

PUBLIC HEARING

before

THE NEW JERSEY TAX POLICY COMMITTEE
TASK FORCE C (THE PROPERTY TAX)

Held:
October 21, 1970
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF TASK FORCE PRESENT:

Leonard C. Johnson (Chairman)
Mrs. Robert Klein
John W. Duckett
Assemblyman James P. Dugan
Marriott Haines
Robert W. Kleinert
Philip H. Mowery

Also:

Senator Harry L. Sears (Chairman,
State Tax Policy Committee)
Dr. William Miller
Staff Director

* * * *

THE UNIVERSITY OF CHICAGO
LIBRARY

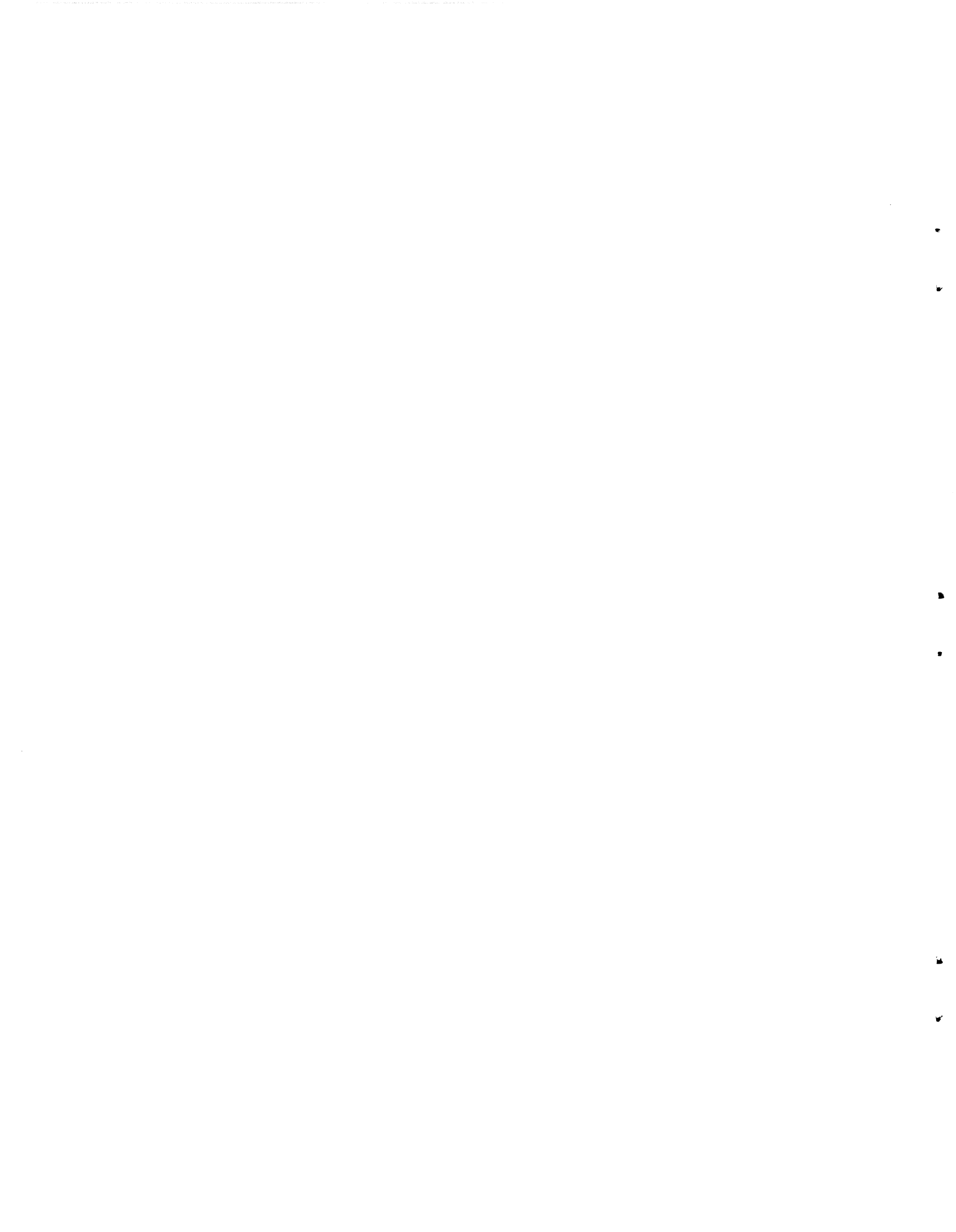
PHYSICS DEPARTMENT
5712 S. UNIVERSITY AVE.
CHICAGO, ILL. 60637

RECEIVED
MAY 15 1964
PHYSICS DEPARTMENT
5712 S. UNIVERSITY AVE.
CHICAGO, ILL. 60637

PHYSICS DEPARTMENT
5712 S. UNIVERSITY AVE.
CHICAGO, ILL. 60637

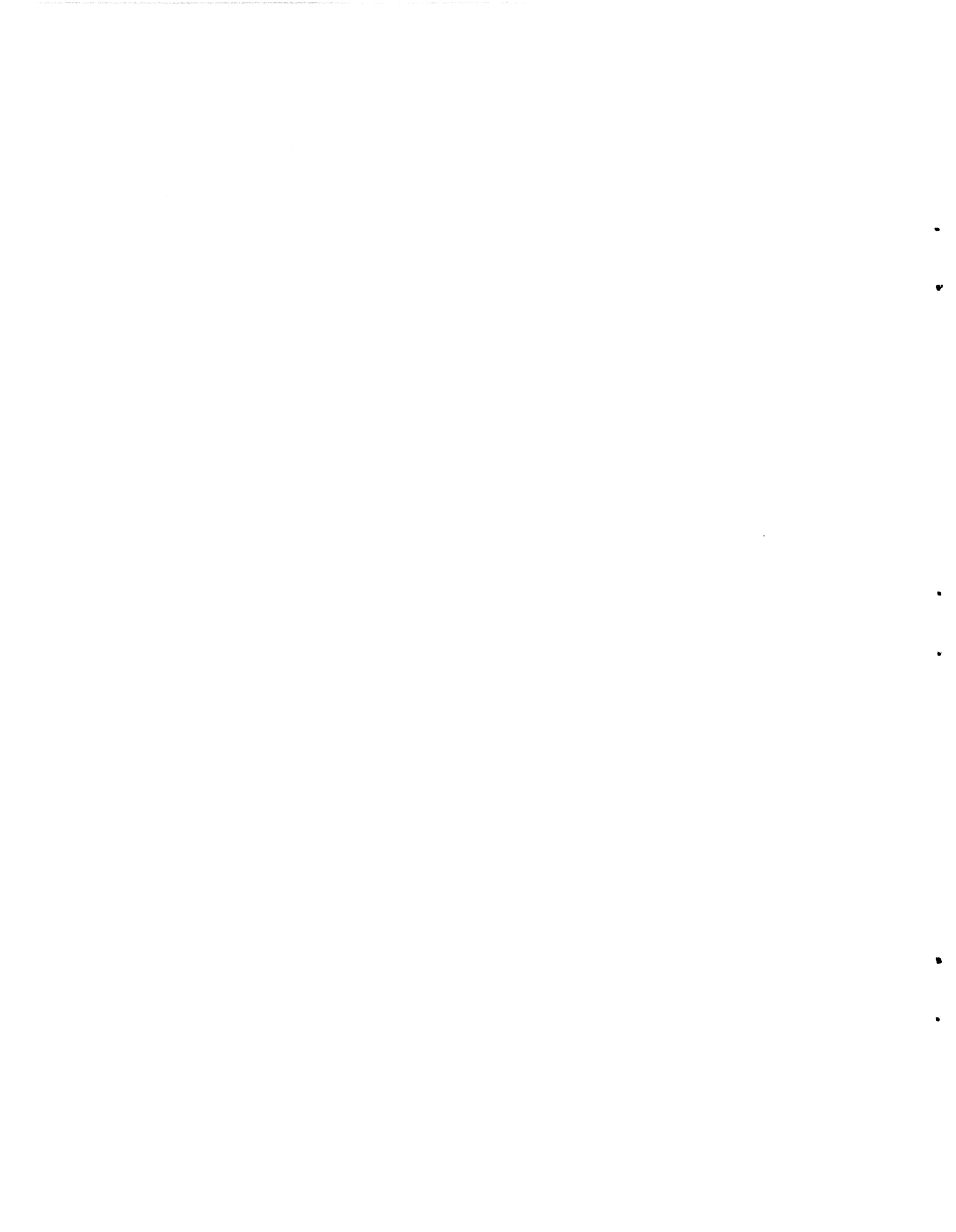
I N D E X

	Page
Senator Harry L. Sears Chairman, State Tax Policy Committee	1
Mark M. Jones Princeton, New Jersey	2
Robert E. Scott, Jr. Chairman, Taxation Committee New Jersey Association of Realtor Boards	5 - 103 A
Robert V. Goordman Group for Repeal of Inequitable Taxation	19
Arthur L. Reuben New Jersey County Planners Association	22 - 117 A
Mrs. Betty Little Citizens for Conservation	28
Richard L. Solyom Federation of New Jersey Taxpayers	39
A. R. Luartes Cherry Hill, New Jersey	50 - 121 A
Esko J. Koskinen, President New Jersey Builders Association	54
Peggy Hogan Jersey City Division of Planning	1 A
Thomas Wilson Pleasantville Taxpayers Association	12 A
Geoffrey W. Esty, M.D. President, Economics Education Institute, East Orange	23A - 122 A



	Page
Augustus Nasmith Association of New Jersey Railroads	37 A - 125 A
Charles Pierce Citizen Taxpayers, East Orange	38 A
Jack Okim Citizen Taxpayers, East Orange	40 A
Mrs. Ella Filippone Environmental Research Association	58 A
Helen C. Fenske Green Village, New Jersey	72 A - 131 A
Harold O. Dayes President, Ocean County Seniors' Coordinating Council	78 A
Frank R. MacKannan United Seniors of New Jersey	80 A - 137 A
S. Herbert Starkey New Jersey Education Association	85 A - 138 A
Richard F. McCarthy President, Property Tax Rebellion Association	91 A - 142 A

* * * *



LEONARD C. JOHNSON [Chairman]: If you will take your seats now, please, we will begin.

Fellow sufferers, this Task Force appreciates your coming here this morning to share your views with it. Each of its members are taxpayers themselves. It is one of five Task Forces which make up the Governor's Committee and the Chairman of that Committee is here and he may have a few words to start this hearing. Senator Sears.

S E N A T O R H A R R Y L. S E A R S: Thank you very much, Len. I want to express my appreciation to all of you who have come here, as the Chairman of this Task Force says, to share your views and thoughts with us.

These public hearing processes are going to be a very important part of the work of our entire committee. All five of the sub-committees or Task Forces, as we call them, will be holding hearings. These are what we call the initial hearings. We are in the initial stages of the Committee's work. There will be subsequent hearings undoubtedly later in our proceedings as we move along. The Committee as a whole will probably have hearings on specific proposals and specific considerations that we will be developing as the work of the Committee goes ahead.

It is very important to us here at this initial stage that we have the benefit of the views of as many people, as many citizens and taxpayers, as many organizations, as we can get. Because for these Task Forces and for this whole Committee, part of this is really a learning process. There is always something new. Even though we have had twelve Tax Policy Commission reports and a lot of other reports that deal with various elements of the problems of taxation over the years, we always seem to find that there is more to be learned and we always have to bring ourselves up to date.

So, Mr. Chairman, I wish you luck and I will be here with you most of the day. Hopefully, we will have some real contributions to our work.

MR. JOHNSON: Thank you, Senator Sears.

Now I believe each of you has a list of the hearing rules. It is the earnest desire of the Committee to hear everyone who wants to be heard. And this is the first of several hearings the Task Force will be holding throughout the State. In order to insure that everyone be heard, we have limited the oral presentations to ten minutes and there will be a count-down here starting at five and the cards will be flipped as each minute goes by. Now should we run through the list of witnesses before the end of the day, you will have a chance to come back and add to the record.

I repeat, this is the first of a series of hearings and you are certainly welcome here today and you are welcome back again or in Paterson or Newark or New Brunswick or Camden or wherever else we may be in the next several months.

The first witness is Mr. Mark Jones of Princeton.

M A R K M. J O N E S: Thank you, Mr. Chairman. My name is Mark M. Jones. I am a citizen and taxpayer of New Jersey and have been for 50 years or more.

I sought the opportunity to appear here in order to give expression to some basic conclusions with respect to this so-called inflationary crisis which I consider to be a major feature in the problem confronting the Committee.

It is of the greatest importance that a committee such as the New Jersey Tax Policy Committee begin with a realistic estimate of the situation and the real nature of the need and its job. The point of departure is the fact that we have just been through more than a generation of irresponsible and reckless pyramiding of government spending and political power. Culmination of the accumulating mistakes of 36 years now approaches. The day of judgment is not far off.

I might interpolate that just before leaving my home this morning, a gentleman who has been the Chairman of the Finance Committee of the Senate of Vermont stopped in and I asked him what he thought was the key feature in this crisis

because he said it is the same everywhere. His answer was that it is the pressure group system that we have not found a way to cope with. And he has had many years in the Vermont Legislature and he says they have the same problems there that we have here.

The first proposition that I offer to the Committee is that the economic and financial policy of the State of New Jersey cannot continue on the course of more and more spending by the governments, which it has followed in recent years. The point of diminishing returns long since has been passed on that detour from prudence and common sense.

The second proposition is that a responsible attack on the basic economic problem of the State of New Jersey and its people requires the development of a reliable formula for limiting the overhead expense of government with due relation to the income of the people, and taxpayers in particular. Government is not more important than the people. Government no longer can continue as a plunderbund.

The third proposition is that unless there is a realistic approach to the situation, the members of this Committee will come out having been used to privilege and advantage approximately 50,000 State payroll parasites and whatever the number may be of county and local government parasites, against the 7,000,000 citizens of New Jersey. You have taken up your task under circumstances that suggest one more expedition against the people on behalf of predatory politics.

Then I suggest that if you confront the situation in a positive way, you will begin with recognition of the fact that all government expenditures are nonproductive overhead expense of an economy from an accounting standpoint. If they are not held within due proportion to production and the income of the people, you have an economy in liquidation. That is what we now have.

In particular, I point out that you cannot escape the fact that the inflation now raging throughout the nation is the first inflation in our history that was caused almost entirely by irresponsible and excessive expenditures by government. It is not inflation in the private sector; it is inflation that is almost entirely in the public sector. New Jersey

is still a part of the United States.

In the 36 years since 1933, the impact of this political inflation has resulted in total spending in the United States of \$3 trillion, 750 billion, and has destroyed 80 per cent of the value of the dollar. The value of the dollar is now down to less than 20 cents compared with 1933.

Next, I suggest that the Committee is improperly named. The problem that requires attention is not a tax problem at all. Taxation is an effect. Government spending is the cause. To disregard the fact that spending is the problem is to get the cart before the horse.

Then I point out that the clamor about property taxes being too high is really a red herring. The excessive amounts paid as property taxes are caused by crazy spending for public schools. This spending has been kept going by slick propaganda from Teachers College. The propaganda has been keyed to one shibboleth since it was started by the Social Frontiersmen at Teachers College in the early 1930's. That shibboleth was: "There is nothing the matter with public school education that more money won't cure." Although not true, it was successful in diverting attention from the fact that the present program of education in public schools cannot stand analysis.

Another red herring is the income tax. We have had 54 years of it federally, since 1916. Because of Socialist and Communist propaganda carried on by the emotionally unbalanced, the actuarial side of the situation has been ignored. If the impact of the income tax is given due consideration, it will become clear that the scale of living of 200,000,000 people (7,000,000 in New Jersey) has been steadily undermined by it and cannot be maintained if an income tax is an important feature of our financial system. An income tax inevitably is an instrument of liquidation. We have a national economy in liquidation because the income tax has been the main feature of fiscal policy nationally.

If the Tax Policy Committee can be organized and operated so that it really makes a contribution in the interests of the people of New Jersey, it will have to begin with a comprehensive and penetrating assessment of the program of spending of the State Government. Spending is the cause. Taxing is an effect. Taxation has become the biggest racket in the world.

The principal suggestion I make is that the Committee face up to the facts of life and concentrate on the key factor in the New Jersey "fiscal crisis." It is the public education monopoly and the frightful way in which it has been mismanaged by those who have been running education.

If it is possible to continue with the very questionable idea that public school education should be operated as a monopoly, there is reason to believe that adoption of a program of education which would meet the real needs of the people without wrecking the economy could make possible the cutting out of about 50 per cent of the amount now being thrown around in the name of education.

The taxpayers' revolt has begun. It probably will widen after November 1. Its spread probably will suggest a match tossed into gasoline when the people realize that the principal cause of their trouble is crazy government spending on schools, the shortcomings of which are mainly responsible for the chaos and inflation now rampant on every hand.

In conclusion, may I not only thank the Committee but may I say that if this Committee is interested in following a course such as that outlined tentatively herein, I shall be glad, if it so desires, to continue on with this line, and give it the benefit of any thinking that it may wish to have. Thank you very much.

MR. JOHNSON: Thank you, Mr. Jones. In respect to your last offer, certainly the Committee welcomes any ideas that you or others might have.

MR. JONES: This, of course, is just a general framework, a picture from my point of view, of the background and it leads to a great many other things. So if there should be any interest in it, let me know. Thank you very much.

MR. JOHNSON: Just a moment, Mr. Jones. Does counsel or do members of the Committee have questions to ask Mr. Jones? If not, thank you again, Mr. Jones.

Now next is Mr. Robert E. Scott of the New Jersey Association of Realty Boards.

Mr. Scott, you recognize that there is a ten-minute limit. You may want to summarize as you go along.

R O B E R T E . S C O T T , J R . : Thank you. My name is Robert E. Scott, Jr., and I am a Realtor and Mortgage

Banker with offices in Elizabeth. I appear before you today as Chairman of the Taxation Committee of the New Jersey Association of Realtor Boards and speak on behalf of our Association's 3200 realtor associates and 15,000 licensed associates. We are grateful for the invitation to appear before this distinguished body and feel qualified to treat with the problems of real property taxation in New Jersey because our members Statewide sell New Jersey day in and day out to homeowners, industrial companies and commercial enterprises as a great state in which to live, work and play.

We offer a bold four-point program for your consideration.

1. Remove teachers' salaries and public assistance from the property tax base.
2. Reduce exemptions which erode the property tax base.
3. Revise assessment procedure on one- to four-family homes to take some of the profits out of slumlordism.
4. Strive for economies in government.

New Jersey is the most densely populated state in the Nation with an urbanization ratio of over 88 per cent. We must, therefore, be hyper-sensitive to appropriate land use and vouchsafe the sacred trust reposing in the land.

The antiquated property tax basis in New Jersey, focused on a constant or actually diminishing supply of land, tortures that trust and is inadequate to meet the needs of a dynamic modern society. New Jersey property taxes are the second highest in the nation on a per capita basis, representing \$226.68 tax for every man, woman and child in the State on a State-wide average. But there are wildly divergent levels of tax load across the State.

A recent survey, relating property tax to income and home value, showed a family of four with \$10,000 gross income residing in Newark paid the highest taxes in the Nation compared to a family of comparable size in the largest city

in any other state.

This oppressive level of taxation is having a deleterious effect on the landscape and economy of New Jersey. The most manifest example of this fact is the ravage wrought by fiscal zoning which we prefer to call "zoning against people". This concept of fiscal zoning has given impetus to the wasteful land practices known as urban sprawl in much of metropolitan New Jersey and which is largely self-defeating in that it requires more roads, sewer and water lines, mass transit facilities, etc., to service a given number of people than if there were greater housing density.

This development pattern is making New Jersey non-competitive in the race to attract new industry because of our inability to provide blue collar housing. The most recent survey by the Society of Industrial Realtors revealed that adequate housing for all levels of personnel had replaced a stable tax base as the number one criterion for industrial site selection. The spiralling tax rate has become confiscatory in some cities and is working to destroy incentive to conserve our existing housing stock.

The unstable tax rate escalating from year to year is a deterrent to long-term income property investment in many of our cities. Compounding this problem is the inequity of increased assessments for property improvements. The methods of tax abatement to inspire rejuvenation of the center cities deprive the very bodies who need money the most, the poorer cities, these vital funds.

There is another terrible toll being taken by excess property tax levels which is impossible to quantify - that is, the shattering of the American dream of home ownership for many middle and lower income families. Much has been made of the deprivation incurred by the increase in mortgage interest rates over the last several years, but spiralling tax rates have been at least an equal factor in disqualifying buyers.

The demoralization of New Jersey residents due to the altered character of their environment and the stresses of tax uncertainty have produced a general public malaise which is evidenced by recent articles about taxpayers' revolts and by the record number of school budget rejections in the last few years. There is a widespread taxpayers' revolt brewing and the only reason its impact is not more pronounced is because of a lack of coordinated leadership.

New Jersey's property tax tradition is rooted in the agrarian economy of the 18th century and it is an anachronism. Landed property is no longer the sole criterion of ability to pay taxes. Our property tax tradition retards development of the State by encouraging wasteful land use planning, necessitating a massive expensive infrastructure of utilities and transit facilities and by discouraging investment capital. It is a narrow inflexible base, inadequate for a modern society. There is only a given quantity of land and increased taxation on that finite quantity of land will sooner or later become confiscatory.

This anomalous tax structure rooted in yesteryear has engendered a crazy quilt patchwork of taxes, exceptions and exemptions, such as, tax exempt government projects, tax exempt quasi-governmental projects, like the Port Authority, exemptions for religious and charitable organizations, tax abatement for low-income housing and welfare plans like senior citizens' and veterans' exemptions being built into the property tax.

The New Jersey situation is so unique and the problems so severe as to demand bold, sweeping changes in our tax structure. Any solution involving broadbased taxes, to be considered seriously, must be structured in such a way as to not only ensure that property taxes will be reduced dramatically but cannot again escalate to their present level.

Property tax levies on a local basis have risen 150 per cent in the last ten years. Municipal levies increased 63 per cent, but county levies have increased 152 per cent and

school levies increased 171 per cent. Our goal is to remove all costs of public education and public welfare from the municipal budget. The first step could be to shift the cost of teachers' salaries to the State level. The advantages are obvious. It would relieve the property tax base, eliminate competition between school districts by salary, create Statewide bargaining with professional negotiators representing the State, remove the inadequacies of the present State Aid formula, and relate the right to mandate expenses with the responsibility to raise taxes.

We would concurrently urge that steps be undertaken to complete the federalization of the public welfare program because this program has escalated beyond the ability of the property tax base to support it.

