is very business friendly.

Now, if someone in your organization is in the business of land banking vacant land, and the land banking land -- are having a vested interest in letting structures on land run down like we had in Asbury Park -- they burned a building down just to pay less taxes on the land -- then I'm going to say that they're not going to be friendly to this no matter what we do. But I would say that business in general should be very happy with this. They're very-- I'm not a liberty to say this, but they're very large corporations are going to have tremendous tax breaks in some of these major towns that they're being critical of. They're going to get tax breaks because they've developed their land. They've built high-rises, and they're going to get tax breaks.

So I don't see the real negatives, but again honest people can differ. I'm not trying to say that your concerns are less than sincere, but--

Professor--

Bob, would you mind if I just let the Professor say a few words because we've got another committee meeting in about another 15 minutes.

Professor, would you like to--

Professor Tideman is from Virginia Tech University, and he's traveled a long way to come up here and address the Committee.

T. NICOLAUS TIDEMAN, Ph.D.: Thank you.

My name is Nicolaus Tideman. I'm a professor of economics at Virginia Polytechnic Institute and State University. I have a Ph.D. in Economics from the University of Chicago. I taught as an assistant professor at Harvard, and I was, for one year, a senior staff economist on the President's Council of Economic Advisors before going to Virginia Tech. I have a specialization in public finance and public-- (indiscernible) Recently, I supervised a doctoral dissertation for a student who studied the impact of too many taxes in Pennsylvania, and we have a paper that came out of that.

The main result is that looking at all the cities in Pennsylvania that have used it, on average-- When a city introduces a 1 percentage point differential between its taxes on land and its taxes on buildings in favor of higher taxes on land and lower taxes on buildings, on average, that results in a 15.6 percent increase in construction. That's the statistics we came up with.

I want to also talk about the economic theory of what's going on. We've heard a lot of talk about this as a tax increase. An important principle of public finance is that you cannot change only one thing in a public budget. If you increase taxes, you have to either decrease some other tax or increase expenditures. And usually this is considered a way of introducing a revenue-neutral change in the way taxes are collected. You increase the tax on land and you decrease the tax on the buildings. The average taxpayer has a zero change in taxes by definition when you do that. Some people pay more, some people pay less.

You can be in a situation, as was hinted to by an earlier speaker, where everybody is better off. Those who are already developed are better off because their taxes go down, and those who have not yet developed are better

off because now they can develop and not pay such high taxes. This has the potential for being a win-win-win situation where everybody is better off. It results in a bigger pot, not just a change in the size of the pot.

One wonders then why it generates opposition from some groups. I think that the reason is that there is a tendency for some people to think of economic development as economic development projects that involve special incentives that are negotiated with cities on a one-project-at-a-time basis. What this measure would do would make a reduced penalty for development available to everybody without having to go negotiate a deal with city hall. And so it might reduce the demand for the services and the profit to the business of being -- of negotiating special deals. But I think it is important to recognize that economic development is all of the investment and employment decisions that all businesses make. And this is the kind of measure that will promote development by giving everybody that incentive. It is not-- It shouldn't be regarded as a way of increasing taxes on land. It is a way of shifting the relevant proportions of two different taxes so that people who have developed or who might develop are not penalized as they are today.

Thank you.

ASSEMBLYMAN ARNONE: Thank you, Professor.

Would you avail Mr. Woodford of your publication? In fact, if you have extra copies, I think our staff would like to have some, also.

And thank you very much, Professor. I know you came a long way.

And thank you, Bob.

I've tried to get around to everybody. I don't know--

Does anyone have anything to add to this discussion here?

Do you have something to add? Would you please be brief if you don't mind? I'm sorry. I don't want to rush you, but the room-- We've got people outside waiting to charge in the door.

R O N A L D B E R M A N: I'll be very brief.

My name is Ronald Berman. I'm the President -- Chairman of R. Berman Development. We've done, as a CEO both of R. Berman Development and a prior company that I was CEO of, about 1.5 million square feet of development, primarily in the city of Trenton and in New Brunswick. We're pioneers, I think, in both places in urban development.

I just want to say that if this bill worked I would support it. I support every piece of legislation that helps create urban redevelopment and urban revitalization. I also want to say that, in my opinion, there are almost no urban land speculators -- I don't know of any -- in the developers who are really doing major development work. I certainly don't. I don't think the people at Hartz or the others who are doing it are also involved in land speculation. I think the concern, quite frankly, is whether or not it works. If you follow the comment that "If it doesn't do any harm, why not do it, why not pass the bill?" I think I have to say to that that it is not clear that it doesn't do any harm. I mean, I think it-- I personally believe that it is a disincentive to development.