The net effect of these changes would be to reduce the typical municipal budget by approximately one-half.

With the property tax restructured and relegated to its legitimate role as an income source only for the support of vital municipal and county facilities, it would then become feasible to eliminate or significantly reduce the bewildering array of property tax exemptions.

At a time when we are falling behind in new construction of vitally-needed housing, we offer a plan to conserve our existing housing stock and rehabilitate slum areas.

We recommend consideration of a new system of assessing one- to four-family homes. Perhaps an illustration is the quickest way to explain this proposal. Visualize, if you will, three almost identical houses built about the same time, side by side. The dwelling in the center barely meets the minimum housing code. The left one is well maintained, freshly paint, grounds in beautiful shape, picket fence, etc. The house at the right has been "milked," owned by a slumlord and has been allowed to drift down the road of blight for years.

Today the owner who has maintained his property pays the highest tax. The middle owner, who just complies with

the code, pays a lower tax, and the third owner, who has disregarded the law and allowed his place to become a shambles, pays the lowest tax.

Our proposal recommends that assessors use the minimum housing code standard, exemplified by the middle house, as the base of assessing all three properties.

We also recommend a tax incentive for rehabilitation which would establish a five-year moratorium on increased assessments due to improvements made to bring a property up to minimum property standards.

In the interest of effecting further economies in government spending, we urge that your report contain proposals aimed at consolidation of duplicate services now being provided by various levels of government and consolidation of some school districts to a more economic size.

In conclusion, we would like to voice our bitter disillusionment with the distribution of the Sales Tax revenues, which have made us sadder but wiser when it comes to expectations for property tax relief from new tax programs.

I can assure you that if your recommendations are designed to reduce the demands on the property taxpayer, then the members of our Association will help to sell them Statewide.

But if the recommendations of the Committee are for the implementation of a new tax which is not specifically dedicated to property tax relief, then our Association may be forced into providing the leadership for a taxpayers' confrontation. Thank you very much.

[The complete statement submitted by Mr. Scott had be found beginning on page 103 A of this transcript.]

MR. JOHNSON: Thank you, Mr. Scott. Are there questions? Mrs. Klein?

MRS. KLEIN: Mr. Scott, you told us a lot that was wrong with the property tax and I am sure very few people could argue with your facts. What do you propose as the means of substitution for a property tax which now runs

something like two billion dollars?

MR. SCOTT: In the form of substitute revenues?

MRS. KLEIN: You talk about removing school costs and welfare costs to the State level.

MR. SCOTT: Right.

MRS. KLEIN: How do you propose to pay for them?

MR. SCOTT: Well, the cost of the school salaries runs about \$600 million, \$594 million and change being the most current figures that we have. Our program or the thrust of our testimony is, I would think, one of emphasis and the point that I would like to leave with you first of all is that before we begin to explore alternate sources of revenue, we want to first impress upon you the necessity for getting a restructuring of the property tax to relieve it of the responsibility of this. Once we are assured that this will be done, then we will bend whatever resources we can bring to bear on helping you to find an alternate source of revenue.

I understand an income tax as proposed at the New York rate would yield somewhere in the neighborhood of \$300 million

MRS. KLEIN: \$800 million.

MR. SCOTT: Well, \$800 million. I had received a figure of \$300 million.

MR. JOHNSON: That is as it was proposed by Governor Hughes.

MR. SCOTT: Well, there is presently \$300 million roughly being applied in the form of State Aid to education now which could go into the equation to support teachers' salaries.

I presume that we are invited to testify on the strength of our expertise in the field of real property taxation. There are glaring inequities in the present administration of property taxation. We are interested in relieving those inequities for the benefit of the over-all economy and development pattern of the State of New Jersey. Beyond that, we have some ideas on where these substitute revenues might

come from. But I am sure that you will elicit even more competent testimony than ours in that area.

MRS. KLEIN: I think that those ideas are extremely important because it is easy to see the things that are wrong with the tax structure. But how to find the solutions is really the problem.

MR. SCOTT: Mrs. Klein, believe me our testimony is meant in a constructive vein, but we have been down the road once with a broad-based tax which was sold on the basis of relieving local property taxes and it did not do that to a significant degree.

MRS. KLEIN: That was the other thing I wanted to ask you - what you meant when you said you were disillusioned with the way the sales tax was distributed.

MR. SCOTT: We were.

MRS. KLEIN: Well, what do you mean?

MR. SCOTT: Because the effect has not been to reduce the level of local property taxation. Many municipalities treated this as a windfall and used it for the creation of new capital structure which required on-going costs to staff. For instance, if they built a new school building or an addition to a school building, it cost them additional money to maintain that and to staff it with teachers, etc. It was a one-shot deal.

MR. JOHNSON: Are you aware of how much the property tax produces in New Jersey?

MR. SCOTT: Yes.

MR. JOHNSON: What is your understanding?

MR. SCOTT: Approximately \$1.7 billion.

MR. JOHNSON: I thought it was more than that. Are you aware of the growth rate?

MR. SCOTT: Yes, I am.

MR. JOHNSON: So substantial relief is a very vexing and a very enormous problem.

MR. SCOTT: Yes. But it is a question of where the area

of greatest increase in cost has come. As I pointed out, the over-all increase in local property tax levies has been on the order of 136 per cent over the last ten years. But most of this has been in the area of school costs, for instance, which have increased 171 per cent in the last ten years. This is due in part to our increased prosperity, increased level of general education. The people of this State apparently are demanding more and better services, which is entirely proper. But we have a glass of water on the desk here. My thirst is continuous. The glass of water represents the property tax base. The property in this State is a finite entity. We can only tax it up to a certain point; whereas income is theoretically infinite.

MR. JOHNSON: Any other questions? Counsel?

MR. MILLER: Mr. Scott, your last observation perhaps anticipated my question. Your proposal leaves real estate subject to some taxation.

MR. SCOTT: That's correct.

MR. MILLER: The question is: In the judgment of your Association is there a defined annual rate of taxation that real estate can stand as compared with what it is now subject to?

MR. SCOTT: I am not prepared to give you testimony on that. I would be glad to solicit the views of our Association.

MR. MILLER: In other words, what tax rate wouldn't be too high?

MR. SCOTT: Well, the thrust of our proposal would be to reduce local levies by approximately one-half. We feel that this is structurally self-limiting and that the burden of certain areas of expense, and indeed the ones that are most rapidly escalating, be shifted to areas which rely on a broad-based tax which has a greater resiliency, a greater ability to grow and absorb the increased demands for services.

I can't give you a specific formula number at this point, whether there is indeed even a consensus in our

Association as to what is a tolerable level of taxation. We do know that it is too high right now and that the damages are self evident at the present level.

Certainly there are tremendous divergencies over the 567 municipalities within the State. In some it might conceivably be construed to be too low. But those that are bearing the heavier load are bearing an awesome load.

MR. MILLER: We have a chart up there which shows how they spread. You don't have any suggestion as to what point they are not excessive.

MR. SCOTT: No, sir, I do not.

MR. MILLER: I have another question, Mr. Chairman.

MR. JOHNSON: I was just going to ask this, if I may: Your answer suggests that you feel there are properly selected services which the property tax should support. Is that so?

MR. SCOTT: Yes, sir.

MR. JOHNSON: Could you relate those?

MR. SCOTT: Yes. The property tax should properly, in our opinion, support local services, such as police and fire protection, sanitation workers, the support of the courts, the support of county bridges and highways and tunnels, etc. Those items which are construed to be in the area of more social benefits - and this is an inprecise term, I realize - are ones that we believe should be shifted off the property tax. We then propose that there would be a levelling once the property tax is relegated to a proper role of supporting local services and then there can be an elimination or reduction of the exemptions which have chopped up the property tax base to the point that it has been now. For instance, there is no reason why the Port Authority could not pay a tax rate that would provide support for the local police and fire protection that are essential to the operation of its facilities or for feeder roads through the county.

As you know, there are many philanthropic, religious

and charitable organizations which have voluntarily paid a portion of the property tax for support of local services, but they didn't feel that it was incumbent upon them to support school costs. And I think that this has been recognized by several legislators who have proposed bills to shift the burden of the property tax back to proper local services and lay on the State the cost of supporting education.

MR. JOHNSON: Thank you.

MR. MILLER: To get to the proposal that you have made with respect to the taxation of owner-occupied dwellings, if I understood it correctly, the assessor would be directed to place a value on a dwelling at what it would be worth if it were at a standard level of improvement.

MR. SCOTT: That is correct.

MR. MILLER: I assume that what you meant in proposing this was that it would help to alleviate slum conditions.

MR. SCOTT: Correct.

MR. MILLER: Suppose you have an owner who has a very badly rundown property because he cannot afford to improve it. Would you still put a value on his property at the standard rate even though he doesn't have such a property?

MR. SCOTT: As a practical matter, Dr. Miller, we feel that this should be phased in over a ten-year period. In the time space allotted to us, it was impossible to go into the details of this. I just wanted to get the concept across. Naturally with the scope of neglected properties, the great number of them that exist today in your inner-city areas and indeed even in some of your suburban areas, it is quite possible that if this were enacted immediately, it would throw many properties into foreclosure and dump them back into the hands of the municipality.

What we propose is that during an interim period, something be implemented along the lines of the rehabilitation incentive program that was contained in, I believe, Bill A 56

introduced last year, which provided for a five-year moratorium on increased assessment due to improvements made to bring a property up to minimum standards. So that slum dwelling, for lack of a better word, would not pay any additional tax for the time being except as the general tax rate increased. But the assessment would not be increased for these improvements as they were installed. And this would also entail, incidentally, a more rigorous enforcement of our building and housing codes which need some toughening up. This ten-year conversion period would provide time to implement this and to allow the effects of this rehabilitation program to take place. Then by 1980, we would have completely phased in a standard of assessment so that we wouldn't penalize the property owner who took pride in his property and went out of his way to make a show place of his home.

MR. MILLER: I interpret this to apply only to the owner-occupied dwelling that may be one to four families.

MR. SCOTT: One to four families, but not necessarily owner-occupied because many of the slumlord properties are not owner-occupied. Most of them are not.

MR. MILLER: What suggestions do you have that would relate to apartment houses or commercial or industrial property which in the areas you are talking about probably are just as important if not more important in the tax base?

MR. SCOTT: None other than an alleviation of the general tax base by a shifting of the burden of school costs and assistance to the State level.

MRS. KLEIN: May I ask another question on that subject, please?

MR. JOHNSON: Mrs. Klein.

MRS. KLEIN: When you speak of shifting the burdens of the school cost to the State level, how would school budgets be set? Would all schools be financed on an equal level, on a per pupil basis? Would the local community have

an option to raise further taxes in order to increase school expenditures or just how would it work?

MR. SCOTT: The local community would still bear the responsibility for supporting the physical plant for the school and also for some additional services that wouldn't fall within the purview of teachers' salaries and their budget would be set as it always has been.

We haven't gone into the administrative details as to how the State would actually allocate this. But it seems to me that it would be much simpler than the present State Aid formula which is based on sales analysis and is vulnerable to error, to inclusion of only favorable sales. It is vulnerable to legislative tampering to favor certain communities, etc. It is probable that it would be set up on some sort of direct relation to the number of pupils in a school district. So many pupils require so many teachers and the State teachers' salary scale is such and such.

MRS. KLEIN: You would have a State teachers' salary scale?

MR. SCOTT: Yes, ma'am. We feel that this would go a long way toward reducing the inequities due to accident of birth where some school districts are unable, because they are poorer districts, to offer quality instruction or indeed some instruction at all because they can't afford it by virtue of the competition between districts for salary. Of course, with negotiations on a school district by school district basis, there can be strikes and sanctions and so forth and so on, which are injurious to the education of the child in our opinion.

MRS. KLEIN: So you would have so many pupils per teacher determined by the State and the salary scale set by the State and then that money would be spent on school teachers, period.

MR. SCOTT: Yes, ma'am.

MRS. KLEIN: And all the other expenses would be borne by the local property tax?

MR. SCOTT: That's correct.

MRS. KLEIN: So it wouldn't be the current cost of education; it would be just the teachers' salaries.

MR. SCOTT: The \$600 million which is teachers' salaries, yes, the figure that I used before.

MRS. KLEIN: That is the figure?

MR. SCOTT: That is the figure from the 18th Annual Report of the Commissioner of Education.

MRS. KLEIN: Do you think if there was a fairer apportionment of teachers per pupil throughout the State that that figure would rise?

MR. SCOTT: Possibly so.

MR. JOHNSON: Any further questions?

MR. MILLER: In connection with the use of the sales tax money, you intimated that you didn't get tax relief because the local authorities didn't use it for that purpose.

MR. SCOTT: Yes, sir.

MR. MILLER: How would you propose to assure the avoidance of the same consequence with your proposal?

MR. SCOTT: Well, the municipal budget would still be subject to review by the Local Property Tax Bureau of the State and the ultimate check on it, of course, would be the ballot; imperfect as it may be, it is still the best system that we have.

MR. MILLER: We have that now.

MR. SCOTT: Yes. But you don't have the impetus to these rapid escalations of cost and you don't have the district by district competition for teachers that create a momentum to the rapidly increasing costs of schooling. A school district or a municipal district could decide that it wanted to go into a very elaborate school building with exotic sports fields, etc., but that is something I guess we can't ever completely eliminate.

MR. JOHNSON: Mr. Haines?

MR. HAINES: Mr. Scott, I was interested in your comments about the present sales ratio study analysis. Do you have

a suggestion to replace it or improve it in any way?

MR. SCOTT: Yes. We would eliminate it by virtue of our program.

MR. HAINES: What would you use in place of it?

MR. SCOTT: We would have direct state payment of teachers' salaries in place of the other forms of State Aid. That \$300 million roughly that goes to State Aid would go directly into the teachers' pay checks.

MR. JOHNSON: Mr. Mowery?

MR. MOWERY: Mr. Miller has raised the question I was going to raise.

MR. JOHNSON: Are there further questions? [No response.]

Thank you, Mr. Scott.

MR. SCOTT: Thank you.

MR. JOHNSON: Our next witness is Mr. Robert V. Goordman, who is speaking for the Group for Repeal of Inequitable Taxation. Mr. Goordman is from Hackettstown.

R O B E R T V. G O O R D M A N: Our group is called GRIT, the Group for Repeal of Inequitable Taxation.

Our group is currently proposing that the system of property taxation be repealed and replaced by a system of income taxation.

We feel that the property tax system is regressive, illogical, and unfair. In addition we feel that this form of taxation is tantamount to a trespass on one's title to real property and as such is perhaps unconstitutional

In the following we assert some of our objections to property taxation. The categories of objection are: Humanitarian, Conservation, Legal, and Sociological.

These aspects are probably foremost in the minds of the majority of people when thinking about property taxation.

Humanitarian Aspect.

Property taxes are a heavy and unfair burden on retired, widowed, disabled, and other homeowners, who are suddenly faced with a drastic reduction of income.

Conservation Aspect

Property taxes, even when the rate seems low, have the effect of forcing the owner of woodlands to sell to developers of industry and housing.

In New Jersey, the average 1970 tax rate is about \$3.50 per hundred dollars of 100 per cent assessed value. Assuming typical values of \$500 to \$1000 an acre for rural area woodlands, the result is shocking. The owner of 100 acres of woodlands has to pay an annual tax of \$1,750 to \$3,500.

The owner of 100 acres of woodlands in urban fringes or suburban areas is assessed at closer to \$5,000 an acre for an annual tax of about \$17,000.

Woodlands do not send children to school, do not cause noise, do not pollute the air and water, do not demand municipal services, and they are absolutely essential to our physical and mental health.

So then, why tax woodlands?

Legal and Sociological Aspects

Technically speaking, the property tax is tantamount to confiscation since every n years the tax collector receives an amount equal to the full market or principal value of the property. We call this period " n ", the Virtual Confiscation Period: the True Confiscation Period is shorter because of interest considerations. More explicitly, " n ", the Virtual Confiscation Period, is equal to the Market or Principal Value of the Property divided by the Yearly Property Tax, equal to 1 over the Real Tax Rate.

In Newark, New Jersey, where the tax rate - and my figures differ from yours - is \$8.44 per hundred dollars of real value for 1970, the Virtual Confiscation Period is 11.8 years. Newark Council President Louis Turco has forecast a 1971 tax rate of \$13.53 per hundred dollars of real value, which means a Virtual Confiscation Period of 7.4 years.

Confiscatory taxes discourage owners from making

improvements. When the Confiscation Period becomes short enough, the property loses all sales value and owners desert the property, thus encouraging slum growth and urban blight.

In addition, the poor are denied the opportunity of buying decent housing since the qualifying salary for a home mortgage is based upon the ability to meet monthly payments of real property taxes in addition to payments for interest, principal, and insurance.

Constitutionally speaking, it is probably forbidden for government to punish one for being poor just as it is probably forbidden for government to reward one for being rich. In other words, government has to be rather neutral toward a person's wealth.

However, the Federal income tax deduction for property taxes does in fact punish the poor and reward the rich. That is, the higher one's income, the greater is the amount that one can effectively transfer from the Federal government to one's local government for a given property tax.

If all municipalities had the same distribution of income levels, there would be no relative inequity. However, the higher income earners tend to settle in municipalities separate from the lower income earners and therein lies an inequity.

In addition, there is the trespass nature of the property tax system. For example, a municipality levying a tax on one's possessions and then threatening to dispossess one for failure to pay that tax is to us tantamount to a virtual trespass on one's title to property. It becomes actual trespass when that threat is carried out. That is, municipal governments act as virtual landlords in complete disregard for one's title to property.

Summary

We believe that the complete repeal of property taxation and its replacement with a state income tax will:

1. Result in a better standard of living for retired, disabled, and widowed homeowners.

2. Promote conservation of woodlands, marshlands, and farmlands.

3. Guarantee uniformity of education and government throughout New Jersey.

4. Reduce the pressure for attracting industrial ratables, thereby reducing future aid and water pollution.

5. Restore the dignity of the word "title" to the possessor of a deed in fee simple and by so doing, restore one of man's basic rights to independence; that is, "A man's home is his castle" and as such constitutes a refuge or retreat from the tyranny of government.

Thank you.

MR. JOHNSON: Any questions? [No response.]

Thank you, Mr. Goordman.

MR. GOORDMAN: Thank you.

MR. JOHNSON: Our next witness is Rabbi Albert B. Schwartz of Perth Amboy, speaking for the Rabbinical Council of New Jersey. Is Rabbi Schwartz in the room? [No response.]

Next is Mr. Arthur L. Reuben of Somerville, speaking for the New Jersey County Planners Association.

A R T H U R L. R E U B E N: I am Arthur L. Reuben, representing the County Planners Association as Chairman of its Tax Committee. I am employed as Assistant Director of the Somerset County Planning Board, member of the American Institute of Planners and American Economics Association.

I will not attempt to read this statement or go into great detail on it because it is a lengthy statement. I will just make a brief presentation in regard to our thinking respecting it.

There is universal agreement, I think, that the property tax as administered in the State of New Jersey distorts our land development pattern. It creates blight. It creates sprawl. Also there is universal agreement among urban planners that this is accurate. You don't often find professions that will come to total agreement about one

particular aspect of their profession. Engineers will often dispute whether a bridge is necessary or how it should be designed. But I think there is no disagreement among urban planners that the present property tax system is very inequitable and very productive of our present blight in the urban centers and sprawl through the suburban areas.

This system of land development that we now have is working, but working very poorly. It is working because there are certain economic forces that enable it to work and because there are certain Good Samaritan officials. In many cases the responsibility for its breakdown is placed upon these municipal officials. But I would suggest that the framework in which the municipal official works is such that he cannot help but implement a system that is going to be discriminatory toward residential development and toward people in general.

The economic consequences of this system are that we produce an environment that is totally unable to meet the needs of the people. This is particularly true in regard to the need for housing now. I believe that our Governor has stressed that we need 120,000 housing units a year and we are producing roughly 40,000 housing units a year.

The social consequences of such inability to meet the housing needs of the people is that we are straining the social fabric of our system to a degree that this system must be modified or there will be a recurrence of disruptions within the social fabric of our system.

It also has removed one of the most important things that has always been the hope of the American people, and that is the hope of a decent home, and particularly for the young people, black people and anyone actually below the median income level in the State of New Jersey.

The proposal provides that there should be a benefit for housing development in the State of New Jersey, that the municipality as a whole would benefit when residential

development took place. This would be keyed to the educational tax that the system levies upon property taxes in the various municipalities. The State would pay an "in lieu" amount of revenue to each municipality as new development took place. Also, areas where there were improvements in existing residential structure, there would be compensation to the municipality. In this case, because of the sharp need for something to be done in these blighted areas, the local property owner would also be relieved of the burden of paying the assessment increase for his improvement.

This system would not require a great deal of money in the first years. It would perhaps require as much as \$30 million in the first year of its administration. However, in subsequent years, it would require substantial amounts of money. I don't think any system which has a major effect on the property tax system in the State of New Jersey can really modify this system without eventually costing substantial amounts of money from other sources. We have suggested that the other sources, in this case, could readily be a share of the Federal revenue because the Federal revenues increase at a rate of approximately 10 per cent a year and they relate to local and State revenues at about two to one. The Federal revenue structure has a built-in inflationary factor which is further induced by the Federal government's inflationary activities, which tend to balance their budget, but tend to also put in imbalance State and local budgets.

We recognize in due time that this may not come about, that the present Nixon suggestion for revenue sharing may not be passed by Congress. In that event, it would seem probable that the only source would be a broad-based tax, personal or income, in the State of New Jersey.

I would like to stress what it will not do. It will not solve the problems of the urban cities. I think only massive Federal funds will do this.

It will not produce excellent environmental design. But

it will allow the municipality to evaluate residential and other development proposals in terms that are not purely fiscal and thus will enable planners and others to concentrate on the question of urban design.

I would like to stress in closing that the proposal that we have presented is not a proposal that we are tied to in every detail. We have a proposal here, for instance, that three-bedroom structures should be given a 25 per cent increment over the structures with less than three bedrooms. Such an increment could be changed. This was evaluated against exactly the kind of results that we wanted to produce.

What we are trying to do is emphasize as urban planners and as county planners that the present system of property taxation is very deleterious in its impact on the land development pattern in the State of New Jersey.

[Proposal submitted by Mr. Reuben can be found starting on page 117 A of this transcript.]

MR. JOHNSON: Thank you. Are there questions?

MR. MILLER: Mr. Reuben, have the planners estimated how much this proposal would cost?