We had a project -- the Robeling Project in Trenton. We bought 30 acres of industrial land. It took us 10 years to put together all of the pieces. For that 10-year period, we carried it. As I look back, this bill is probably irrelevant to that because that involved land and buildings. So if the tax rates

stay the same on both, we would -- not the tax rate, but the impact of the two tax rates were the same as if it were a single-rate system, it probably would have been totally irrelevant to us. But I do see instances where-- And I just asked myself, if in fact, you're going to have a tax on land -- a rate on land that ultimately may reduce the value of the land, then aren't you, in effect, creating just a series of tax appeals, and you're going to wind up in a neutral position anyway?

So I think that-- To just put it in a nutshell, I think that those of us who were involved in urban redevelopment would like to get a better handle on the impact of this proposal on what it is we do.

ASSEMBLYMAN ARNONE: Is it possible to set up some kind of a meeting? It is possible to set up some kind of a--

MR. BERMAN: We would be--

ASSEMBLYMAN ARNONE: --that we would be willing to come and discuss at length--

MR. BERMAN: We would be delighted to do that. I mean, I think most of us have offered to do that and to have this interchange because I really don't think that, from what we all do -- if it could be established that this is a help urban redevelopment. I think that there are many of us who would support it because, as I said before, I don't know of any land speculator -- urban land speculators--

ASSEMBLYMAN ARNONE: Well, thank God Mayor Whelan isn't here from Jersey City -- from Atlantic City. He's got a tremendous problem with it down there.

I'm not saying--

MR. BERMAN: Not on vacant land, presumably.

ASSEMBLYMAN ARNONE: Yeah, right.

MR. BERMAN: In other words, most of the area that he is dealing with are lands that have improvements on them.

ASSEMBLYMAN ARNONE: Well, run-down housing and stuff like that.

THOMAS MICHNEWICZ: My name is Tom Michnewicz. I'm with The Advance Group in Bedminster, New Jersey.

About two years ago our company did make a strategic decision to add to our core business urban redevelopment. And since that time, we have pursued and are actually involved in projects in New Brunswick, Long Branch, Harrison, and in Perth Amboy, as well as in Trenton.

We made that decision because we recognized the opportunities of urban redevelopment. The ability to acquire land in strategic locations at minimal or no cost, the proximity to public transportation and major highway systems, and also an available workforce. We've also been encouraged in the last year or so by the Governor's mandate to push development back into the cities as well as the mandate of the public in last November's election on the open space initiative and also the initiatives of the Legislature such as the Brownfields Act.

However, I think that ACR-145, as it is now written, could negate many of the positives that have been created over the years to promote the urban redevelopment. The ability to-- By granting the municipalities the ability to arbitrarily raise taxes on vacant land, I think, will discourage developers from looking very seriously at urban development in favor of

possibly going back to the suburbs where development in the suburbs can be done a lot more cost effectively. There are tremendous risks involved in urban redevelopment as has been discussed this morning at some length.

I think the bill ignores some of the real reasons why urban areas are slow to develop: number one, an aging infrastructure, number two, weak educational systems in many cases, and many of the social ills, as well as market considerations. I think the notion that this will provide an incentive for landowners to go out and develop buildings without consideration -- without market considerations, I think, is a real flaw in the reasoning here.

ASSEMBLYMAN ARNONE: Just a tool. Just a tool. It is not a panacea.

MR. MICHNIEWICZ: In the 1980s, which got us into a lot of trouble-- It plunged us into the worst real estate depression in our history. The notion or the mentality was to build buildings and they will come. Well, it got us in a lot of trouble. And if I'm hearing some of the comments I've heard this morning, I think that there is this notion that the current landowner, if he doesn't develop within a certain period of time -- there should be some incentive for that person either to develop -- that developer to either develop that property or sell it to someone who would develop it presumes that there is going to be a meeting of development. Well, if there is no market, there is not going to be any building in that area.

We, in fact, just terminated a contract in a city because of that very reason. We've been-- We've had an option on a property. We've been carrying the property for about a year now with the idea of doing a major

urban redevelopment. Well, what happened was that the market just wasn't there for this, and we couldn't afford to carry the property any further.

So I think, had that city had this ability to just arbitrarily raise taxes -- certainly doesn't provide an incentive for our company to develop. It really provides an incentive for us to walk away from a property like that.

I think that the bill, as it is written today, is too broad and vague and may have some very unintended and adverse effects on urban revitalization which, I think, is contrary to what the bill's intent is.

ASSEMBLYMAN ARNONE: Thank you very much.

Thank both of you.

Mr. Berman, if you'd like to discuss the possible setting up of some kind of meeting, I'd be more than happy to attend.

MR. BERMAN: We'd be very happy to.

ASSEMBLYMAN ARNONE: And we can bring some people much smarter than I. Maybe we can do something.

MR. BERMAN: Okay.

MR. MICHNEWICZ: Okay.

ASSEMBLYMAN ARNONE: Thank you all for coming.

This concludes the public portion of the meeting. Thank you for coming.

(HEARING CONCLUDED)