MR. REUBEN: Yes. We have estimated that if the proposal were enacted in 1971 with an increase of 50 per cent in residential construction over the year 1969, this would cost the State \$30 million. I would like to state further though that this would continue to be a cost to the State in subsequent years. Thus, as the years went by, the cost of the proposal would tend to increase with each passing year. It would be \$30 million in the first year. That \$30 million would carry on for a period of 30 years before tapering off and also other residential development would then meet the requirements of this proposal and thereby a subsidy would be paid from the State.

MR. MILLER: I don't know how you got the \$30 million, but let's assume you did the best way you could. Am I correct that none of the \$30 million would go to any municipality that didn't have any new construction?

MR. REUBEN: This is correct.

MR. MILLER: And the more new construction you would have, the more money you would get.

MR. REUBEN: This is correct.

MR. MILLER: It wouldn't matter in your proposal whether this new construction was geared to what might be called a high income class or low income or moderate; they would all get the same benefit. Is that correct?

MR. REUBEN: Well, the program does cut off what I think are luxury units. The top 10 per cent of the units would be cut off.

MR. MILLER: Only in cost. But if you are able to build at the 80th percentile, your project would qualify.

MR. REUBEN: This is correct - right.

MR. MILLER: The individual owner wouldn't get any direct benefit, but the municipality would get the benefit, is that right?

MR. REUBEN: The municipality would get the benefit definitely. It would tend to compensate the municipality for the burden that the municipality has to carry in relation to the educational costs, being tied to the educational costs. This appears to be where the most significant problem is in relation to trying to get residential development in the State of New Jersey. We have also found that many municipalities in trying to evade the problem of taxes have zoned for large lots, thereby they are getting five-bedroom houses on large lots and subsequently they are meeting the same problems that other municipalities are that are building structures of a lesser cost.

MR. MILLER: Well, wouldn't the program from a planning standpoint tend to divert land to uses which would qualify and yet might not be ideal for any particular community? In other words, build units of less than three bedrooms at a unit cost no greater than the 80th percentile and the community gets more State aid. Therefore, the community should encourage such building in its own interest and discourage

perhaps other types of land use. Wouldn't that be the effect of it?

MR. REUBEN: I don't think any system is going to work perfectly. But the market place now is such that municipalities are only willing to encourage industrial and commercial development. This tends to put residential development on a more equal level within the market place, thus providing a chance for the municipalities to evaluate their land use plan without the tremendous burden that residential development provides.

MR. MILLER: How would that help the typical bedroom community which is fairly well built up and isn't getting any substantial amount of new annual increment? They wouldn't get much aid or any aid.

MR. REUBEN: The tendency in many of the older communities is that they would certainly get aid where there were improvements to the structures of the buildings and many of the smaller communities that have already developed do not have the school problems that the other communities have.

MR. JOHNSON: Any other questions? Mrs. Klein?

MRS. KLEIN: I did send you a couple of questions, Mr. Reuben. I haven't received the answers yet. One of them was: This would benefit those communities who spent the highest proportion of their taxes on schools. Is that right?

MR. REUBEN: I think this is true. It would also encourage communities that now do not spend as much on schools to perhaps spend more. In other words, there are communities now that are one-fifth the population of Paterson that are spending as much on education as the City of Paterson is spending. Many of the older cities are not spending a significant amount of money on educational needs.

MRS. KLEIN: But isn't that because they have so many other costs that there aren't enough tax dollars?

MR. REUBEN: Their sense of priorities is that education

is not as important as some of the other costs. That is correct.

Now the State in giving the business personal tax to the municipality and taking it out of the tax rolls remove this from the educational tax rolls. In a sense this proposal would provide a balance of that.

MRS. KLEIN: The other question I had was whether there was enough incentive aid in this proposal to really make it worthwhile for communities to encourage larger families. Do you think that there is?

MR. REUBEN: I think there is now a production of 40,000 and there has been a higher production of 60,000 homes per year in the State of New Jersey over the past years. I think that there is enough incentive here to encourage communities to respond to residential development proposals.

MR. JOHNSON: Any further questions? [No response.]
Thank you, Mr. Reuben.

Our next witness is Mrs. Betty Little of Basking Ridge, speaking for Citizens for Conservation.

B E T T Y L I T T L E: I cannot refrain from beginning my remarks by saying that I admire your charts up here which amply demonstrate something I think you will soon be finding out if you don't already know and that is that with a rising population we can expect an even greater increase in municipal revenues -- expenditures by their nature. I will be glad to comment on that after my initial presentation. I did try to stick to the property tax. Marginal costs for the State can be expected to rise sharply, more sharply than marginal revenues, as we allow more people in the State. By their nature, they do that.

My name is Betty A. Little. I am coordinator for Citizens for Conservation - Bernards Township. We are concerned with the total environment as well as our own Township. I am an environmental economist, a member of the American Economic Association, with twenty years experience in economics and

business including seven teaching finance at Fairleigh Dickinson University, Madison, and a year in conservation.

New Jersey is in a state of environmental crisis. Our air and water are polluted, our highways overcrowded, our parks under stress, and our educational facilities inadequate. There are riots in the cities and drugs in the suburbs. There is a need now for a vast reordering of concepts and priorities if we are to meet this crisis.

The review of the property tax at this time in relation to all sources of government revenue and in relation to all forms of government expenditure is vital to such changes. It may be that the property tax is the key factor in restoring our environment.

The property tax was not written to protect the environment or encourage wise use of resources, but in revising the tax law we urge you to set this as a primary goal, which was set by President Nixon as recently as August 1970 in an address to the Congress in which he said:

"Throughout our history, our greatest resources has been our land-forests and plains, mountains and marshlands, rivers and lakes. Our land has sustained us. It has given us a love of freedom, a sense of security, and courage to test the unknown.... Today, we are coming to realize that our land is finite while our population is growing. The uses to which our generation puts the land can either expand or severely limit the choices our children will have."

Let us be guided by the experiences of the people of Great Britain, who now find themselves having to place multiple demands on their land. How long the land can sustain such heavy useage is unknown and highly questionable.

I am now in correspondence with about fourteen prominent economists across the country in an effort to develop new concepts and new data for the study of

environmental economics, which has as its goal "protection of the environment." In June, I visited Columbia University to discuss these concepts with tax-theorist, Professor Carl Shoup, and international economist, Professor William Vickery. I studied under both of them at Columbia when I did tax work there.

It became quickly evident that little data existed on the impact of property taxes on environmental decisions. The indication was, however, that if the tax were a significant part of total expenditure relating to a property and if the sociological and psychological implications of the property tax were significant, then the tax might be used as one of a number of means to protect the environment. I think both of these conditions now exist in New Jersey.

We must set up guidelines for environmental assessment for such lands as wetlands, flood plains, forests, and urban areas. Wetlands, flood plains, and forests have intangible benefit factors never considered before in the evaluation of land. They provide air and water pollution abatement, natural flood control, recreational values, open space to relieve population tensions, fish and wildlife habitat, and they are important in the preservation of the quality of living index in this State. The use of these lands should be restricted for the general good, and the tax assessment should reflect this.

Also, guidelines should be formulated to encourage the rehabilitation of our cities. For example, let us establish a five-year restoration and rehabilitation program for the inner city, which would levy a property tax on the land only, and not on the improvements, in certain designated areas. In the long run we would find it more economical to encourage this restoration because the services already exist or could easily be expanded within the city. This should be more desirable on a statewide level than the unsupervised, unplanned urban sprawl which is developing

today in rural areas and marshes and wetlands throughout the State. Of course, the tax on property value only is but one element in the entire five-year program.

The solutions to our environmental crisis will be slow in coming; however, we must begin so that we can halt the advance of the deterioration of not only our environment but also of our economy, for pollutants know no boundary, and the wise use of property taxes can help institute new land use practices, which is but one factor toward cleaning up our environment.

MR. JOHNSON: Thank you.

I would like to go back to the happy note, if I understood you correctly, - the happy note on which you started out. Didn't you say that our revenues were going to increase more rapidly than our costs?

MRS. LITTLE: No. You're kind of backwards on that. There is considerable evidence - several of the men in California, at the University of California, have been doing a system's approach analysis to total man needs, which include some studies of the cost of government in relation to the revenue of government. And the costs of government rise more than in proportion to population. So, if we get 12,000 people in here every year, each one of those people will cost more than the average of the people who are here in this State. Not simply because of inflation, although we might expect that, - in other words, if everybody in our school system now costs us \$1,000 to educate, the next man in may be \$1,010, and the next man in may be \$1,020. And the tendency here is for marginal - that is, the last piece of revenue to be going up on an even basis and marginal costs are your last costs for your last man to rise much more rapidly, not only because of inflation but also because of the nature of the service itself. It takes more policemen to police a larger group of people. And since we rely on services there is no benefit to mass production. You can make more cars more cheaply

but you cannot provide more police services more cheaply. So I think as long as your population is rising, we are facing a proposition here where when we can't control the population, we're going to be facing increasing costs in the State.

MR. JOHNSON: Questions?

MR. MOWERY: Mrs. Little, what certain designated areas are you suggesting we would tax only the land?

MRS. LITTLE: Well, I think certainly the rehabilitation of Newark could be helped - now this is not the only thing. As a matter of fact, the reading I've been doing about Newark seems to indicate that Mr. Gibson himself has this in mind, that if he taxes only the land in the areas in which he wishes to rehabilitate, there are now 100 pieces of property a day being abandoned in Newark - if he would say to any builder who comes in, we will tax you only on the land, not on any building you put on it, for a period of five years, apparently it would be at least an incentive for people to come in. Now, the reason I say this is because the builders themselves have asked for this kind of help and they are coming in with HUD money and Federal money but it isn't quite enough to encourage them to come in. Now, he's doing a tremendous job in Newark. I was there last week for the Taxpayers Meeting and I think it looks beautiful, but he needs that kind of help and we should be helping to restore a city. We could use a little of this in Trenton. As I passed through today, I noticed that.

As far as the wetlands go, one of the problems we're having with protecting our wetlands - and I'm sure you're all aware that A-505 is still sitting on the Governor's desk unsigned - one of the problems here is that we are taking something away from those people or they feel that we're taking something away from them. And I think part of this is because as wetlands they contribute to the general good and,

therefore, they ought to be taxed in this manner. If someone puts a building on them which is a detriment to our environment, then I think we should tax them very heavily for doing this kind of thing because they are contributing to air and water pollution and it's not a desirable function.

MR. JOHNSON: In your program for environmental assessment, I presume you're referring only to, obviously, privately owned properties, right?

MRS. LITTLE: Well, I think if these properties are held for the general good, the general public should be paying for them, which is a negative tax.

MR. JOHNSON: Well, my next question was that. Would these privately held properties have to be made available for public use?

MRS. LITTLE: Well, one of the thoughts that I have - I'm involved with the Passaic River Coalition, which is trying to work on an environmental solution for the Passaic Basin. One of the things which would help us there very much is if industry would give conservation easements along the river. Now, if they are going to give up the right to property along the river, - and I've actually been in and talked to companies that are planning to build along the river about this - if they give conservation easements, which would mean the right for the public to use that land under certain circumstances for hiking, perhaps, or boating, fishing, you cannot tax these people fully on that particular piece of land. And it is to the general good, for pollution abatement and recreational value, that we do protect our waterways in this fashion.

MR. JOHNSON: You're talking in terms of public use, not just open space.

MRS. LITTLE: That's right. This is a kind of in between. In other words, the man still has some rights over the land but not all rights over the land and, therefore, he shouldn't have to pay a full tax on it. It seems to me, in some respects, that this is the only way we are going to

get away from the economic pressures which force these companies to go right up to the edge of the river. And there is no way that we can protect our water supply in New Jersey if we cannot somehow get this sort of easement.

MR. JOHNSON: Thank you.

There has been some indication that members of the audience might like to question the witnesses. I am afraid we will have to reserve that part of our discussion until we have heard every one who wants to be heard and then we will come back and provide an opportunity possibly for an exchange.

Counsel admonishes me that you are supposed to put your questions in writing and then we will pose the questions through the Committee.

Questions?

MRS. KLEIN: Mrs. Little, do you visualize some kind of a State land use plan to go along with this?

MRS. LITTLE: Well, you know, I think the trouble with government is having anything really happen, and the more I'm working on this the more I see. I was yesterday at the Clean Water Council Board Meeting and I had the feeling there that that's why they're discouraged because nothing ever happens.

I think you can use your tax law to make things that you desire to happen, happen. And I think this is very true in the field of environment. We have difficulty in getting industry to comply with our air and water pollution laws partly because of the policing, partly because we have to go there and measure the water pollution and the air pollution in order to have it checked and then haul them into court and it's a long process. I think we can use our tax laws positively to encourage people to do the right thing.

MR. MILLER: Mrs. Little, I am intrigued with the use of the tax law the way you say. Have you any specific illustration?

MRS. LITTLE: You're talking about - all right,

pollution abatement equipment. Industry is fighting pollution abatement in the State of New Jersey. Let's take water, which is an area I know a lot about. The technology for water pollution abatement is expensive, it's changing very rapidly, and the standards are being upgraded almost overnight. I talked to Russell Train about this and he said, yes, we are going to get harder and tougher with this thing next year.

So an individual company says, come and get me because it's cheaper for me to wait and to go to court and to pay my \$500 fine than it is for me to put in the pollution abatement equipment and find out that there is new technology next year and you've raised the standards and I have to do it all over again.

Now I think one way we could get it to happen is to give these people a write-off, maybe in the first year, just say on that basis you can write the whole thing off. Now I haven't carried this through to land use and property yet but this is the kind of thing. I know industry's response is very positive on this kind of approach. I know it's positive on the conservation easements and I know it's positive on this pollution abatement. They think that this would be a way to solve their problem too.

MR. MILLER: Well, the assumption that a polluter gets by with a \$500 fine and comes home and does it again, of course, I guess many polluters would contest, but that's not our subject today.

MRS. LITTLE: We have to catch them first, too.

MR. MILLER: The problem of a write-off which is a tax device, this is already available, I assume you know, both exemption from property tax and a rapid write-off from Federal income tax - five years, I believe, is the period.

MRS. LITTLE: I think what we have to do is see if it's enough.

MR. MILLER: Well, then, would not the public be paying for the waste treatment that each industry is required

to put in?

MRS. LITTLE: Pardon?

MR. MILLER: By giving tax abatement or tax exemption, the public is going to pay for that treatment, is it not? because the other taxpayers will have to carry the cost of government.

MRS. LITTLE: Well, it's very hard to put it all at the door of industry. We're all driving automobiles made by General Motors so we should have paid for the pollution of that company when we bought out car. So I think this is the rationalization here. The products that are responsible for the original situation are now distributed so in our economy that I don't think there is any way of measuring. I think if we want this accomplished we are going to have to split the burden.

MR. MILLER: The question is, how do we use the taxing power to achieve the goal that you've suggested. And you know this is difficult.

MRS. LITTLE: Oh, I fully realize that. I think though in the matter of land it can be tremendously important.

MR. MILLER: One other thing you mention is that we should use environmental assessment in urban areas. What specifically did you have in mind in that connection? What could you do by way of the assessing process to deal with conservation or environmental matters in our major cities?

MRS. LITTLE: Well, I think some of the people that have come before me have talked about this and I think this business that I was mentioning before where when a property has been run down so that we need it to be rejuvenated in order to save the cities, you don't tax that property so heavily that you discourage anybody from coming in and doing something with it. I think this indication that people are literally abandoning property in Newark bears this out. Perhaps that kind of property shouldn't even be taxed at all.

We want people to come back and build on it and any kind of incentive we can give them will help us.

MR. JOHNSON: If it were not taxed at all, wouldn't that encourage the slumlord, as they have been characterized here this morning, to simply abandon the property temporarily, not use it, in other words, hoping that over the years it might appreciate in value.

MRS. LITTLE: Well, I think what you've got here is, you've got to have somewhat of a - as I said, property tax is only one part of the answer. If we have Federal money coming into the area, you designate those properties that you wish to have restored. So it is more specific than that. It should be part of a total program of rehabilitation. Where you are rehabilitating your cities and using Federal and State funds to do this, a tax abatement might be the deciding factor in whether a builder was actually going to come in and build.

MR. JOHNSON: Other question?

Mrs. Klein, did we get to you?

MRS. KLEIN: Well, I'm just really interested in the second paragraph on page 2. You said: "The use of these lands should be restricted for the general good and the tax assessment should reflect this." Now, what kind of guidelines do you have to decide this?

MRS. LITTLE: Well, what you have to do is to set up a tax level for, say, wetlands. Now the person who has the wetlands - it's very similar to the person who is given the conservation easement. If he keeps that in wetlands it is of general good to all of us. On Saturday I went over the wetlands that are under discussion in this 505, and they are under two or three inches of water and they are in the Manasquan River, which is now used for fishing, boating, recreation, and the water leads directly out to public beaches which people use for swimming. Now all of that will not be feasible if the full development of the land is allowed. Don't say that the man can't build

part of what he wants but if he builds on all of those marshlands it's just inevitable that the pollution, even from the automobiles that will park in the parking lots, much less the septic tanks that will go under the houses, is going to destroy the recreational value and the fishing habitat and the other amenities such as the fact that there is air cleansing that goes on in such areas. So that if you tell a man that he must keep it in wetlands, and I think we're going to have to do this - maybe not this bill but the next one - you have taken away part of his rights to the property and you cannot tax him on that same basis anymore.

MRS. KLEIN: How are they taxed presently, do you know?

MRS. LITTLE: I haven't any idea but I know - I take it back, I think they are taxed on the sale value. And some of that property is worth \$10,000 an acre, under water. As a matter of fact I know there is property in the Hackensack Meadows, the same kind of property as this, \$60,000 an acre. And that kind of evaluation on a property is right only if you are going to let the man build on it.

MR. HAINES: Mrs. Little, earlier you said wetlands should be taxed heavily?

MRS. LITTLE: Taxed heavily if you begin to develop because then they are taking away from the general good.

MR. HAINES: Both the improvement and the land?

MRS. LITTLE: Yes, I would think so. I hope we can stop some of that.

MR. JOHNSON: Are there further questions?

Thank you, Mrs. Little.

Our next witness is Mr. Richard L. Solyom, Fort Lee, New Jersey.

You may proceed, Mr. Solyom.

R I C H A R D L. S O L Y O M: Mr. Chariman and members of the Committee. My name is Richard Solyom and I live in Fort Lee. I speak to you today in my capacity as a Trustee of the Federation of New Jersey Taxpayers. This is a statewide organization formed to coordinate the efforts of local taxpayer groups and give them a strong voice here in Trenton.

Once a year our Board of Directors compiles a slate of tax related issues. This list is submitted to our members and it is their vote which determines the number one issue. The voting last year established the fact that "No State Income Tax" was the No. 1 issue. The No. 2 issue was to eliminate excessive expenditure of public money for so-called "educational purposes." Third most important in the minds of New Jersey taxpayers was "Property Tax Reducation."

These three issues are interrelated. 95% of all property taxes are levied by local governments and at least 50% of the property tax dollar is consumed by school budgets. High property taxes are a result of excessive government spending, and most of this excessive spending occurs within the educational system. Education has become the "sacred cow" of governments - whenever the politicians and bureaucrats want more money to play with they ask for it under the guise of "education". This is one of the arguments currently being used by the advocates of a State income tax.

Ladies and gentlemen, it is our considered opinion that this Committee is wasting its time. It is addressing itself to the wrong problem. The problem is not "The property tax" but rather "How do we stop the crazy government spending?" The answer lies, not in more taxation or in a refinement of present taxing methods, but in limiting government to its proper and necessary functions.

This task force can take reams and reams of testimony on the environmental and economic impact of the

property tax. It can list and catalogue all the property tax systems. It can investigate the Henry George and other land tax proposals and it can study the pros and cons of having property tax rate limitations. None of this will solve the problem or benefit the taxpayer. The only answer is to reduce government spending. In brief, this Committee can study and recommend more exquisite ways to torture the taxpayer but the only way to help the taxpayer is to stop the crazy government spending. Stop unnecessary spending and you will end the need for high taxes. Limit government to its proper functions and the tax burden will be reduced to acceptable size. It is not a proper function of government to subsidize the railroads. It is not a proper function of government to subsidize the bus lines. It is not a proper function of government to provide relief and welfare as a way to life to generation after generation of indigents. It is not a proper function of government to sponsor and recommend frivolous, non-essential subjects to be taught in our schools. It is not a proper function of government to provide medical care for its citizens. It is not the function of government to build houses for its citizens. It is not the function of government to deny its citizens their self-respect or to encourage the "something for nothing" philosophy.

There are only three basic proper functions of government and most students of government agree these are:

1. Defense against foreign enemies.
2. Maintenance of law and order within the territorial limits of the country or state.
3. Regulation of trade and commerce.

Human nature being what it is, there are always some individuals who will try to take advantage of their fellow man; therefore, a certain amount of regulation is necessary to keep such individuals in line. Other than this minimum of regulation, the proper function of government is to provide

a peaceful climate within which business and the individual may prosper to the best of their abilities. In other words, government should provide the climate within which the competitive free enterprise system can flourish. If government leaves its proper field of governing and enters the business world in competition with private business, then we are in for big trouble. Government will need more money to engage in these non-governmental activities and only the taxpayer can furnish this money - hence higher taxes. The answer is to stop the crazy government spending.

Here is a copy of the budget. It is 1 3/4" thick and it weighs 2 1/2 pounds. Now you cannot tell me there isn't a lot of excess fat in here. I'll bet if I put this in a frying pan it would sizzle like a rasher of bacon. I am sure this excess fat can be trimmed without injury to the proper functioning of our government. Now please don't ask me "where shall we cut the budget?" We, the people, elect our government officials and we expect them to provide us with the kind of government we want. It is their job to do the trimming and provide us with an economical, honest government. If they don't, we can elect new ones. It is neither right nor proper that a private citizen be called upon to do their work for them by pointing out the excess fat.

Every member of this Committee has received a copy of the Federation's statement in support of Assembly Concurrent Resolution No. 35, given here in Trenton, May 7, 1969. Every member of this Committee has received a copy of the mini-book "Who is Pressing for More Taxing and Spending?" by Dr. Emerson P. Schmidt. I urge you to study these. The summary of Mr. Alvin Burger's report contained in the Federation's statement gives positive proof of the utter futility of imposing a broad base tax in the expectation of reducing property taxes. The min-book gives positive proof that it is not the people who are clamoring for more government services but rather it is the politicians,

bureaucrats and special interest groups, as they seek ways to increase their own prestige and power.

I urge the Committee to spend its time finding ways to reduce government expenditures. Please don't waste your time devising more taxes. There is a tax revolt under way in this country today. The taxpayers have had it. They will not stand for any more taxes.

A cardinal principle in everything the Committee does must be to recognize the basic principle involved. That is - that all government expenditures are nonproductive overhead expense of an economy from an accounting standpoint, and must be held within due proportion to production and people's income.

In this connection, let me call your attention to a statement made last week in Newark by Mr. C. W. Weinberger, Deputy Director, U. S. Office of Management and Budget. He said: "Just a few years ago we were devoting about 18% of the gross national product to government; about 18% of everything that was earned or produced in this country went into taxation - federal, state or local. Last year, it was 37%. Over a third, well over a third, of all of the time, activity, effort and productive ability of this country is going into government, into some form of governmental activity. If this projection continues - if this rate of increase continues - then before the year 2000, over half of our time will be devoted to governmental activity simply because enough of us didn't protest and say we don't want that done, we want to do it ourselves; we want to solve these problems without turning to government, without increasing not just government taxation but governmental power."

I do not believe any member of this Committee wants to live in an economy in which 50% of the gross national product is consumed as non-productive overhead expense. Yet this is where we are headed unless we in New Jersey take

the opportunity offered and use the Tax Policy Committee as a means to restore fiscal sanity in government.

In conclusion, let me give you just one quotation from New Jersey's own Woodrow Wilson who said:

"The history of liberty is the history of limitations of governmental power, not the increase of it."

I thank you for the opportunity of being here today to express our views.

MR. JOHNSON: Thank you, Mr. Solyom. You are aware that this citizens' task force is one of several, are you not?

MR. SOLYOM: Yes, sir, I am. I am well aware of that, sir.

MR. JOHNSON: And that its mission is sharply proscribed to looking at the property tax.

MR. SOLYOM: So am I.

MR. JOHNSON: And do you have any suggestions for us in this respect?

MR. SOLYOM: As an alternative?

MR. JOHNSON: No. I'm talking about any inequities in our present property tax.

MR. SOLYOM: I believe that Task Force C will take up in great detail many alternative methods.

MR. JOHNSON: Are there questions? Comments? Senator Sears?

SENATOR SEARS: Mr. Solyom, I'm not a citizen member, as you probably know, and I have an interest that may go beyond the limited sphere of the impact of property tax and I'm interested in the views of your organization and in some of the points that you've made here. And I just would like to ask you a few questions, if I may, because while you make the statement "please don't ask me where to cut spending," I might think that would be a fair question of any one who makes the charge that in fact too much money is being spent, there's fat in the budget, and all of the other things. But getting down to more

particulars, you isolate the functions of government into three areas and you seem to rule out a lot of things that government today does not only take an interest in but actively participates in, and I would just like to ask you about a couple of them.

What, for example, does your organization think is government's role insofar as providing educational facilities both at the secondary and higher level?

MR. SOLYOM: Well, in this case I would like to take off my hat as a Trustee of the Federation and speak to you simply as a private individual because this question has not been taken up in any one of our meetings and discussions and a decision reached on it.

As a private citizen, I would say that education is properly the function of local governments.

SENATOR SEARS: Well, when you say primarily the function of local government, do you mean that the total cost of secondary education and elementary, I assume you refer to here, should be borne only within the revenue base of a municipality and within its ability to tax itself?

MR. SOLYOM: Yes, I do. And I would like to ask you a question. Can you name me any one town in this State that is so poor that it cannot raise enough money to educate its own children in the basic elements of necessary education? Can you?

SENATOR SEARS: Yes, I can name a lot of them.

MR. SOLYOM: That are so poor that they simply cannot educate their own children in the basics? I'm not talking now about the elaborate form of education that we've fallen into recently.

SENATOR SEARS: Well, I would suggest to you that the cities of this State are not in a position financially within their own limited tax base to finance the education of the children in the cities.

MR. SOLYOM: Well you said you could name many, sir.

SENATOR SEARS: Well, if you would just let me

finish, I would suggest to you that that's one of the pressing problems that we have today and it seems to be one of the things that organizations, such as yours, conveniently overlooked when you talk about cutting spending and reducing taxes or eliminating taxes.

MR. SOLYOM: No, sir. I'm sorry. We do not overlook it. My first statement was that I, as an individual, believe that education should be a function of the local governments. Now, I am speaking to you as an individual and you, just a moment ago, go back to the Federation. If you want to talk about education, please talk to me as an individual.

SENATOR SEARS: Well, I am willing to confine it to that because I am interested in your views and I'm interested in establishing in my own mind some kind of evaluation of the things that you suggest.

Now, let's just pass from education. What about problems of welfare? Now I know that's been beaten to death. That's like - you know it's the horse that gets picked up and gets kicked around every time somebody wants to talk about trimming the cost of government. What do you suggest is government's role in terms of making some provision for a subsistence level type of maintenance for those who are unable to take care of themselves, either because they can't make a living or they are handicapped or disadvantaged in some way? Do you think there is such a role and, if so, what is it?

MR. SOLYOM: For any proposal such as you've brought up, any question, education, welfare, what-have-you, let's measure it against the three basic proper functions of government. If it measures up to those three basic proper functions of government, if it falls within any one of the categories, O.K., then it is a proper function of government. I'll let you do the measuring.

SENATOR SEARS: But you would prefer not to say whether it is?

MR. SOLYOM: No, sir. I would like to have you measure the question that you gave me against the three proper basic functions of government which I gave you.

SENATOR SEARS: All right, I'm willing to accept that as an answer if that's it, because I'm prepared to make my own evaluation.

MR. SOLYOM: No, sir. I'm asking a question of you. I'm asking you to help me give the answer by measuring up your question on relief to the three basic functions of government. May I have your answer?

SENATOR SEARS: Let me suggest to you - yes, I'll answer it. Your number two says "Maintenance of law and order within the territorial limits of the country or state." Now, you only give me three so I would say that this doesn't fall within category one which is "Defense against foreign enemies," and it doesn't fall within category three, "Regulation of trade and commerce," so I would suppose that leaves me with only number 2 and that I would have to assume that you would say it's a proper function of government to the extent that you have to prevent insurrection and prevent people who are in want from inciting to riot and so forth and, therefore, it comes under "Maintenance of law and order."

MR. SOLYOM: I think that's stretching the point a little bit.

SENATOR SEARS: Well, you tell me where it comes and how it falls into any of these three categories, if that's not it.

MR. SOLYOM: No, sir. The point I'm trying to make is that it does not fall within any one of the three categories. In my opinion, it is not a proper function of government.

SENATOR SEARS: In other words, you don't think government should take part at all and there should be no welfare.

MR. SOLYOM: My own personal opinion about welfare

is this, that it is first a family problem. If the family is unable to do it, then possibly the church at the next higher level. If the church or a religious affiliated group cannot take care of it, then possibly the community. Going on up the ladder, I would say that the next highest level would be probably the county but I would never, never carry it any higher than the county level and certainly not on the federal level with an equalized relief and the guaranteed annual income and all the poppycock we've been hearing lately.

SENATOR SEARS: Well, that's an interesting observation and relating it to the work of this Task Force, which deals with the property tax, and because you do perhaps indicate there is some responsibility at the county level, would I assume that your suggestion would be that the county, to the extent that it has a responsibility, finance it out of the property tax which at the present time is the only thing the county has from which to obtain revenues. The county, as you probably know, gets most of its money from municipalities out of the property tax. Would you say --

MR. SOLYOM: Are you asking me how I would finance something that I don't even agree should be financed by government?

SENATOR SEARS: Well I thought that you indicated that there might be some responsibility at the county level of government.

MR. SOLYOM: At the county level of government. No higher than the county level, certainly.

SENATOR SEARS: All right. Then to the extent that it exists at the county level, would you suggest that it should be financed --

MR. SOLYOM: After all other sources of revenue have been exhausted, possibly the county government should pick up part of the tab, and only on a very limited basis and only for a limited length of time. Look at Paterson.

The tax strike which is now under way in Paterson was brought on largely because of the welfare problem.

SENATOR SEARS: May I ask you one other question? Your Organization supports ACR 35, which would constitutionally outlaw the income tax.

MR. SOLYOM: No it will not, sir.

SENATOR SEARS: Pardon?

MR. SOLYOM: It will not.

SENATOR SEARS: What will it do?

MR. SOLYOM: It will prohibit the Legislature from imposing an income tax on the people of New Jersey without the permission of the people of New Jersey. If the people of New Jersey want an income tax, they can very easily get one with a referendum.

SENATOR SEARS: Well, all right. Maybe I was speaking of its effect rather than its strict application. But in any case, may I ask you whether that stand is based on an inherent objection to the income tax as a source of revenue or whether it is based upon your Organization's feeling that there should be no more broad base tax, no more forms of revenue exacted from the people.

MR. SOLYOM: Both.

SENATOR SEARS: Both?

MR. SOLYOM: Both.

MR. JOHNSON: All right. Thank you. Are there other questions?

MRS. KLEIN: Mr. Solyom, I also heard Mr. Weinberger's speech --

MR. SOLYOM: Yes, I have a tape of it, complete.

MRS. KLEIN: One thing that bothers me about it is that since the time when we were spending 18% of the gross national product on government we have gone to an entirely different kind of war economy, we've gone to the space program, - I am under the impression that your Organization makes the mistake of attacking the area of government which extracts the lowest proportion of taxes

from citizens. You are constantly fighting against the State being able to have any revenue, for instance in your support of ACR 35, and yet state taxes are really, you know, the flea on the horse's back as compared to the total tax picture. Over the past years the burden of - I mean, the amount of revenue that has been available at the State level and at the local level and the federal level, the state and local governments have been getting proportionately less, the federal government has been getting proportionately a great deal more. So that I think that this kind of comment, using Mr. Weinberger's figures about this whole course of government action and to apply this in terms of thinking of what state and local needs are is really not relevant. I would certainly question your organization's feeling that government should not, for instance, provide roads, should not perhaps provide street cleaning, sanitation, garbage removal, protections in terms of pollution. There are a whole bunch of functions, postal service, a whole bunch of functions that people think are very important. You can't just limit it to law and order, defense against foreign enemies and regulation of trade and commerce. You might just as well live in a jungle. And, as for welfare, if you don't take care of the poor people and people who are unable to care for themselves, then you might as well live in a country where every time you walk down the street you will have a beggar holding his hand out to you and you'll see people dying of disease on the streets, and there are lots of countries like that. I don't think that's what the citizens of this State want and, therefore, I really can't take this testimony as serious. We have got to find a way to provide the services that the people require and that the people want, and do it as fairly and equitably as we can. We cannot simply say that we will stop providing services, and I wish that your organization would take another look at this.

MR. SOLYOM: Mrs. Klein, have you ever heard the story of the straw that broke the camel's back?

MRS. KLEIN: Yes, of course.

MR. SOLYOM: Any more tax, I don't care what you call it, any more tax is going to be the tax that breaks the New Jersey Taxpayer's back.

MR. JOHNSON: Thank you, Mr. Solyom.

Our next witness is Mr. A. R. Luartes of Cherry Hill, New Jersey.

A, R, L A U R T E S: Mr. Chairman and members of the Task Force C. Those are but evidence to support my main presentation to you. It was supposed to have been delivered here but it hasn't come so far.

My name is Laurtes. Even though I wear a hat of many feathers, I'm here as an individual and I would like to appeal to you on the economic and social justice with your compassion.

I would like to present to you a picture, a definite picture of what is happening to the senior citizens and retirees insofar as property taxes are concerned. This is your concern in this hearing so I am going to limit myself to that subject.

I would like you to read first the letter addressed to the presiding officer and the Honorable Members of the House of Representatives, in care of Honorable William Cahill of New Jersey, which I began:

"In the name of Social Justice and on behalf of the Retirees and Senior Citizens with fixed incomes, I am appealing to you to give serious thoughts to our financial plights and right the wrong that is being done, financially through taxation.

"We retirees and senior citizens have a right to live too as expressed by the Hon. Senator Dirksen on television when he was asked about the Federal Officials' pay increases. To give you a clear picture of the financial plight some of us are in, I submit the following evidence,

which is my personal experience.

"Following my retirement from the Post Office in 1957, when the last of our six children graduated from high school, we purchased our present home to match my anticipated income in so far as taxes and incidental expenditures relative to its upkeep is concerned. I have paid as low as \$154.00 taxes in one year on this same house and I have spent about \$2,500.00 in repairs, doing the work myself, since the date of purchase. Since then the taxes on this same house have been as follows: (excluding the lowest).

1961 - \$167.67	1962 - \$224.10	1963 - \$235.31
1964 - \$233.65	1965 - \$236.44	1966 - \$245.08

"Due to reassessment instituted by the municipality, my taxes jumped to \$472.19 in 1967 and due to increases in per hundred of assessment valuation it is now \$610.44, an increase of over \$36.00 a month in two years. Recently, I received a notice from the township informing me that my home has been appraised for \$20,600.00" from \$5,400.00. That is many, many times what it was when I purchased the property. "I shudder to think how much my taxes will be for 1969."

Incidentally, my payment now is \$140.25 a month.

"Gentlemen, in the light of your recent substantial pay increases, there has been suggestions made for a march to Washington by the Seniors. I hope this does not happen. I am afraid some of them might drop dead in the process.

"So, I ask you, on their behalf, to act favorably before something happens that will be on your conscience the rest of your lives."

The answer to my letter is here with me and you have a copy of it.

"Dear Mr. Laurtes: I have your letter of February 6, 1969 and am glad to have your thoughtful observations.

"I agree with the need suggested by you for additional assistance to the elderly retired citizens

and have been and will continue to make every effort to be helpful in this regard.

"You will be interested to know that the Committee on Ways and Means announced public hearings to be conducted on the subject of tax reform beginning February 18, 1969."

I put a copy in there because that is a part of my presentation to you relative to my presentation of our case to the Ways and Means Committee headed by the Honorable William Mills. You were supposed to get a copy of that but it didn't get here.

"There is no doubt, particularly with the inflationary spiral in which we find ourselves today, that our retired citizens are the first to need help.

"I am hopeful that something can be worked out in the near future.

"With all best wishes, I am Sincerely yours,
William T. Cahill."

Now because of our private inquiries about how we could solve the problem, we have this petition written in accordance with the 1965 Older Americans' Act, and I would like to read it to you. This is a petition to Congress and there is a petition there that is addressed to the New Jersey Assembly, of which Mrs. Margetts has a copy. I was assured that they were going to work on this but how soon, I don't know.

"Whereas the Senate and the House of Representatives of the United States of America in Congress assembled in July 1965, found and declared that, in keeping with the traditional American concept of the inherent dignity of the individual in our democratic society, the older people of our Nation are entitled to, and it is the joint duty of all levels of government, local, subdivision and federal, to assist our older people secure ten objectives in the Older Americans Act of 1965 - two of which are:

(6) Retirement in health, honor, dignity - after years of contribution to the economy.

(10) Freedom, independence and free exercise of individual initiative in planning and managing their own lives; and

Whereas the constant increases in living costs and ever-increasing and indiscriminate manner of taxation deprive the senior citizens and retirees the full enjoyment and benefits of these objectives; and

Whereas these retirees and seniors are in a manner taxed tantamount to property confiscation through taxation; and

Whereas such manner of taxation is reducing, in some instances, the seniors down to poverty levels; and

Whereas the same manner of taxation does not, in any way, provide a definite financial goal towards which our young people of today can prepare their economic future;

Therefore, we, the undersigned, consistent with the Older Americans Act of 1965, hereby petition the Congress of the United States of America to enact into law such legislation as would limit tax responsibilities of senior citizens and retirees to that for which they were liable at the time of retirement or upon reaching the age sixty-five, whichever is the earliest, with certain restrictive provisions and certain penalties for fraud as the Congress may deem advisable."

That is the extent to which we have been working on this petition. Here is a copy of it that has been signed by several of our Legislators, including Mrs. Margetts, Senator Miller and several others. And I hope you gentlemen will allow me to put this on the table there and I would like all of you to sign it so you can help the senior citizens in their old age.

MR. JOHNSON: Thank you. I am sorry your time for your formal presentation has been exhausted. We would like to perhaps ask questions and then if you want to

enlarge the record after every one else has been heard we should be happy to hear you further.

MR. LUARTES: All right. But I wanted to --

MR. JOHNSON: As to signing the petitions, I might say it's too early in our orientation to commit ourselves.

MR. LUARTES: Thank you.

I would like to tell you this, that I do not have with me any statistics. I am sure that there are people who will follow me who will give you all the statistics you wish. I think Mr. McCarthy is here. I have been working with him closely.

MR. JOHNSON: Well, we will look forward to that. We are anxious to learn.

Now are there questions?

Thank you, Mr. Luartes.

MR. LUARTES: I want to thank you very much.

MR. JOHNSON: Now we will hear one more witness before recessing for the noon hour. The next witness is the New Jersey Association of Public Accountants. There are several people listed. Who is to speak for that organization?

Is there no one in the room? (No response)

All right. Mr. Philip Cocuzza of Union, New Jersey, speaking for the New Jersey Builders Association.

E S K O J. K O S K I N E N: Good morning, ladies and gentlemen. My name is Esko Koskinen. I am currently serving as President of the New Jersey Builders Association. Our Association represents some 1500 member firms located through the State of New Jersey. Its members are involved in every segment of the building industry and its allied trade and suppliers. As far as my own qualifications are concerned, I have been a builder for twenty-three years with my operations primarily located in Bergen County. My experience as a director of the Association, a committee chairman, and senior officer has brought me in contact with all of the problems our industry has faced over the past years.

In considering our presentation our first thought was to produce a report filled with statistics to show the unconscionable rise in property taxes over the past years. However, upon considering this approach further we felt this was not our task. We reached this determination based on two principal reasons. First, we are not fully qualified to collect, prepare, and present the facts and conclusions of such a study. And secondly, we are sure others here today, who have these qualifications, will do so. Based on our own practical experience in the field we are sure as to what the conclusions will be.

Our builder members are confronted daily with the damaging effects of the property tax, both on our housing industry in New Jersey and on their own business. Clearly we can state that the single most damaging factor in today's housing crisis is the ad valorem system of property taxation currently in use in New Jersey.

Now that's a pretty broad statement but we think we can prove it. It works in this fashion. The local New Jersey municipality must rely almost one hundred percent (100%) on the property tax to pay for local services such as schools, police and fire protection, sewers, and so on. In order to offset increases in these services and to help pay for those which already exist, the local community must resort to all sorts of zoning gimmicks. Instead of using zoning as a tool to judicious land use it becomes a fiscal tool to balance the budget.

We foresee another doubling of the taxes in the next five years if we continue as we are. There is little anyone can do, under the current structure, since the community must meet the cost of local services as well as a share of the county costs. Ultimately this burden falls on the house owner or the commercial or industrial facilities in each community.

Most communities therefore take the stand that housing, single or multifamily, creates the problem; need for service; while commercial and industrial; so called rateables; pay for the problem. The answer in their minds is simple -- zone out housing and zone in commercial and industrial. Results -- a massive housing crisis.

As a prime example of this we refer you to a study recently completed by the Middlesex-Somerset-Mercer Regional Study Council.

"Undeveloped land zoned for research and industry in the 20-municipality region comprising the Middlesex-Somerset-Mercer Regional Study Council area will support 1,170,000 workers. Undeveloped residential land will support, under present zoning, a population growth of 336,000 and a resident work force of 144,000 persons. The potential imbalance between new industrial jobs and new workers is 8 to 1. Supporting commercial and service jobs will double this imbalance to nearly 16 jobs added to each resident worker added."

Can you imagine what chaos such a situation would create. Eight times as much land zoned for industry as housing. Where are the people who will fill these jobs to live? Surrounding areas are

not the answer. They are zoning in the same manner and even if they could house the workers imagine the effects on our highway system.

This problem was recognized by a report prepared for President Johnson shortly before he left office. This report was cited in a special tabloid section of the Record, dated August 3, 1970.

"The high cost of housing in the suburbs is reinforced by community actions. To preserve their 'character', suburban communities often adopt high standards of land development and building construction in their zoning and housing regulations.

"Consciously or not, zoning has been used to keep out people at the low end of the economic scale. The suburbs are only too willing to scramble for a share of the industrial and commercial tax base, but are not at all anxious to assume the attendant costs of housing and education for the unskilled employes."

We must admit that New Jersey's desperate housing crisis has other causes such as tight money, rising material costs, scarcity of labor and so on, but these problems are transitory and will be solved in time. The tax situation, however, will only continue to compound itself.

The problem is so acute and so emotional that we can relate a multitude of incidents where candidates for local office run on a "no building" platform and generally win. When they do take office and begin to see the complexity of the problem they find they have no ready solution. For to really stymie growth in a community is to invite economic disaster.

In light of the fiscal problems that development brings, the previous statement may seem contradictory. However, we ask you to consider the following. The population of our State is growing. This is an undeniable and unalterable fact. Since growth will happen we must plan for and reap its benefits. Growth will produce not only new industry but also concurrent commercial and residential growth. What does this growth mean? It means that each square mile of residential growth, when fully developed, brings to the community income -- some ten million dollars of income for each square mile for every year after developed. How can any community turn its back on such potential. Yet it happens every day in New Jersey.

Let's get a little more specific. We say that the cost of local services, which must be paid for through the property tax, is what scares the community off development. But in reality it is only one of these services which is at the heart of the matter and that is education.

Now the cost to produce the plant facilities, that is the schools themselves, is not the real problem here. The real crux of these costs are those incurred in operating the educational system. If this burden and specifically teachers' salaries were removed from the shoulders of the local community, then the scramble for rate-ables would become unnecessary and some degree of sensibility would

return to zoning.

There are other facets to the property tax which are particularly damaging to our industry but undoubtedly this is most critical.

A nation that was founded on the principles of home ownership cannot go on in an Indian-giver fashion. First we have many government programs to promote home ownership and then we make the taxes confiscatory.

We are promoting a return to the "doubling up" of moderate income families for the first time in this generation. How else can the elderly and the newlyweds sustain the high cost of property taxes?

Our system of property taxes also promotes deterioration of existing housing by rewarding the property owner in lower assessments if he does not maintain his property. At a time when every available housing unit is critical, the deterioration and condemnation rate is at an all time high. Our present system invites blight and we suggest a change in the method of taxation which will reverse this deplorable condition. A method which will reward the more astute and conscientious property owner and not penalize him. This inequity, along with those which exist in other non-permanent forms of housing, should be changed.

Our industry has in the past been able to supply the housing needs of our State, and we will again when inequitable taxes are removed

and a better tax distribution is achieved to make home ownership the enjoyment it was meant to be, rather than a burden of higher and higher taxes.

A previous speaker here this morning said that we have reached a housing unit in New Jersey of roughly 42,000, I believe the figure was. I would like to point out at this time that these figures are taken from building permits that are issued. Many times a building permit is issued for which a certificate of occupancy is never issued. And sometimes, again, a building permit expires and it has to be renewed. Consequently, the figure of 42,000 is not really a true figure of what has been built as the number of housing units in the State of New Jersey.

Now, if you take away the number of condemnations that came about during 1970 and the deteriorated units, I believe that the 40,000 figure is much, much lower than the State's statistics show. As a matter of fact, I think there is another commission which is studying the problem, that's your Tenant-Landlord Commission, and I think they are going to come up with some figures as to exactly how many units we gained. As a matter of fact, I wouldn't be a bit surprised if we were at a zero growth rate as far as housing units in the State of New Jersey are concerned.

MR. JOHNSON: I'm sorry, Mr. Koskinen, the time for your formal statement has expired. Will you submit to questions?

MR. KOSKINEN: Sure.

MR. JOHNSON: Are there questions?

MR. MILLER: First, Mr. Koskinen, the New Jersey Builders Association, is this a home builders association? Are you speaking as a home builder or as a builder of all kinds of properties?

MR. KOSKINEN: Not entirely. Our membership consists of builders in all areas, commercial, industrial and home building, apartment houses, high-rise units.

MR. MILLER: Your paper, though, is largely directed toward housing and homes, I take it.

MR. KOSKINEN: That's correct.

MR. MILLER: Now the reference that you have to the effect of the property tax on homes and home building, I wonder if you could give us a little arithmetic here.

MR. KOSKINEN: I think so.

MR. MILLER: Granted it may be your best estimate at the moment. What would be the average price of a home that has been built? Now it can be either a detached single family dwelling or a dwelling unit in multiple housing. You said you had some figure that was not correct. What would you say is the average price?

MR. KOSKINEN: Of a home built in New Jersey?

MR. MILLER: Yes.

MR. KOSKINEN: Including land?

MR. MILLER: Yes. What would it sell for, I think is better..

MR. KOSKINEN: Well, that would depend on the area in New Jersey. There are probably areas in New Jersey, for instance the shore and South Jersey areas, where you can purchase a house for \$25,000.

MR. MILLER: Well, how about new homes that are being built.

MR. KOSKINEN: New homes?

MR. MILLER: How about the more urbanized areas?

MR. KOSKINEN: Well, I build in Bergen County.

MR. MILLER: All right. Let's take Bergen County.

MR. KOSKINEN: I have at the present time the lowest priced development in Bergen County. My prices start at \$50,000. I'm talking about development now, I'm not talking about individual houses that were built on individual lots.

MR. MILLER: Now your paper says that the reason for the price of that \$50,000 unit, or any other, is a composite of high land costs, materials, labor and the high cost of money, and taxes. What part of the \$50,000

is accounted for by the property tax?

MR. KOSKINEN: We're not speaking of the property tax as far as the cost which I assume in building the house as I am the cost that the prospective home buyer has to absorb.

MR. MILLER: Then so far as the price fixed for the market, this is not affected by the property tax at all?

MR. KOSKINEN: Well, yes, it is, but it's a small portion of the total construction cost of the house. Now I could give you some idea. For instance, 20 years ago the tax costs, that is of the buyer's total shelter cost, - and what I mean by "the total shelter cost" is the cost which he pays each month, taxes, amortization, interest, etc. - represented roughly about 20%. Today that cost has risen to almost one-third to one half of his shelter cost.

MR. MILLER: Let's go back again to the \$50,000 house and see how that comes about. He would have, as a home buyer, a financing cost on the \$50,000 house, how much would that be per month?

MR. KOSKINEN: For taxes?

MR. MILLER: Yes. No, just for the financing.

MR. KOSKINEN: Financing? About \$230. That would be say a maximum mortgage that he could get on a \$50,000 house. Assuming he takes a \$40,000 mortgage it would probably cost him in the neighborhood of \$236. The taxes on that particular house today run about \$150 to \$160.

MR. MILLER: Then he has other costs involved. He has heat, maintenance, how much does that all amount to?

MR. KOSKINEN: Oh, say another \$50.00.

MR. MILLER: \$50.00 a month?

MR. KOSKINEN: Yes.

MR. MILLER: For heat, maintenance --

MR. KOSKINEN: Maintenance and everything, fertilizer.

MR. MILLER: Well, some of us think that's low, very low. But even if it were another \$100 that makes your non-tax cost \$336.

MR. KOSKINEN: Probably, yes.

MR. MILLER: And your tax cost \$150, so you are still close to your previous estimate of about a third.

MR. KOSKINEN: Yes, about a third, depending on the area. That was one of the reasons I gave you this newspaper article. On page 15 and 16 you will see a tax comparison, and these are only in two communities where the taxes vary more than \$800 on the same house.

MR. MILLER: His tax here, the \$150, would be in a high tax area, would it not?

MR. KOSKINEN: Well, yes, most of Bergen County is except some of the tax havens that exist.

MR. MILLER: Well, isn't this largely due to the high initial cost of the house? It's \$50,000 where he starts from so he's bound to have a high tax, is he not?

MR. KOSKINEN: That's correct.

MR. MILLER: Isn't the problem if in, as you say, tax, also the high cost of housing? aside from the tax?

MR. KOSKINEN: Well, that's true. But all of the houses in these communities are periodically assessed and they do try to bring them all up so that whether it's an old house or a new house they're still at the same level or supposedly at the same level of assessment.

MR. MILLER: Are there, to your knowledge, outside of Bergen County, areas where this monthly tax bill would be substantially less? You've got it at \$1800 a year now.

MR. KOSKINEN: You mean percentagewise?

MR. MILLER: Yes.

MR. KOSKINEN: No, I don't think so. As a matter of fact, I think it would even be higher in some areas.

MR. MILLER: Well the median rate in the State would certainly produce \$150 on a \$50,000 house.

MR. KOSKINEN: Right.

MR. JOHNSON: Are there any other questions?

I will remind you, Mr. Koskinen, as we thank you, that you will have an opportunity to extend your remarks this afternoon, after everyone has been heard.

This hearing stands recessed until 1:30 this afternoon.

(Recess for lunch)

AFTERNOON SESSION

MR. JOHNSON: As we resume the hearing, the next witness is Miss Peggy Hogan, representing the Jersey City Division of Planning. Miss Hogan?

P E G G Y H O G A N: I explained to Mr. Johnson that to make it easier for you, I sent down everything on Monday, and ultimately I made it more difficult because they haven't arrived yet. So I have my own statement and I can read it to you in summary form at least.

MR. JOHNSON: Could you skip a lot of that, please?

MISS HOGAN: Surely.

The Jersey City Division of Planning urges the Property Task Force of the New Jersey Tax Policy Committee to investigate a tax incentive program consisting of a possible abatement and exemption for housing improvements. Such a program currently operates in New York City and was also recommended by the National Commission on Urban Problems in 1968. In addition, as I understand it, a similar proposal was presented for the State of New Jersey approximately five years ago.

Briefly described, it would involve a temporary abatement of the property tax with regard to all or a considerable part of the property owners' expenditures to rehabilitate older housing. In New York City, for example, the benefits provided under their program include both a tax exemption for any increase in the tax valuation resulting from alterations and improvements and, secondly, a tax abatement on a certain percentage of existing real estate taxes.

The program, as it might operate in New Jersey, would ideally act as an incentive for property owners to make necessary housing improvements without the immediate repercussion of increased assessment on those improvements.

Before suggesting how the program might function in New Jersey, however, I think it is necessary to place such a proposal in perspective in terms of the overall functioning of urban government financing in general and of the property tax system more specifically.

Many recent governmental reports such as the Douglass Commission's work on building the American cities and the Advisory Commission on Inter-governmental Relations Study, entitled "The Role of the State in Strengthening the Property Tax," observe that it is a part of the crisis of urban government finance that so much of the large and growing sums required for financing must now come from revenue sources that place an especially heavy burden upon poor and moderate income groups. In particular, the property tax which tends to deter housing construction and maintenance in many areas is at times inequitably administered so that many reports, such as that of the Douglass Commission, note that the defects inherent in the property tax limit its desirability as the primary means of urban government financing, as is the case in Jersey City. Approximately 80 per cent of Jersey City's revenue is derived from the property tax.

Although significant steps by the Federal Government are urgently needed to help deal with the crisis of urban government financing, the National Commission on Urban Problems stressed that most of the action must be at the State and local level. The Commission noted, and I quote, that "the State have a major share of the responsibility because of their ultimate legal control over the property tax system and other local taxes because of the close relationship between State and local government financing." Therefore, you find many governmental commissions which I have read suggesting that before you talk about changes in the property taxes or possible abatement programs, you also have to look at these types of suggestions with the realization that other types of government revenue-gathering sources must also be looked at so that you get more of a picture

about where you are going to get additional government revenue that such an abatement policy would pull away. So that some reports suggest personal income taxes, looking at revenue-sharing devices and things like that, all of which I presented in an appendix with the package that I have for you. Not that I am going to go into them today, but I just think that when I recommend such a program or at least investigating it, I am also recommending that we have to look at the whole picture in terms of revenue financing.

The property tax itself should not only be considered in its economic perspective as a tool for revenue gathering, but it should also serve as an incentive for property owners to make the necessary home improvements without the fear of immediate increased taxation.

As analyzed in his study of housing and property owners in Newark several years ago, George Sternleaf observed that the majority of property owners were reluctant to make necessary home improvements because of their unwillingness to face immediate property tax re-assessment. His findings would emphasize the need for the type of program which at least we are suggesting that you investigate.

The tax abatement program would involve the temporary exemption of the tax with regard to all or a considerable part of the property owner's expenditures to rehabilitate older housing. Especially where rates are high, the property tax in the past has tended to deter socially desirable improvements of this kind and some owners, as I have also mentioned to you in terms of Jersey City and Newark, avoid or postpone repairs and alterations which might result in material tax increases.

Although I don't propose at the present time to delineate specific provisions for such legislation or any type of such a program, desirably any such tax abatement and exemption provision might include the following components: First, in terms of qualifying

areas, the program should be limited to relatively old housing in order to hold the revenue costs within balance and to focus upon the most critical components of the housing stock and also to prevent abuses, such as successive stage enlargement or improvement of relatively new structures in order to obtain the tax benefits that we are talking about.

In New York City, for example, conditions for eligible housing are outlined and include housing in urban renewal, local neighborhood improvement for housing maintenance areas. The types of housing eligible are also delineated and include residential structures of three or more families occupied by persons or families of low income. I am not suggesting that this is something for New Jersey, but I just want to show you that such programs in other areas have special types of delineation.

Secondly, improvements. The specific types of alterations and improvements qualifying under the tax program would also have to be clearly specified. However, improvements which would eliminate presently existing unhealthy or dangerous conditions, or which would replace inadequate and obsolete heating and sanitary facilities, should all be considered.

In terms of many of these landlords and homeowners whom I work with in Jersey City, there is a crying need for adequate sanitary facilities and for centralized heating rather than little floor heaters, and especially in wooden frame structures, which also provides a fire hazard, but they are very reluctant from what they tell me because of a fear of increased assessment.

Third - A time period for the program. Such a program should apply for only a limited period, perhaps five or eight years, in terms of an abatement, after any such expenditure is made, after which time the owner would pay his full tax assessment.

Specific components of a tax abatement program for New Jersey will have to be studied further for their

implications since, as illustrated by the New York City tax benefit law, several initial aspects of the program were not fully analyzed as to its future effect and proved detrimental to the program during its first two years of operation.

It is for this reason that the Jersey City Division of Planning has not prepared for the Property Tax Task Force specific criteria on eligibility qualifications for the administration of such a program. We would suggest that our recommendation be put to further investigation. We would like to point out, however, that the tax benefit program in New York City within the past four years has been the most successful program in New York City in terms of the number of residential structures to be rehabilitated. Quite often in New York this program has been implemented in conjunction with their own municipal loan program.

Such a program of tax benefits operating in a similar manner in New Jersey would act as an incentive for property owners to rehabilitate their structures. At present, one should note that property tax policy in New Jersey is discouraging owners from making needed improvements that would add greatly to the value and life of their property and to the housing stock in total living environment, especially in your highly concentrated urbanized areas such as Jersey City, Newark, Hoboken, and Union City, to name only a few areas.

The Jersey City Division of Planning, therefore, urges the Property Tax Task Force to begin further research and investigation on the applicability of such a tax benefit program. Moreover, from an economic viewpoint, the increased life and value of the housing, when the tax benefit program terminates, could equalize the taxes lost during the abatement program if the proper time period is enacted within the legislation. This has been one of the estimates made by the New York City program. However, in their own case, the

program is still too recent to provide any kind of conclusion or cost benefit analysis in an economic sense.

The Jersey City Division of Planning would be willing to cooperate with the group for further investigation and research on such a program. We have also included in the package for you a copy of the New York City legislation, additional sources on urban government financing, and some chapters from the Douglass Commission's report dealing with alternatives for urban government financing, and finally we would be very willing to do any more research that we could for you in terms of a cost benefit analysis.

MR. JOHNSON: Miss Hogan, would your abatement proposal extend to housing only?

MISS HOGAN: In terms of my own thinking of it, I had thought specifically of housing. I hadn't thought in terms of commercial structures. In New York City, it is only for residential structures.

MR. JOHNSON: Does the Nathan Report direct you to any more detailed proposal?

MISS HOGAN: The Nathan Report? I am not familiar with that. I mentioned the Douglass Commission report but I am not familiar with that report that you speak about.

MR. JOHNSON: Mr. Dugan, do you have any questions of the witness?

ASSEMBLYMAN JAMES DUGAN: Yes. It's more a statement than a question of the witness.

The Nathan Report that reference was made to in the Chairman's question was the economic study that was done at the joint request of all of the Hudson County Mayors to gather statistical data on the impact of the increase in real property taxes on residential properties.

I assume that your presentation today was concerned with your area of expertise -

MISS HOGAN: Yes.

ASSEMBLYMAN DUGAN: - and didn't cover that. Is

that so?

MISS HOGAN: Yes. This is the area that I am working in and that my own division in terms of housing is working in, and so this was my main interest in coming, because this is what I interpret as one of the needs of the people I am working with in Jersey City.

ASSEMBLYMAN DUGAN: Do you anticipate that the Mayor of Jersey and/or the Tax Assessor will seek an appearance before this Committee to discuss the -

MISS HOGAN: I definitely know that Margaret Jeffries, the Tax Assessor, definitely wants to come to a further hearing. She is busy with appeals right now and that's why she isn't here today, but I would expect that she will be here.

ASSEMBLYMAN DUGAN: I see. Thank you.

MR. JOHNSON: For the information of the audience, Mr. Dugan is Assemblyman James Dugan who is a member of this Task Force.

Are there any further questions?

MR. HAINES: Yes. Miss Hogan, I understand that your municipality did attempt to go into a code enforcement program sometime back. Do you know how far they went with that?

MISS HOGAN: Well, my only knowledge, and I have been working with the Division a very limited time, is that we are presently applying for a code enforcement program for one area in Jersey City known as Greenville. If that is the code enforcement program that you are speaking about, that application is still in its preparation stages and I would estimate that it will take about maybe six more weeks before we finally submit it to HUD.

MR. HAINES: Do you have any idea as to what the effect of this might be from the standpoint of the owner for an increase in taxes on the properties where there are deficiencies?

MISS HOGAN: Well, I don't know how familiar you are with the nature of the code enforcement program, but because the program requests that a property owner's

property be brought up to minimal code enforcement, a part of the HUD qualifications and funding is a property owner is eligible to get both loans and grants in order to do this, but then again it still requires on the owner's part an outlay of funds even though he is getting his funds at the reduced interest rate. So I think probably the owner's assessment might go up and I think, especially in terms of this aspect, many of the owners would like to put in better sanitary facilities and centralized heating, which is something that definitely will increase their assessment. That's why my proposal today dealt with those types of improvements. But then again, in terms of the code enforcement, he will have to outlay money.

MR. JOHNSON: Any further questions?

MR. MILLER: Miss Hogan, first, thank you very much for a very helpful presentation but, following up Mr. Haines' question, do you have any specific knowledge that such improvements as you are talking about are actually followed by increased assessments in Jersey City?

MISS HOGAN: Well, this I understand is the case after talking with Margaret Jeffers. This is what she has indicated to me. Now, you know there are many things that can be done that don't constitute a reassessment, but in terms of some major improvements like sanitary facilities and heating - I am not even concerned about someone who wants to put on an addition or an extra bedroom - I am concerned about these real essential things that constitute in Jersey City a reassessment, and this is what I have been told and understand from Margaret Jeffers.

MR. MILLER: Well then, thinking in terms of the incentive and disincentive argument that you make as a basis for this, if you compare the burden of paying the capital cost of the improvement, which is a disincentive, so to speak, with the annual possibility of paying additional property tax, can you have any way

of being reasonably certain that it isn't the cost of making the improvement which is stopping people from going ahead? Is it really the tax increase, the potential tax increase?

MISS HOGAN: Well, I think in many cases, especially in your highly concentrated urbanized areas, we are talking about landlords who own more than one piece of property and I regularly have meetings with landlords and tenants trying to get their ideas on some of their problems, so if a landlord, say in Jersey City or Newark, which is a very common thing, owned eight pieces of property and put in centralized heating in one, which is estimated today around \$6,000 or \$8,000, I think he is not only concerned but many that I talk to are very willing and interested and recognize the fact that these heating facilities and sanitary facilities are needed.

MR. MILLER: Are these rent controlled?

MISS HOGAN: No.

MR. MILLER: What happens to rents when he puts in those improvements?

MISS HOGAN: Well, quite often, very often, rents will be increased.

MR. MILLER: Aren't they increased sufficiently to cover the added tax, if there is an added assessment?

MISS HOGAN: Well, there is a problem there that the landlord knows that if he ups his rent, he is not necessarily going to get other people to go back into that apartment, so he is caught in a bind by the fact that he has to keep his rent, especially in some of these areas that I'm talking about, at a certain minimal level but he also wants to put in necessary improvements that constitute a reassessment. So you could do some type of analysis that would show how much your rent would be increased by putting in some of these things, but on the whole he would have to increase his -

MR. MILLER: I am intrigued by your suggestion of a benefit cost ratio analysis of that type of program.

MISS HOGAN: You could do that. It's been done in New York on other types of residences on rehab -

MR. MILLER: What did they come up with in New York?

MISS HOGAN: Pardon me?

MR. MILLER: What was the result in New York? You said they did such an analysis in New York?

MISS HOGAN: They did this on another type of program, a rehab program, with different types of federal funding which show a change in rental prices but it was a minimal change at times, and they wanted to show to the property owners that something could be done.

MR. MILLER: Is there adequate evidence in the New York program that they had more dwelling units improved than they would have had if there were no such tax abatement program?

MISS HOGAN: Well, according to the conferences I had before I prepared this statement for you, this was very, very much in evidence. They felt definitely that their program acted as an incentive. However, one of the notes that I made in my presentation was that four years ago, when this was first put in in New York City, they had what was known as a retroactive clause so that property owners who had made a major improvement subject to reassessment, three or four years before the program went into effect in New York, were also eligible, so when you added that up, they didn't have an indication of the extent of the incentive within the first two years, but that part has since been cut out. So in estimating to me, the Director of this program in New York said that within the past two years he could say that it has been the most successful in terms of rehab.

MR. MILLER: This is only his opinion. He has no data to show that it wouldn't have happened without the program.

MISS HOGAN: No, but I think in terms of the types of programs available, he feels that this has been most

effective in that owners have taken advantage of it. I mean, I could find out if they are doing anything like that that might be helpful to you. But I think in some aspects they feel it's a little too early. These are his judgments. He can tell by the number of people who have applied for this program as compared to other rehab programs on a federal level that it has been successful.

MR. JOHNSON: Are you saying that there is no market for a rental which would adequately reflect the cost of rehabilitation and increase in taxes?

MISS HOGAN: What I am saying is that if such a rental is high -

MR. JOHNSON: Admittedly, it is going to be higher than it was but is there no market for it?

MISS HOGAN: I think there's a market for it but I am saying that in some of the areas your urbanized areas that I am talking about, the people who are looking for housing can't pay the price of the rental that would have to result from the higher reassessment by putting in the improvements.

MR. JOHNSON: Any further questions?

Thank you, Miss Hogan.

Our next witness is Mr. Thomas Wilson, representing the Pleasantville Taxpayers Association. Is Mr. Wilson in the room?

T H O M A S W I L S O N:

Inflation is, in my opinion, "political embezzlement."

Inflation is by definition an increase in the money supply.

If the actual volume of money in circulation, both fiat money and credit money rises faster than the increase in availability of goods and services, prices rise. The economy is like a giant auction and if the buyers are suddenly given more money, they will bid up the price of the goods being offered. Therefore, the price rise, is not the cause of inflation but, is the effect of inflation.

We now have an inconvertible currency as our monetary medium which means that our money can no longer be converted into gold or silver. The Government has even taken the silver out of our coins. We are dangerously close to an economic collapse; the things that prevent us from going over the precipice is the productivity of our people, and the value of the real property that we hold.

If we over-tax the real property or if we over-tax the productivity of our people, then the danger becomes real and over the precipice we go.

The Governments, local, state or national, seem to want to blame labor and industry for inflation but the fact is Government is solely responsible for inflation. If Government at all levels would balance the budget, not just in figures, but to a proper portion of the productivity of the people and to a proper portion of the ratables, and stop all of the unnecessary and wasteful spending, then, and only then, will inflation stop.

There is a definite limitation on what a property should be expected to produce for taxes. I have analyzed the figures with respect to tax rate in relation to an appreciating or depreciating community. I have concluded that if property is taxed beyond a finite point then property goes down, people holler, people go on tax strikes; they say and do many things, but the end result is "property values go down." If it is below that number then people know that they shall be able to dispose of their property advantageously and property values increase.

I have told the people to multiply their yearly taxes by 25 and if the figure exceeds the figure of what they feel the property would bring in the open market then they should be making a claim to the Board of Taxation for a reassessment.

Appeals are compromises and do not equalize the tax burden. If anything they put it out of dynamic balance. A fair system would be to reassess all of the property all of the time, to maintain a fair and equal ratio.

The present system of taxation and assessment amounts to an open end deal that hurts enough individual taxpayers as to have the Governor show some concern for the senior citizens. I suggest that collectible taxes should be apportioned in a manner that would provide 15% for the county, 30% for the schools, 40% for the municipality, and 15% for senior

citizens, library, and as a reserve for emergency expenditures.

With these figures as limits, money would only be expended as it comes available.

It would force all ratables to full valuation and in so doing it would equalize the distribution throughout the community.

Over simplification of my statement would be "set the ceiling at some fixed fraction of true values, assess all property accordingly, and spend only what you can collect."

It is well known to our State Division of Taxation that property is not equally assessed. They are aware that within property classes there are inequities. They are more aware that between property classes there are gross inequities. They have lived with this problem a long time. Simply stated the equation should be:

$$\$100 \text{ of CL 1} = \$100 \text{ of CL 2} = \$100 \text{ of CL 3} = \$100 \text{ of CL 4}$$

CL 1 = Vacant Land

CL 3 = Farm

CL 2 = Residential

CL 4 - Commercial

Mr. James A. Arnold Jr., Chief of Tax Research and Statistics, in the October issue of the magazine put out by the New Jersey League of Municipalities, has addressed his attentions to this problem. He is concerned with the deviations from the norm, the norm meaning (I hope) equalization. He is searching for "Measures of Property Tax Uniformity." So the problem is not new and the problem is not solved.

The taxpayers of Pleasantville whom I am proud to represent, had an epidemic of gross tax inequities. No only were they affected by a major increase in the rate but a portion of them had their assessments doubled.

They met the problem head on. They microfilmed the tax books. They converted this information into computer language to see once and for all, "What is wrong with the property tax System?"

The taxpayers of Pleasantville now know what is wrong. The State Division of Taxation now knows what is wrong. We demand that it be corrected. We demand that the Assessor's Manual be simplified. We demand that the data be computerized and programmed in a manner that will ensure "Uniformity of Measurement." Once this accomplished there will be no need to add new legislation for more taxes. Put a ceiling on what you can tax people's productivity (the broad base tax). Put a ceiling on what you can tax real property (the narrow base tax) and spend what you collect. Keep a proper relationship between the two of them and you may survive the tax rebellion.

The Administrative Tribunal (The County Tax Board) and the Superior Courts have chosen not to examine the taxpayers findings. They say we are not qualified, we are not experienced, we do not know the proper procedures. We just know that it is wrong! I therefore wrote an open letter to the Governor with your indulgence I shall restate the ten facts.

FACT NO. 1. Title 54:4-23 requires that all real property shall be taxed by General Rules and that a "Uniform Standard of Values" shall be used within a taxing district sharing a common burden. It further provides that the entire taxing district shall be reevaluated each year as of October 1 anticipating the value of the coming taxing year.

FACT 2. The tax boards and the local officials recognizing the need for competent assessors have permitted certified people to represent many communities. Result: Assessors, in order to improve their own income, try to represent as many communities as will have them. This results in placing a tremendous work load on the County Tax Board who try to compromise. The compromise, no matter how judiciously administered, can only affect those presenting an appeal. Whoever heard of a taxpayer who was underassessed presenting an appeal to raise his assessment? The result - gross inequities.

FACT 3. A small group of taxpayers in Pleasantville undertook the monumental task of placing the tax records of the entire city of Pleasantville on the computer, to bring to the attention of all, the shortcomings of the present system. They attempted to present their findings to the Superior Court. Result: They must exhaust the Administrative Branch, "The Tax Board." You must believe me when I say we tried to exhaust the Tax Board....

FACT 4. Taxpayers in many communities of the State are on STRIKE. Some are organized, some are not; some are just individuals who refuse to pay. These people are justified if the tax rate is confiscatory. Legislation must be developed protecting the rights of property owners.

FACT 5. The State has recommended the use of the computer. Obviously they are acquainted with some of its advantages. Obviously the State has people who understand. You are in a position to direct these people to assist the taxpayers of Pleasantville to verify the implications of their report. Non-uniform standards of value; tax cheating; lazy assessing.

FACT 6. A State computer program will ultimately be accepted. It is possible to program the data collected to implementize equalization. Now computer people will understand. It is, therefore, their duty to explore this necessary avenue of taxation.

FACT 7. The computer is capable of printing the tax bill and itemizing in dollars and cents that portion that belongs to the county, the school, the local purpose, etc. It is therefore quite easy to give the county, school or municipality only that portion of moneys that was collected for each. If the county budget is out of bounds, let the city and the school be paid, and let the blame be placed where it belongs.

FACT 8. The computer is capable of recognizing the number of transactions instigated by an assessor and whether there were proper adjustments. It can flag the mistakes. It will tell you if you have an assessor in name only. It will give notice that you have an appreciating or depreciating community.

FACT 9. The computer is not a cure-all. By itself it can do nothing. With legislative assistance and proper application, it can work wonders. We need your help. City, county, and even State officials, need your direction. Please, don't treat these facts as babble at a tea party, but, if you do, then remember taxes and a tea party was the guiding influence in the destiny of this country. Our taxpayers have their tolerances.

FACT 10. No political machine is so important that it will not bend to the will of the people. The need is great, the time is now, the choice is yours..

MR. JOHNSON: Thank you, Mr. Wilson.

Are there any questions?

MR. HAINES: Mr. Wilson, I am familiar with a lot of what you have just cited here since I come from South Jersey.

MR. WILSON: Yes, I know that. I need your help too.

MR. HAINES: I am familiar with the computer program that you mentioned, but I think you are aware of the fact that from the standpoint of assessing, the New Jersey assessors have a State law to administer and not what has been attempted in your case. Do you have any suggestions as to what you think would improve the present State law from the standpoint of the local assessing procedure.

MR. WILSON: Well, the law is very simple as I stated it in Fact 1. It says that everybody comes out equal, and then says whatever you produce or whatever you have,

or whatever you hold should be taxed in a proper proportion of the end result. That's what the law says. It's so simple that everybody understands. The problems of your assessing and, believe me, you are not familiar with my computer report. You are only familiar with the fact that it has happened. Our computer report took all of the figures and data that the assessor put on the tax books. We merely rearranged it in a fashion that we could understand where we deviated from the norm, in much the same way that Mr. Arnold is going to do. And let me show you these shades.

We have assessments on land going from one hundredth of a cent per square foot to a dollar sixty per square foot. Now that is 160,000 shades of assessment on land alone. Now when you take 10,000 items of a city and you find there is that many graduates, then you know that it's wrong. It is so obvious it is understandable. You just have to thumb the pages. You don't have to even know how to read.

When you take another value of the assessment which you assessors use, which is front foot value, and you take a block or three blocks in a community, none of these things come out even. They don't come out uniform. Your data people know this. I mean, this is not new.

When you go to - We presented what we call inverse appeals to the Tax Board. We took half a dozen commercial properties and we took the one who is taxed the worst and to show the city if they were going to be uniform, they would have taxed all of them, and we could raise a couple of million dollars worth of taxes for the community if they would only do it.

There are many, many, many phases of tax dodging and I am sure that when you talk to the average person, he doesn't know the difference between ten cents a square foot and a hundred dollars an acre. I'm not even sure tha you gentlemen would even bother to figure that out.

But you've got to have uniform weight. Now, I'm

not an accountant and I'm not a tax man. I build ships, and when I take a piece of steel as a base, I know what it can stand and so I put a limit on it as to tolerance that I can use. And that's what you have to do with taxes.

Now if you don't do it, if it doesn't happen, you now have fiat money which is just authoritative money and if you don't put proper proportions on it, you won't have money. You've already - I say "you" - I don't mean you gentlemen personally.

MR. JOHNSON: Thank you for that.

MR. WILSON: The government has so watered the dollar now that it is a problem. Now you have in your hands the capability of watering it further, and you can't do that. You just have to give people what they make and let the government have a portion of it and confine that portion to a proper ratio.

MR. JOHNSON: What have you done with these data? You have presented them to your local officials, I presume.

MR. WILSON: Well, we presented it first to the Mayor of our city. Secondly, we presented them to the Tax Board, the County Tax Board. We attempted to present them to the Superior Court merely to show we are looking for those changes here, both legislative and let's say "at home." We are looking for relief at home but we know that the changes are not only in our community - we know they are all over the State.

MR. JOHNSON: This was in a formal action?

MR. WILSON: This was in a formal action, yes.

Now the Tax Board couldn't examine our information because it wasn't cited in the appeal that we made out. We just don't take a report of 10,000 items and put it in one of your appeals. It's that big.

MR. JOHNSON: Where does the matter stand now? Are you before the court?

MR. WILSON: We have been before the Superior

Court. We are now coming to the State Board of Taxation, and we hope we will have some interest shown there.

We do know that the State program of collecting the data - and I say this not in a bombastic way or a bragging way - once you have collected the data on the State and you know how much land there is and you know how many buildings there are - the assessors do a good job on this - once you know this, and you figure this is what I've got for material to work with, and, over here, this is what I've got to spend, the machine will do the work for you. You can't do it. And the machine is quite capable of doing it and to handle millions and millions items of data and put it in straight conforming rules.

MR. JOHNSON: Mr. Mowery, I believe you have a question.

MR. MOWERY: Mr. Wilson, what do you feel are the maximum limitations on the real estate property tax? When do we reach the limit? Where is it?

MR. WILSON: That's a good question. Taxes to me is a never-ending mortgage on which you just pay the interest. And the interest has got to be somewhere near four per cent. I mean the over-all picture. That's where you have to be. That means that what the man pays in taxes on his property should be four per cent of its value annually; in other words, if the value of his property escalates while the percentage goes with it, but don't let the percentage get out in front of it, and that's what we are doing.

MR. HAINES: I was wondering if Mr. Wilson's Committee could make this data that they have assembled on their computer available to this Task Force. We might find some use for it.

MR. WILSON: I would be very happy to. In fact, that's the only reason I'm here.

MR. JOHNSON: Mr. Miller?

MR. MILLER: We are going to ditto Mr. Haines' request for this reason: The staff has underway a study of assessment inequalities as among individual properties that were sold at least, throughout the entire State and for all the 566 municipalities and, of course, any data you have that would be an input to that study would make it so much better.

MR. WILSON: To kind of qualify, if I may, the data that we took from the assessor's books, that remains constant. You don't change this. We never change this. You don't have to change it because generally speaking what happens is that he examines five properties correctly and he examines the sixth one wrong - we find the sixth one and we fix that, if you follow what I mean. I'm sure he does.

The other thing is that you can take the same package of data - "tanka data" as I call it, and you can apply any of these things that you want to apply against that data and find out what the result would be without imposing it on the people. And that's where you have to learn to tool.

I mean, we are in the times now where we go to the bottom of the ocean and we go to the moon. We can't go to the moon and the bottom of the ocean with a hammer and sickle. We have to use the tools of today to solve the problems of today.

MR. MILLER: Well, taking that point of view if in order to use a computer to do what you say - I assume you want to eliminate all elements of the assessor's judgment - you take an arbitrary front foot or square foot value for land and you will put that into the computer and it will comply it with the entire system. You would have differential values for land. Who is going to make the decision as to what the different land is worth?

MR. WILSON: I state here once again we do not feel that you can take the assessor's judgment out of it. All we did is to find out how uniform the assessor's

judgment was and, if he were all assessors, I could find out how uniform you were to him; I could compare each of you to the other. I can't. This machine is not that kind of thing. It is not something that does judgment - only man does judgment.

MR. MILLER: When you saw how uniform it was, did you allow for variations in actual economic value as you saw them?

MR. WILSON: Yes.

MR. MILLER: Where did you get those?

MR. WILSON: To illustrate what you mention there about the sales program, if a house comes on the books by abstract and is sold at \$18,000 and it had \$4,000 worth of furniture in it and a \$10,000 coin collection in it, you didn't get to the right value. That's where the judgment comes in. The machine would put that down as \$18,000, but the judgment has to come from the assessor.

MR. MILLER: This is before the sale. How do you arrive at the element you are going to put into the computer before the property is sold?

MR. WILSON: Before the property is sold?

MR. MILLER: Yes. This is the assessment list which deals with property.

MR. WILSON: The assessor's list is every assessor's valuation that is on a property now. I presume he has examined the cubage of the building, that he has a land map that tells you where the best parts of town are. This is part of his judgment.

MR. MILLER: Did your assessor have that?

MR. WILSON: Yes, he had that. It didn't seem to be uniform. That's an overstatement of the -

MR. JOHNSON: You mean understatement, don't you?

MR. WILSON: Understatement, yes.

MR. JOHNSON: Are there any other questions?

Thank you, Mr. Wilson.

The next witness is Mr. M. J. Grubelich, representing

the North Plainfield Taxpayers Association.

Is Mr. Grubelich in the room? (No response)

All right. Mr. Andrew Rotter, New Jersey
Libertarian Alliance. Is Mr. Rotter here?
(No response).

Mr. Gregory Grubelich, student at Rutgers
University. (No response)

Dr. Geoffrey W. Esty, Princeton.

G E O F F R E Y W. E S T Y, M.D.: I am
Geoffrey W. Esty, M. D., and you have, each of you,
the short three-page statement and you also have
one of these. I was delighted to learn that you
also ordered a supply but I beat you to it in giving
it to your office with my own.

MR. JOHNSON: Thanks for your cooperation.

DR. ESTY: I'm glad to see that you are using
it.

I am President of the Economics Education Institute
in New Jersey and a member of the Board of Directors
of the Robert Schalkenbach Foundation in New York City.
In my own right, I happen to be a physician, a pediatri-
cian once upon a time, before the war, but have been
with Public Health, Mental Health and Education for
about thirty years and during this time, I might add,
have become interested as a side line, very much of a
side line, in this whole business of intensive
taxation or what I call psycho-economics, which is the
psychology of taxation, because as a human being I
realize that economics is a man-made science and yet
sometimes it forgets the human being in the process.

Now I am not going to read you this statement
except for the first three paragraphs, just to give
you the tone, and then I'm going to exhibit a little
analogy here and hope that you might see what I'm
talking about.

Amidst spreading citizen tax strikes, community
violence, polarity of domestic life styles and social

disintegration, stands the ever-enduring Property Tax, contributing to violation and disrespect of the law and, at the same time, possessing a latent potentiality for equality and social justice.

The property tax is not one tax, but two: a tax on improvements, buildings and other land uses, and a latent tax on site or location values. The tax on improvements to land is regularly assessed at rates required for public services. However, buried in the total figure are nominally assigned percentages of site or land values, having usually little relation to values resulting from population or changes of location factors. The current property tax, then, tends to higher and higher rates on improvements, while site or location values remain nominally and generally grossly undertaxed.

Land, whether urban, suburban, rural or farm, is valued in accordance with the supply and demand. Market price of sites is the net amount after the deduction of taxes thereon. Speculative values are added to theoretical site values and are greater where low or unrealistic assessments of sites are permitted.

Now then, going back to human beings. Humans are motivated by incentives, either positive or negative, and the vantage of the property tax, its hidden part, is right in the possibility of its being used as a positive incentive, not only for revenue but for individual equality and justice.

Now without going through the rest of this, I am going to show you a little analogy, if I may, and my voice is loud enough I think so it can be heard if I am not right in front of the microphone. As an educator I am used to doing these things. May I perhaps put it like this for a moment while I am talking.

Now here (indicating on map) - Korybski used to say a map was only a good analogy of territory. And here is, I hope, a good analogy because here we have - it happens to be the Houston Convention Hall where I am going

tomorrow, incidentally. It could be just as well in Atlantic City Convention Hall. Here you have an entrance, here you may have registration, and here you have all these exhibits with the various major arteries crosswise and smaller ones, etc. on here.

Now the corporation has a sliding scale depending upon what you bid or the location of your bid and its most advantageous point. Obviously these areas for exhibits in the major central area or by the large pathway or aisles coming down are obviously more rentable at a higher rate than some would be if they had this location here. Right? What makes it valuable is the number of people that are tending to come down the central aisle and hover around the registration desk. That means that more people will see these exhibits than if they were way over here in the corner. The AMA used to have their conventions there and there used to be a little fellow here with wax for surgeons' glasses to keep them from fogging. I saw him for a great many years. He's probably dead now. But he made a job here and he paid a minimal amount for what? For the exclusive possession of that particular site or this particular site for one week, which no one else could take from him, and what he does with it is his own.

If, for instance, I chose to bid for such a site, I could have it as long as I paid to the corporation its particular site value. And so if I put a card of mine, "Courtesy of Geoffrey W. Esty, M.D.", I would be a darn fool if that's all I did, but that's my privilege. I don't have to use it. So the corporation accepts that. If, on the other hand, I decide to sell \$100,000 worth of electronic equipment, the corporation doesn't expect a cut on that. That's also my business. My income tax will take care of that, perhaps. So that's the way every business knows how to operate in a convention hall.

Now if I were a darn fool, or rather if the corporation were a darn fool, and they said, "What are you going to use this for?" and I said, "I'm not going to use it for anything; I'm going to put my name card on it." "Oh, well, then you can have it for a couple of bucks." Suppose I decide to do something with it important - \$100,000 worth of orders. They would say, "Well, then, you have to give me 30 per cent."

Now that doesn't make any sense and no business-man would do it that way. Now, obviously the analogy is clear. They now become buildings and blocks and streets and we do the latter darn fool way, if I may say so, and not the former, because we have inherited those systems from away back and left over from feudal times. And this is the analogy. It is assuming, of course, that if you gave to the community that value which people gave it, totally, you would have the analogy, as I say, of paying to the corporation the value of that site for private possession. And on the other hand, the analogy also for simplicity's sake says, "Let's not tax the improvements at all." That is purely for analogy. But the analogy is accurate that we do the thing that is hurtful rather than the thing that is an advantage to us.

All right, very quickly then - I see I have two minutes - I just want to then read: The sites are socially created. I would suggest and would like to suggest strongly not only that you read this, of course, and this excellent thing, but that I stand ready for you inasmuch as Perry Prentiss was the raconteur and the chairman of this particular conference of which this is at least the fourth over the country, and that he and I are both directors of Schalkenbach, and he is our chief consultant, recently retired Executive Vice President of Time, Inc. And he has given me his personal agreement then whenever he gets back from Europe again - he is there right now - he will be very happy indeed to sit down with you in a day's

conference to go into all the elements in here which you can then fashion to New Jersey's needs. This is a flexible program, and I would like very much for you to take that opportunity. At that time, of course, we could give you other studies. We have much research on this subject. We can name the cities, towns, countries, states - Canada and wherever they are successfully using this. We have figures, and the last thing I might tell you as a matter of interest to you is that New York City is doing a simulated computer study of taxes in which both the site and the improvement values are listed. This will probably take a year or two. If you need to find out more about that, consult Tim Costello who is the Deputy Mayor under Mayor Lindsay, in charge of administration. I have no idea how they are coming along but I know they are doing a scientific study on this process.

With this, I find that my time is over. Thank you.

MR. JOHNSON: Thank you, Dr. Esty. Are there any questions?

MR. MOWERY: Dr. Esty, I don't quite follow your reasoning here. You say while site or location values remain nominally and generally grossly undertaxed.

DR. ESTY: Undertaxed. Location values are almost uniformly underassessed.

MR. MOWERY: Can we use an example. We will take Stewart Road in Princeton, which I'm sure you're very familiar with.

DR. ESTY: Stewart School?

MR. MOWERY: Stewart Road. Now there I happen to know what land values are. I know that on those particularly, land value is very high, so on that type land they are building very expensive homes, so the tax from that acre brings in much more revenue than it does from a lower land value area. Do I misunderstand what you are saying here?

DR. ESTY: In the first place it will depend upon its location; the nearer to a center of population basically, the more the land site values are likely to be.

The further out you are from it, the less so. Now you've got a speculative, as all Princeton knows, value on these lands. When I had my home or when I built my home, I had my loss on Ober Road, and for several years I paid about \$45 a year for the 200 feet long - or about 150 feet long and 200 feet deep. As soon as I built my house, of course, the tax went up tremendously. Now I argued with the tax assessors in Princeton and they knew what I was arguing about, but he insisted that part of the site value was the grass and the trees and things of that sort. This is not true site value. Site value or location value is the raw site without any improvements on it. The improvements are taxed separately and, therefore, in Princeton they give it a nominal figure, as you have said, and they also give it a speculative figure.

MR. MOWERY: Well, what I am saying here is that the higher the value of the land, you usually get more expensive homes built on that land. I mean, on \$1,000 an acre they will build a \$20,000 home, so you will have greater revenue.

DR. ESTY: You will. The point also is, however, that if you do begin to use a graded land tax system, you should at least either keep the improvement tax level or preferably lower that, because this is where it hurts, because there is only one type of tax that cannot be given over in the process of production, and that is the site value tax. Most economists, in fact, all the economists, know that this is true. This means you can't take this over and put it on the improvement tax. This is one of the reasons for its great strength. It also means, however, that if you are exclusively in real estate, especially for speculation purposes, it is going to be hurtful as it goes along, as it has been shown in various countries in the world, including our own. But it does at least drive land into proper use instead of poor use or no use at all. And it also drives the individual speculating in that lot, waiting to get a killing from it - he is much

better off, as we have shown in Pittsburgh, in the Golden Triangle about 20 years ago, and he could make a lot more money in production by building buildings on it, or whatever not, than by holding it empty or under poor use.

MR. HAINES: I have two areas I would like to discuss with you. But just incidentally, your reputation and knowledge of this has preceded your appearance here. I am glad to have this opportunity to hear you.

DR. ESTY: I'm embarrassed. I didn't know it could.

MR. HAINES: In your site value concept, do you include corner influence?

DR. ESTY: Corner?

MR. HAINES: Corner influence in your site values?

DR. ESTY: Certainly, These are all factors in assessments, yes.

MR. HAINES: How about corner influence for residential?

DR. ESTY: Same way.

MR. HAINES: You do consider it.

DR. ESTY: Yes. Location advantages, yes.

MR. HAINES: The other area I would like to question you about: You are familiar with our New Jersey farm land act.

DR. ESTY: Yes.

MR. HAINES: That is something that we are going to be considering later. Have you formed any opinions?

DR. ESTY: Well, I never liked this particular advantage farmers have, of course, ultimately. There was a farm in Irvington a few years ago, a great big farm, right in the center of Irvington, and they paid practically no taxes on it at all because they wanted to keep it as a farm, but that isn't a suitable location for a farm, and the person who was holding on to it finally sold it and made himself several millions of dollars. That's sort of a subsidy to his advantage. This is the sort of thing that happens if you began to do the sort of thing we did in respect to our farm land.

One last thing, if I might. If I were a slum owner and I felt compassionate for my people in the slum, in Jersey City, if you will - then, of course, if I did improve the slum, I would be socked down with an increase in tax. So that's the reason why I, as a slum owner, would not improve and that's the reason why I may ultimately even desert the property instead of improving it. These are the incentives, or the negative incentives.

MRS. KLEIN: May I ask you one question?

DR. ESTY: Oh, surely,

MRS. KLEIN: I'm sorry that I didn't have a chance to see this in advance. I'm really not very familiar with this but I will study it. There was a speaker earlier this morning -

DR. ESTY: Yes, Mrs. Little?

MRS. KLEIN: - who talked about the importance of preserving open land. How does this work out in this plan?

DR. ESTY: I think she had some rather good points there. Actually the wetlands, except for their neighborhood to Atlantic City, if you will, or the Hackensack meadows, etc., tend to be of lower assessment in their location than if they were nearer a city. See? But if you do, you simply have to then do as she suggests. In order to preserve the wetlands for conservation, it will take some special acts because, for instance, in South Jersey, the whole city of Atlantic City is part of the wetlands actually even though it is not wet anymore - as far as the bill is concerned, if I'm not mistaken. So obviously it would have a high site value tax on it, but the improvement tax would be on it also. But if it is raw land and if it is unused land and if it's out a ways in Burlington swamps and up those rivers, then the site would come in for much less tax. This is one of the advantages of being a farmer. The farmer is usually far enough away from the center of population so that he doesn't have to pay much inherent site value. But if he gets close to population, then his land might be used for some other purpose. If, on the other hand,

you preserve the wetlands specifically, then you have to have some special legislation for them.

MR. JOHNSON: In spite of the Farm Land Assessment Act, our farm land is disappearing rather rapidly.

DR. ESTY: It's bound to, yes.

MR. JOHNSON: I take it you believe that Act to be inequitable?

DR. ESTY: Yes, I do.

MR. JOHNSON: If so, how would you help to at least slow down the disappearance of our farm land?

DR. ESTY: Well, again, if you talk to farmers, as I have, because I have been involved in migrant programs and things of that sort - frankly, of course, they recognize this is true and they recognize also that they've got an act that taxes in their favor to keep them as a farm as long as possible. When they ultimately put the land on the market, they will make a killing, which is perfectly legal. But this is the thing which in a sense is a silent subsidy for those people who can do this sort of thing. But somebody has to pay for it on the other end.

MR. JOHNSON: But you haven't any specific suggestions with respect to changes in that Act, I take it.

DR. ESTY: No. That Act I would study, if I were you, by tax maps exactly what it really might be for the whole State on a graded tax. Now this is going to take a lot of effort, but we have our computers now, we have simulated models; we have all kinds of ways. When you once do this, then, as Denmark did almost a hundred years ago - they reevaluated it about every five years until the end of the second world war.

Once you do that, you can keep it abreast and with our computer system you can go ahead and do an accurate job on rural assessments by assessors who are by law, as you know, supposed to be qualified for this sort of thing.

MR. JOHNSON: Thank you.

Now counsel has a number of questions.

MR. MILLER: I have one or two by way of clarification, and a series by way of application.

As I read the paper I take it that the proposal is not that ultimately all property taxes should be limited to site value but that improvements would remain -

DR. ESTY: That was only true of the analogy - to give you the analogy. I don't think that's necessary.

MR. MILLER: I thought it was no longer part of the proposal. At one time it was.

DR. ESTY: No, It is not part of the proposal. I do think it should be stationary as it was in South Fields, Michigan, where they increased the tax very much on unused business land. You may know the story of South Fields. But I don't think it's necessary to go 100 per cent no property tax on improvements and 100 per cent on site value. We don't need that.

MR. MILLER: The next question is almost self evident. What percent would you put on improvements as compared with land?

DR. ESTY: Well, that would depend upon the need for your revenue and as much of the school cost should be placed upon site values because, as I say, they are socially created for services. And, too, this will gradually go up. It must not go as slowly as it has in Pittsburgh and in Pennsylvania second-class cities where it is kind of lost sight of practically. It has to go a little faster than that but you will find that it stimulates growth and development and it gets rid of suburban sprawl, which is something again you may wish to discuss in committee.

MR. MILLER: I was going to ask about that in a moment. If then you propose that the way you will shift the burden from improvements to land or to site values, as you say, is to have the site values absorb the increasing cost or some part of the cost of schools -

DR. ESTY: Because it's a natural source of revenue for the community which, as I say, was socially created by the population. Therefore, it's a logical cost - a source of cost for schooling.

MR. MILLER: On the average, let us say, not in all municipalities by any means, especially not in the big cities, but it's a school cost for about 55 per cent of the total amount raised from property tax. And you are saying that you would shift that half approximately of the property tax load now borne by both land and buildings to site values of land.

DR. ESTY: That's right. And that part of that should be taxed to the State for the operation of schools, statewide, which is one way in which Hawaii is doing it at the moment, although there is some dispute about that being desirable. But it can be done. It is quite flexible.

MR. MILLER: That's a separate proposition. You could still retain local assessment and taxation of land.

DR. ESTY: Yes, but then part of that would be shared with the county and the State just like they do it now.

MR. MILLER: Yes, as at present. In those terms, to get back to the effect of such a proposal on both open space and particularly agriculture, which is an economic open space in many ways, if you take a community, let us say, which is purely agricultural and whatever cost of government has to be borne, has to be borne by the land within that political subdivision -

DR. ESTY: That's right.

MR. MILLER: - your sight value approach doesn't really change the tax burden in such a community, does it? You just have to have a higher rate on the new base, if you eliminate improvements.

DR. ESTY: No, if the community is small, and we have all these little communities in New Jersey, obviously even in the center of such a community the site value tax

on a corner - on the main corner - would be infinitely less than in a larger community, or city obviously, because of its smallness and its population.

MR. MILLER: Also a very small part of, let's say, the total town -

DR. ESTY: And the farmer pays relatively little because he has a lot of acreage, and he pays less than a homeowner would at the fringes of the town. If the homeowner has a home on the farm, that's all right.

MR. MILLER: I don't follow that. I think that Mr. Haines asked - I wasn't sure I understood the answer. Since a certain number of dollars must be raised and if all the property owners in the - this is a theoretical question - in the community are farmers, how will the site value tax affect the number of dollars of tax they pay, not the value assessed but the rate times the assessed value to produce dollars of tax.

DR. ESTY: I can only say again that the farmer on his farm and for his farm pays a very low relative rate for his site value. If he conducts business in the community and you have stores and banks and equipment, etc., that ups the site value, so that the community will have revenues come in in proportion to the area that it serves. It's in the township. On the fringes of the township you pay less.

MR. MILLER: That's true from the community standpoint because all they have to do is raise the rate if the base shrinks. What about the individual farmer, the amount he pays? Would it be affected in any way?

DR. ESTY: We hope you will see that he will have less on his production, on his improvements, in the same way that the community itself does, the town. And where this has been tried we find they do n't have to have government subsidies. Of course, if there is oil on there he is even better off, because those royalties will then go to the State.

MR. MILLER: This really leads into my next question, the exploitation of the economic site value. Isn't there an influence contrary to what you suggested; namely, if the site value alone is taxed, we eliminate improvements for a moment because we will shift now to the site- this makes the actual cost of deferring the enjoyment of that interest so much higher because the tax on the land would be higher, potentially so. Doesn't this induce a premature improvement so as to reduce the amount of open space and in fact to cause some sprawl, produce production or economic income from the land?

DR. ESTY: The reason for the sprawl is that people have to go further and further out to get the land they can afford to buy and because of its speculative content. You see, we have the true site value and then we have this tremendous speculation on it. If a highway is going to go down, who knows about it first? I could tell you but I'm not. But the point is then that people, in order to find land cheap enough to put a factory on it or a home, have to go all the way out, whereupon everything else follows along and you get your sprawl. Now if the land is properly used - look what happened to Los Angeles years ago. They went out 20 miles in absolute vacant land and all the sewers and supplies and facilities are in there. This is the waste we have used. It will be more concentrated but it will make it better distributed according to its location. And you have open lands again, so you won't have to go out so far if you don't want to.

MR. MILLER: This is not clear unless site value taxation will reduce the price of land.

DR. ESTY: It will.

MR. MILLER: It is negative capitalization.

DR. ESTY: If you go to a point, the market price is the balance of what you take - the market price minus what you pay taxes on. If you tax the economic rent, which is the real word for it, you will get to a point

where there can be very little speculation left and the market price of that land becomes very cheap, because you can still do business on rental land even if the rental land belongs to the community, or to Columbia University, or something. So you see the speculative amount is higher when the sites are underassessed. They make more of a killing on it. Look at what happened when the Verrazano Bridge went across. The boys in New York - and I could name those too - bought up land in Staten Island for \$500 an acre and now they are getting \$60,000 an acre, before anyone else knew anything about it. This is the inequity and the injustice involved in this and it hurts the poor person, because everything then has to be more expensive - food, etc., etc. Right?

MR. MILLER: I'm not sure.

DR. ESTY: I know you're not, and I shouldn't talk to a renowned economist like you.

MR. HAINES: Just two short questions, Doctor.

Your site value concept could not be administered under our present farm land act.

DR. ESTY: Yes, it can. You need no constitutional change. This has been clearly set forth in our 1947 Constitution.

MR. HAINES: Would these acreage limitations that we -

DR. ESTY: Oh, you may have to change some of them.

MR. HAINES: Well, that's what I mean - under the present law, we couldn't.

DR. ESTY: This can all be done by the Legislature without a constitutional change in New Jersey.

MR. HAINES: And your site value concept is in effect a class classification, isn't it?

DR. ESTY: In part, except it's a graded one without the usual elaborate exceptions which classification sometimes tends to have.

MR. HAINES: Thank you, Dr. Esty.

MR. JOHNSON: Thank you. Our next witness is Mr. Augustus Nasmith, of Newark, representing the

Association of New Jersey Railroads.

AUGUSTUS NASMITH: Mr. Chairman, I am not going to attempt to read this statement. I would just like to take about two minutes.

Railroads pay a classified property tax and thus we thought we should submit a statement to this Commission. Doctor Miller has lived through three studies on this subject by the Tax Policy Commission, and I am sure he can answer any detailed questions much better than I can.

Briefly, our statement points out that based on those three separate studies railroad property taxes have been reduced in several stages since 1948, and our major purpose in presenting this statement to you is to point out that unfortunately, since the last major reduction in railroad property taxes in 1966, our economic situation is even worse than it was when the Tax Policy Commission recommended reduction, which was implemented.

We have in our conclusion suggested that perhaps a further reduction is warranted. We have not submitted any specific proposal as to amount. We have also included a suggestion for two rather minor exemptions under the sales tax law which may not be within the specific province of this Task Force but we believe is in the province of the Commission as a whole.

To sum up, our purpose is to advise this Commission that our economic situation in relation to the present railroad property tax has worked and that we hope you will consider the railroad property tax in that light and that, as your studies proceed, we would be most happy to cooperate with the staff in submitting further information or working out any specific proposals.

That's all I have to say now.

MR. JOHNSON: Any questions?

Mrs. Ann Merchant of the Hunterdon Taxpayers Association, Is Mrs. Merchant in the room? (No response)

MR. JOHNSON: Mr. Charles Pierce of East Orange.
Mr. Pierce, you are paired with Mr. Okin. Is he here?

MR. PIERCE: He is out putting a dime in the parking meter.

MR. JOHNSON: I see. Did you intend to split the time?

MR. PIERCE: Yes, we did.

MR. JOHNSON: How about the dime - do you split that too?

MR. PIERCE: Yes. Everything is split even, even.

MR. JOHNSON: You have achieved equity.

MR. PIERCE: Somewhere in life it is happening.

MR. JOHNSON: Shall we flag you down at five minutes?

MR. PIERCE: O.K.

C H A R L E S P I E R C E: I am Charles Pierce, Former Model Cities Director in East Orange and presently, among my several activities, teaching Urban Government.

Mr. Okin has held the following positions in city government: He has been Director of Property Taxation for East Orange, former City Counsel. He has been Counsel to the Joint Legislative Tax Exemption Study Committee and he has been special counsel to Newark on tax matters.

Mr. Okin and I have conducted several research studies on the impact of taxation in the urban scene. And Mr. Okin is coming in right now.

MR. JOHNSON: Mr. Okin, you are going to take the second five we understand.

MR. OKIN: That's right.

MR. JOHNSON: All right - fine. Let's proceed.

MR. PIERCE: The basic purpose of this duet was, based on the kind of work that I have done in the past, I wanted to underscore some of the devastating impact that the high tax rates have had on many aspects of community life, particularly on the older cities, and then to turn it over to Mr. Okin for suggestions on some alternative ways of dealing with this situation.

One of the most devastating impacts, I believe, is in

the regressive nature of the property tax. Citing a study that is recorded in Dick Netzer's book, "Economics of the Property Tax," I will quote as follows:

"As regards the incidence of the property tax, it has long been the conventional wisdom that the levy is a regressive one, that its exactions relative to income decrease as household incomes rise. This regressivity is a quite dramatic aspect of the taxes functioning in New Jersey. Indeed, outside of a flat rate poll tax or a particularly maladroitly designed sales tax, it is hard to conceive of a tax whose incidence pattern would be more regressive than the incidence of the state's property tax at present."

The second difficulty is that families with high incomes are really encouraged to leave the community by public policy. The wide variations in effective tax rates force an unhealthy migration pattern. In 1969 in Essex County alone, the range was from 7.08 in Newark to 3.05 in Millburn. I am sure you are familiar with the fact that two recent New Jersey studies have documented the same point. One is the select legislative committee on civil disorders and urban problems. And in my statement which will be mailed to you, the quotation is included. Also the same conclusion was drawn in the Report for Action by the Governor's select Commission on Civil Disorders.

When the family migrates from the high tax rate area to a lower one, the question that we face in the older cities is: What happens to the new arrivals? They are usually families with lower incomes who often have greater needs for public services and they still face the high property tax. Survival often dictates doubling up. In doubling up, legal and illegal conversions are made and the extra individuals or families help pay the tax bill. This old house now endures increased use in its old age.

Looking more at the economic impact, when you combine the property tax with the income tax, private expenditure for

owner-occupied housing is discouraged for low income families and encouraged for better off families. This is a dangerous public policy. Housing should be and is by national legislation considered a basic necessity to which every American has a right. Dependence upon the property tax in New Jersey forces conscientious local officials to seek good ratables for existing and anticipated vacant lands.

The municipality's citizens may need just the opposite, a park or a library which produces no public revenues. Often in the older cities, the municipality is forced to have an extensive staff of property inspectors. Homeowners and apartment owners are pushed and prodded to keep up their places. There is certainly evidence to suggest that the high property tax can act as a disincentive to maintaining one's property. It certainly does not encourage.

MR. JOHNSON: I am sorry, Mr. Pierce, your time has run out. Perhaps Mr. Okin will pick up your trend of thought or you can extend your remarks after we have heard everyone.

J A C K O K I N: In going over these various problems with Mr. Pierce, I think the first point that I would like to make is more or less evident from the chart which is right above you gentlemen's and lady's heads, dealing with the burden and where the money goes.

The first suggestion to help solve part of this problem deals not with perhaps the collection of the tax as much as it does with the distribution of the tax funds. It seems to us that the school costs, and perhaps some of the county costs, are the main factor in the imbalance in the property tax today.

It is our suggestion that the school costs be borne by the State and be first on a system which would enable the municipality to pass a budget which would then be approved perhaps by a State-elected board, which would have final approval over the budget. When these total budgets

were accepted, it would be a total school tax for the State which would then be used to raise whatever moneys were necessary throughout the State of New Jersey. Right now within the State of New Jersey - and I think it is common knowledge - certainly it is by lawyers who ever dealt with planning - there is tremendous economic pressure not to bring children into communities, not to bring houses into communities, not to build apartments for smaller families, and the problem which is involved is the problem of the schools.

Under this plan, the school costs would be the same per unit of value throughout the entire State of New Jersey. No taxpayer would either be forced to flee or could flee to another jurisdiction in order to escape the burden of education. That is our first concrete suggestion.

There are also some problems that deal with the administration within the taxing system. There are general inequities in taxation throughout the State. Some of this is because some of the assessors are inadequately trained. There seems to be no particular purpose, as far as I can see, why an assessor who is essentially supposed to be a trained land value expert should be elected to office and be subjected to a popularity poll. It is our suggestion, therefore, that assessments be made on a statewide basis with a statewide assessor. This would allow a uniformity of assessment throughout the State and a uniformity of policy throughout the State so that the same taxpayer - the same problem - would be treated in a similar way. I think many of our assessors do a very fine job and I don't mean to criticize any assessor. I know Mr. Haines and some of the others very well. But I feel that this whole matter of assessment should be one which is moved out of the political arena and out of the municipality and up into a statewide basis.

Our third suggestion is that this body carefully consider those recommendations which were made by the Tax Exempt Study Commission last year. I was counsel to that Commission.

I don't say that because I was counsel of that Commission, but the whole idea of tax exemption is an anathema to the whole idea of the uniformity of a property tax. The worst example of it is the farmland assessment in my opinion. Because if you start out with a theory that land is the ultimate source of all wealth, which is the 18th century feeling that is back of the property tax today, you take away from this theory that one area of taxation in the State of New Jersey which is directly dependent upon land, farmland production. If there was one area that should be subject to normal taxes, it should be the farms. And I don't argue with the reasons. They were good and sufficient reasons. You want to preserve green acres and keep farms. If that is a policy decision, so be it. But to the extent that these exemptions can be limited, they should be limited. And any moves in these directions, I think would help to equalize the property tax throughout the State.

The last point, since I only have about 30 seconds left, is that the functions of the judicial and the administrative arms of the tax assessing and tax review authorities should be divorced. We should have a Tax Court within the State of New Jersey so the taxpayers, if they are aggrieved, would be only subject to one hearing instead of having a multiplicity of hearings. The judicial system should be under the control of the court so that decisions are made promptly. Right now there is a lapse of several years sometimes between a hearing and a decision and neither the municipality nor the taxpayer knows where they are going or when they are going to go. And my time is up.

MR. JOHNSON: Thank you, Mr. Okin.

Drawing from your specialized experience, what exemptions would you allow to remain?

MR. OKIN: My personal feeling is there are some constitutional problems in the whole exemption area. The only exemptions which I believe should remain are those exemptions which are created by ownership by a state or a

governmental body. I think all other property should bear its taxation.

Now if you want to pay some sort of a subsidy to those other groups perhaps who are not getting a tax exemption, I say then do it as a matter of course. Pay them a cash subsidy. But the idea of exempting, for instance, a hospital - and we all agree hospitals should have some relief perhaps - a hospital serves an entire area. Just because someone decided to put a hospital in a particular township, doesn't seem to me sufficient reason why that township should have to pay the whole cost of the hospital - the same with private colleges. I firmly believe that colleges should have some help. But it ought to be a direct subsidy.

MR. JOHNSON: Public buildings are the only ones you would exempt. Is that correct?

MR. OKIN: Public buildings - yes, sir.

MR. JOHNSON: What relief would you provide for cities where there are heavy concentrations of public buildings, such as the one we are in at the moment?

MR. OKIN: I think in those instances there is some authority on the books already for a concentration of publicly-owned land. In your tax law, where a municipality's land I think is more than 9 per cent - I may be wrong - State forests, the State pays a subsidy to the municipality or pays the taxes above that 9 per cent. I think the same thing should be done with ---

MR. JOHNSON: A negotiated amount in lieu of taxes?

MR. OKIN: A negotiated amount in lieu of taxes.

MR. JOHNSON: But you wouldn't tax public buildings.

MR. OKIN: No, sir. I don't see any point in taxing public buildings.

MR. JOHNSON: Well, a city with a concentration of state buildings might tend to disagree with you.

MR. OKIN: I think it is clear in the last analysis the State is going to make this determination.

MR. JOHNSON: You are giving me a practical answer. Any questions?

MR. HAINES: Yes, I have a question. I was very much interested in some of Mr. Okin's comments regarding the Tax Court. Would your thoughts on that include both the administration of appeals on the local level as well as the State level?

MR. OKIN: I see no point in having two levels of appeals. I think that a statewide court with competent judges should be able to dispose of it. And if a taxpayer becomes aggrieved after that particular disposition, then he can always go to the Appellate Division.

MR. JOHNSON: Do you have any notion as to the number of appeals which are taken annually at all levels?

MR. OKIN: I would guess in Essex County perhaps eight or ten thousand. It depends on whether you get a revaluation in a particular county or not. They are able to dispose of them rather rapidly now. I don't see any reason why a competent group of judges who are trained in tax law and who have sufficient background in real estate value wouldn't be able to dispose of them at least as fast as county boards and probably a lot better, as long as they weren't bothered by the effect their disposition had upon the tax rate of the community. The problem now is that the county tax boards are in a position where they try to sustain the taxing levels of the community. As soon as they do that, it becomes unfair to the taxpayer because he becomes a victim of policy and his individual case may have merit but may be decided against him.

MR. JOHNSON: Are there questions of either Mr. Pierce or Mr. Okin?

MR. MILLER: This can go to either Mr. Pierce or Mr. Okin. First, on the encouragement and discouragement of the property tax particularly - or its regressive effect first - did you find particularly in East Orange that it was clear that this regressive effect was apparent in any particular income level or was it throughout the scale?

MR. PIERCE: Yes, what we found was that in the older neighborhoods, which naturally attract low-income families

where we were having the greatest number of what we later identified was first conversion requests and then what we suspected were illegal conversions. Mr. Okin was attorney during much of this time and could lend his own insight.

MR. OKIN: The socially regressive aspects are tremendous, especially in the area of property maintenance. The tax is something which has got to be paid first, otherwise the owner loses the building. When he starts to look around where he can save money, he can't look at the taxes and he can't look at his mortgage financing, but he starts looking at his repairs and maintenance. As these buildings become older, the population of the building changes. I firmly believe that a building is like a factory or like any other usable article. When it gets old, it starts to reach the end of its economic life. These buildings in East Orange have transferred ownership and at the end of their economic life have been asked to sustain a tremendous burden that they didn't have before.

The owner's problem, therefore, becomes one of funds and the only place that he has left for money, because of the high rates of taxation, the high services which are required, etc., is to look to the repairs and he starts skimping on the repairs at the time when he should be maximizing the repairs.

MR. MILLER: Isn't it partly that he is trying to recover his capital investment out of current rent charges?

MR. OKIN: As a matter of fact, these people who buy these buildings have very little capital investment. In the inner city a building moves at practically no cash.

MR. MILLER: So he is trying to cover his debt service, which is his mortgage amortization and interest --

MR. OKIN: That's right.

MR. MILLER: His investment, in other words, he is trying to get out of current rents.

MR. OKIN: Yes, he is trying to get his investment out, but he is never successful.

MR. MILLER: I don't know. Are taxes any more a villain in the picture than anything else?

MR. OKIN: Well, in a city like East Orange the tax burden is equivalent to 35 per cent of the gross rent. If you start to look at an apartment building, you know that this is a level of taxation which an apartment building can't carry. If you figure a building should require perhaps 30 or 35 per cent for maintenance and then you figure 30 or 35 per cent for taxes - and in East Orange it is certainly 35 per cent - you have 70 per cent of your income now used for taxes and maintenance, which leaves you an insufficient amount for the equity ownership or the financing, and you just cannot bring these three figures together.

MR. MILLER: You are not making the point there should be no property tax --

MR. OKIN: Oh, no.

MR. MILLER: [Continuing] -- as one of the earlier speakers did.

MR. PIERCE: Our point is that there comes a breaking point where it has a detrimental impact. One of the last recommendations that we were going to make was that there should be some investigation of an incentive in the property tax to encourage reinvestment into the property.

MR. OKIN: Along these lines, we have suggested that an incentive be - perhaps if an investor in this particular situation made long-term capital improvements to the building - and I don't mean painting or decorating, but I mean he decided he needed a new electrical system or needed a new heating system - that actual cash credit be given to him against taxes to enable him to either bring the building up to modern standards or to maintain the building in a livable state.

MR. MILLER: Wouldn't a much more useful and more widely distributed benefit come about if you gave that owner a tax credit much like the investment credit under the Federal income tax? Why must it all come locally?

MR. OKIN: You mean on a statewide basis.

MR. MILLER: Yes, or a Federal basis. If he had an investment credit much like one would have gotten for investments in productive goods and productive machinery and equipment, would it not be a solution if an investment credit were available nationally for such owners for socially desirable improvements?

MR. OKIN: You mean as against his income tax?

MR. MILLER: Yes.

MR. OKIN: Well, on these buildings there is usually no reason for him to pay any income tax because by the time he starts writing his depreciation, his repairs, interest and other expenses, there is very little income left to tax. Investment credit at that point would be meaningless.

On the other hand if you encouraged him with some reduction in his taxes, he might be more encouraged to take that money or even take an assignment of that money and pledge that money ---

MR. MILLER: Encourage him by reducing his debt service.

MR. OKIN: I would like to, but I think the banks may have some objection to that.

MR. MILLER: One other point - I think it was Mr. Okin who made the proposal - that the total of all school budgets be added up, sent to Trenton, approved by a board, which I think you said should be separately elected, and this money then returned to the school districts to be spent by them. Would you as part of that proposal first set standards for these budget approvals so a higher budget would not be approved?

MR. OKIN: I think that some of the school districts which are in most dire need probably are not getting sufficient funds right now. So I wouldn't try to set guidelines that you couldn't have a higher budget. I think the fact is that the Commissioner of Education in this State has the ultimate power to approve the budget at this point anyway in a Class VI or a Class V school district.

MR. MILLER: No, he doesn't. It is only where it is voted down.

MR. OKIN: Where it is voted down - that's right.

MR. MILLER: But the sky is the limit.

MR. OKIN: The sky is the limit if the taxpayers are willing to take it. But what I am saying is there is this power which reposes in the State at this point. And assuming you had a local board of education which acted in a reasonable manner, I think it would be workable. The State already sets up standards. When the State Board of Education sets up standards, it is just like lightning hitting the municipality.

Several years ago, for instance, the State decided everybody needed automatic fire alarm systems in schools. Now I won't argue the merits of whether these are good things or bad things. All I know is that it ended up costing the City of East Orange about a quarter of a million dollars to put in this system and that was decreed by the State. If they are going to decree this type of thing, then they ought to have some responsibility for paying it. As far as I am concerned, if they approved the entire budget and decided what they wanted in addition to that - fire alarm systems, that kind of thing - fine, as long as the money is available to pay it.

MR. MILLER: And you would cut back if a school district decided to pay much too much to its teachers judged by the State standard. You wouldn't let them pay that.

MR. OKIN: No, sir. I would make the State Board or the State body have ultimate responsibility for that reviewing.

MR. JOHNSON: You are not talking about a foundation program then; you are talking about real control.

MR. OKIN: That's right.

MR. MOWERY: Mr. Okin, we have heard several suggestions that the State take over the school budgets. How do you propose the State would raise the revenue to support

the schools?

MR. OKIN: Through the property tax. If there is no other source, it is going to be the property tax. I would like to see some other source of income. The State has whatever taxing powers it might have available. What I am suggesting is that if the State did take it on on the basis which I am suggesting, there would be no way in which people would be encouraged to move or discouraged from being in one community or another because of the educational facilities or the lack of them. People would be able to build apartment houses and you would find more living space because people couldn't run to avoid school taxes. They would be there.

MR. PIERCE: But they would be equalized across the State.

MR. MILLER: But they wouldn't be, not if you allow them to spend more money than the State ---

MR. OKIN: The payment would be equalized by the property. In other words, there would be a statewide rate.

MR. MILLER: Didn't you say though you would allow a district that wanted to spend more money to do that on its own?

MR. OKIN: Subject to State review.

MR. MILLER: It still has to be approved?

MR. OKIN: Sure. In other words, the idea is that the taxes would be collected uniformly. They may be spent in a non-uniform way because of the actions of a State board. But this is really the problem that is before the communities. Numerous communities just don't have enough money today to run their schools and some have no students and are tax shelters.

MR. MILLER: It would raise the taxes in some districts and lower it in others.

MR. OKIN: Yes. There would be a uniform school tax.

MR. JOHNSON: Further questions? Assemblyman Dugan?

ASSEMBLYMAN DUGAN: Mr. Okin, as a companion measure

to your suggestion, are you advocating some statewide authority fix teachers' salaries since that constitutes about 75 per cent of the school budgets in the municipalities throughout the State?

MR. OKIN: As a practical matter, it would be good if the salaries of teachers were uniform or uniformly fixed. I would agree with the concept. However, I don't think there is any way of achieving this unless you made the teachers State employees and the State directly negotiated the salaries with the unions.

ASSEMBLYMAN DUGAN: My next question concerns East Orange's prominence in that it ranks number 11 out of all the municipalities in the State in the effective tax rate. East Orange has 6.61 as its effective tax rate. Now do you think that your plan of spreading out the costs of education will be any great boon to the economically marginal residential properties in East Orange?

MR. OKIN: You would have to work out the details and see exactly what the State budgets would be and what would be produced. I think if it were done in connection with a statewide assessment where we would get a uniform policy and uniform values fixed throughout the State for real property, it would drastically reduce the taxes in a city like East Orange.

ASSEMBLYMAN DUGAN: In East Orange, as in other communities, the tax dollar is approximately divided into thirds. One for the cost of education, one for the cost of county services and the other for the cost of municipal services. Is that so?

MR. OKIN: No, I believe it is a little more than that on education. My recollection of the last figure was it was around 50 to 60 per cent.

ASSEMBLYMAN DUGAN: 60 per cent?

MR. OKIN: 55, I think.

ASSEMBLYMAN DUGAN: 55 or 60 per cent of the tax dollars raised in East Orange are for educational costs?

MR. OKIN: Yes.

ASSEMBLYMAN DUGAN: What is the breakdown of the other 40 per cent, the county and municipal?

MR. PIERCE: Most of the rest is municipal, about 25 per cent. If it is 55 and 25, how much is left? The county is the smallest per cent.

ASSEMBLYMAN DUGAN: Do you know if that situation prevails throughout the State?

MR. PIERCE: No.

ASSEMBLYMAN DUGAN: Is East Orange peculiar in that respect?

MR. PIERCE: I think you tend to find that the larger the city, the more urban it is, that the cost of the municipal government is higher in relation to a more suburban community. There the cost of government tends to be less and the school bill tends to be the largest per cent.

ASSEMBLYMAN DUGAN: You are characterizing East Orange then as a suburban community.

MR. PIERCE: No. I am characterizing it as an urban. It is just that the differences are much greater. In a much more suburban community you may find the education bill goes as high as -- I think one of the Essex County towns I looked at recently, it was about 65 or 70 per cent and the municipal and the county taxes were just about equal. As the urban demand for municipal services increases, you find the increase in taxes tends to go for municipal taxes, for their resources.

ASSEMBLYMAN DUGAN: Mr. Miller, is that the situation that prevails?

MR. MILLER: I think the figure in East Orange is 39 per cent schools.

MR. PIERCE: Is it that low?

MR. MILLER: In other municipalities, it does run higher, as you say.

ASSEMBLYMAN DUGAN: Let's assume it is 39 per cent.

MR. MILLER: I get it from an unimpeachable authority,

the New Jersey Education Association, the Research Director. You can't argue with that.

MR. PIERCE: Give me a minute and I will get it.

ASSEMBLYMAN DUGAN: Let me ask you to phrase your response in terms of 39 per cent rather than the 60 per cent that you suggested was the basis for your answer.

MR. OKIN: It is the total dollars that really count, not the proportion. We have a problem in East Orange where the school population has jumped, as I recollect the figures, in the last five or six years from a population of perhaps 8,000 to in an area of around 12,000 at the present time. It is not only that the numbers of children have risen so dramatically, but there is an investment which should be made in plant and education to take care of these children, which is just not being made in addition.

ASSEMBLYMAN DUGAN: Here is what I am suggesting by my question: I am suggesting that what you propose is not sufficient relief for these economically marginal residences that you spoke about before because you are only asking to relieve or to minimize approximately one-third of the tax bill of a given resident and you are leaving the other two-thirds as is. And accepting this 6.61 effective tax rate, it doesn't seem to me that relief is going to be particularly meaningful to those people that are marginally operating their homes. That is what perplexes me and that is what prompted my question.

MR. PIERCE: I think one thing we are looking at is incremental change. If we thought that it was possible to have huge changes in policy, we would be arguing perhaps in a slightly different manner. But the difficulty is that we realize living in the real world, small changes have to come about. And one effective way to begin to try to equalize the tax burden would be by the State assuming more of the responsibility for education. We agree - I think we both agree - that isn't going to provide the full relief that is needed by people who are really on a low income scale in East Orange or any other inner city.

ASSEMBLYMAN DUGAN: Speaking for the panel, I hope we can come up with a more sweeping revision than you suggest, so that we do take these other things into consideration. By my question, I didn't want to isolate your suggestion, but I wanted to indicate that we will look at it in the context of these other remedies that are offered.

MR. OKIN: There is no question that along with these suggestions other items could be included in such a transfer. If you transferred the function, for instance, for county roads and for some of the costs of county government into the same or similar kinds of arrangement, you would get much more relief for the taxpayer or you would have a more equalized kind of taxpaying. I am not so sure that the total relief would amount to much. The only way you are going to make the total relief is to come up with some other form of revenue. And if you come up with some other form of revenue, you can come up with substantial property tax relief because education erodes funds - I mean from other sources which are not now available.

MR. MILLER: Did either of you gentlemen have occasion to give any thought to the graded tax plan that Dr. Esty was describing just before you came forward?

MR. OKIN: I didn't have a chance to read the written material that he had and I really wasn't able to get the full thrust of his plan. I would like to see it.

MR. JOHNSON: Well, there are copies available here which you might want to study and give us your reaction. Are you through, Assemblyman?

ASSEMBLYMAN DUGAN: Yes.

MR. JOHNSON: Mr. Haines has a question.

MR. HAINES: Just one more question - My friend Jack Okin here made a recommendation that I am sure that the assessors throughout the State are going to be very much interested in, namely, change in the assessment from a local

to a statewide basis. Would you settle for a regional or a county in lieu of the State?

MR. OKIN: Well, make a proposal and I will tell you what I will settle for. I don't have the votes to do anything.

MR. HAINES: You are aware that assessors are subjected to a lot of harassment on the local level.

MR. OKIN: That's right.

MR. HAINES: Is that one of the reasons?

MR. OKIN: One of the reasons is it is such an unpopular position for a person to be in at a local level. He is under so much pressure. I have been an assessor so I know what happens in an assessor's office. The pressure is always on because you, Mr. Haines, are responsible for the high tax rate in Vineland and the taxpayers are unhappy because their tax dollars are too much. So you are the target. You happen to be a qualified assessor. There are certain other assessors that we know in the State who are elected to office and their next election now depends upon their ability to deal with the taxpayers. I could probably guess if a taxpayer came in irately, he might be more inclined to change an assessment than perhaps someone who is appointed, although there are other pressures.

MR. JOHNSON: Other questions?

MRS. KLEIN: You are not suggesting any substitute for a property tax but rather a different level of administration.

MR. OKIN: I am suggesting different levels of administration. I am suggesting that there ought to be, if anyone is interested, some alternative. Some dollars should come into the State by other than the property tax. I think Mr. Pierce made it clear that we feel that the property tax is a very regressive tax. I don't think as a practical matter you are going to abolish the property tax. There are ways within it to move out the inequities and if some people could think of some way of drawing in more money, if these were being handled on a statewide basis - the education or some other function were handled on a statewide basis ---

MRS. KLEIN: That is what I wanted to ask you. Do you really think that there is a way to abolish inequities within the property tax framework?

MR. OKIN: I think there are many ways in which these inequities could be smoothed over and the first would be a statewide tax assessing system. It is impossible. There is an example which is prevalent in the Essex County newspapers right now - the Elks Clubs. Some communities have been taxing Elks Clubs and some haven't. Numbers of arguments are being made. Despite what the law might say and what I may feel about it, this has been a policy matter which has been pretty much decided by the local assessors. This is not right. If they are going to assess Elks Clubs, all Elks Clubs should be assessed. If they are going to exempt them, then they all should be exempted. There are many inequities. There are problems about valuation.

MRS. KLEIN: Aside from Elks Clubs, is it possible really to assess, for instance, some of the industrial properties in the State? Is it possible to get fair assessments in a city like Newark?

MR. OKIN: Oh, I don't think there is any question that it is possible to get fair assessments in any community. It is a question of appraisal. If you have people who are trained and qualified to do the job, you can get proper assessments.

MRS. KLEIN: Do you have any idea what an appraisal of Newark would cost?

MR. OKIN: Reappraisals are very expensive and I don't think a lot of them are done competently. I think there is a shortage of people. I think if you put good assessors in charge of a program and it was statewide and you pooled your available manpower instead of having perhaps one good assessor in Vineland and another one up in Hackensack and spreading them all over but were able to pool the talent which is available, you would probably have much better

reassessments than you have right now. The problem now is that you go to a company and you are dependent upon what that company does.

In East Orange, the last quote that I had for a reassessment before January when I stopped being city counsel was about a quarter of a million dollars. That is for about 10,000 line items. Newark has about 50,000 line items. So I would expect it would be a million and a quarter.

MRS. KLEIN: Does that make it an expensive tax to administer?

MR. OKIN: I think we are at a point of time now where it doesn't need to be. If the tax assessment data were put on computers and were kept current by statistical and computer techniques, you could maintain your tax rolls at a very satisfactory level. Maybe five years ago I would have said it is expensive, but I think the expense could be solved. I don't think it is a major consideration.

MR. PIERCE: I think one of your questions, Mrs. Klein, was that when you consider the public needs in the State of New Jersey -- my feeling definitely is, and I think Mr. Okin shares in it, that the property tax cannot sustain the kind of taxation or cannot bring in the kind of revenues that are required for the public needs in the State. But our main thrust of argument, since you are the Property Tax Committee, is to try to show you why we feel it has to be limited and equalized. The needs are far greater than what we could ever hope to get from the property tax and we do need other income sources. Certainly revenue sharing from the Federal government is, I hope, an optimistic sign.

MR. MILLER: At what rate would you limit the property tax?

MR. OKIN: Doctor, I made a study of that. I really tried to find a relationship between the property tax and investment. In other words, I approached it from the standpoint of when the property tax gets to a certain point, is there a dropoff in investment in real property? Because

you would assume that the property tax was discouraging development. I looked at several selected cities and used the figures available of the Director of Taxation. I could really find no point at which investment was being curtailed, new investment, in real property because of a tax rate.

MR. MILLER: I might tell you we are engaged in a comparable study and I don't know what the result will be.

MR. OKIN: I abandoned this because I didn't seem to be getting any place and I used the effective tax rate. It seemed to have no relationship to investment.

MR. MILLER: Speaking of encouragement and discouragement of taxes, do you find the income tax discourages people any more or less than the property tax?

MR. OKIN: I don't think the income tax really discourages people as much as the property tax.

MR. MILLER: You could stop working.

MRS. KLEIN: When you said that taxes constituted 35 per cent of the cost of a rent in East Orange, is that the same as saying that a person is paying a 35 per cent sales tax on shelter?

MR. OKIN: That's right. You could say that.

MRS. KLEIN: In other words, if we tried to impose a 35 per cent sales tax on anything, clothes, furniture, refrigerators, televisions, automobiles, this would be considered unfeasible, right?

MR. OKIN: I would suspect you would have some trouble with that.

MRS. KLEIN: But we are effectively imposing a 35 per cent tax on the purchase of shelter.

MR. OKIN: That's right and that's occurring in East Orange. It is occurring in Newark and Jersey City and many, many of the other inner core cities. With rates of 35 per cent, the tax assessor now looks at you when you come in to appeal and he says, "What's wrong? We are only taking 35 per cent." And that's gross without any kind of deductions for

collections or vacancies or any other kind of expenses.

MRS. KLEIN: And this would be especially true in low-income types of families.

MR. OKIN: Absolutely.

MR. JOHNSON: What is the basis of your judgment with respect to the relative impact of the property versus the income tax when we do not have an income tax?

MR. OKIN: My feeling is that the income tax is a more consistent taxing base. The property tax is based upon a theory somewhere developed that the land is value. I think in the 20th century we find that value comes from economic production and services and other things which are relatively unrelated to land and, therefore, it is a poorer base.

MR. JOHNSON: Your answer has a philosophical base rather than an actual base.

MR. OKIN: Yes.

MR. JOHNSON: Thank you. Further questions? [No response.] Thank you, Mr. Pierce and Mr. Okin.

Next, Mrs. Ella Filippone of Basking Ridge for the Environmental Research Association.

E L L A F I L I P P O N E: It is a great pleasure to be here today. I am glad to be on before it is time to go home.

MR. JOHNSON: We are glad to have you, Mrs. Filippone.

MRS. FILIPPONE: I am Ella F. Filippone, President of Environmental Research Associates, Inc., Basking Ridge, New Jersey, and a member of the American Economic Association and the Royal Economic Society of London. I have been working as an economist since 1957, primarily on the Federal Government level. I have been associated with the Joint Economic Committee and the Senate Finance Committee.

It is of the utmost importance to begin to realize that the new ingredient in our economy is "Environment." All of our economic practices and theories must begin to be

revised because of the omission of environment in our computations, projections, and conclusions. We are beginning to develop some insight into some of these problems, however. Allen V. Kneese and Blair T. Bower, director and associate director of Resources for the Future, held a small working conference on the quality of the environment. They pointed out that traditional economic theory of natural resource use and allocation has little relation to many of the most pressing problems of environmental quality.

Among other things, they stated that landscapes and other common property resources are becoming increasingly scarce and valuable; private property and market exchange have little applicability to their allocation, development, and conservation. They said: "Man is not only overusing and misusing these resources, but is actually starting to affect the basic supply of some of them. . . . Our understanding of these resources and of the problems of management, analytical methods, policy, and institution-building, which they present, is primitive."

However, as those of us concerned with environmental quality delve into the problems, we begin to see an inter-relationship with the socio-economic system of today and certain of its inequities, which must be changed and broadened. We are all aware that our present economic structure is based on the profit motive, and, therefore, the property tax becomes more profitable when an improvement is placed upon vacant land; highways and new roads place inaccessible land open to the developer, and thus constitute the main threat to continued existence of the relatively small amount of undisturbed country still left. There is no organization established to prevent unspoiled areas from encroachment, and we economists have not yet been able to place a value on the many external benefits from vacant land.

Innovative use of the property tax could assist in this endeavor, I believe. For example, we could adopt the

principle of prime land use for farming; in other words, criteria could be established to determine the prime factor and any such land so designated could not be sold for development without a serious tax reversal over a lengthy period of time. Farmland not in the prime sector could further be categorized as secondary choice, and so forth, and the reversal period be less and less. Therefore, any loss would be recouped if the property is sold; and for a while environmental quality would be enhanced.

An alternative method could be a tax reversal for a smaller number of years with a graduated rate of interest for whatever designation the land may hold.

Similar tax benefits should be applied to large tracts of land held as open space by the private sector. When large parcels of land begin to fall within the perimeter of the creeping urban sprawl, the property tax rises and many owners find themselves forced to sell. Speculation enters in here also. When appraising such development projects, we must begin to contrast the short-term economic benefits with the long-range ecological costs resulting from such development. We must institute comprehensive planning for flood plains, wetlands, aquifer recharge areas, unstable surface and subsurface characteristics and areas valuable for scenic, wildlife and recreational purposes. We should structure our taxes so that organizations such as the National Conservancy, National Audubon, and similar New Jersey based organizations can hold open space land without any heavy tax burden. This type of land, which can also be categorized, if necessary, should be either completely exempt or also receive a special assessment.

In addition, we frequently find in areas where land has been bought for speculation, the quick resale. I feel that a special State capital gains tax should be levied on these sales. The revenue obtained via this source could be placed in a special fund to be used possibly as in lieu of taxes for certain types of open space lands.

The first annual report of the President's Council on Environmental Quality under the chairmanship of the well-known tax attorney, Russell Train, stated:

"Few cities have kept pace with parkland needs. . .

"The immediate economic pressure on a city to permit a parking lot or building on what might remain open space, or to use parklands as part of a freeway route, is often insurmountable. Nevertheless, the accelerating cost of land acquisition and the growing need to preserve open space in a crowded urban environment make the purchase of open areas a sound long-range economic practice, which continues to pay immeasurable dividends. . ."

New York City's Central Park is a tribute to the foresight of early planners in saving a large open area for the wellbeing of the public.

With the knowledge that we are the most densely populated state in the Nation, the easiest way to finance any project has been to look for higher ratables. At the present time, I believe most land in urban areas tend to be undervalued and the improvements on land overvalued for tax purposes. Consequently, landowners in our cities are discouraged from restoring structurally sound buildings or replacing deteriorated ones with new structures, since such improvements will raise the taxes disproportionately. We are penalizing via higher assessments the efficiency of the citizen who keeps his home and property in good condition and up-to-date with technology. A set of guidelines should be established utilizing advanced systems for appraising, such as cubic foot values, number of rooms, size, etc.

In addition, in the rural areas, where the taxes on undeveloped land are low, one finds tremendous spurges of development, while our cities are dying. This is particularly true of such cities as Newark and Paterson. I think you have heard quite a bit about that today. We see property abandonment, which is resold either for back taxes or at auction, and frequently cannot be sold at all. Because of

the losses of these taxes, some cities have given concessions to keep industry from moving into the suburban areas, which often leads to a deterioration of environmental quality, and also does not provide an incentive for individuals to live in an area threatened daily by pollution.

It seems most important to me that we cannot equate the property tax without also considering the effects of other forms of taxes within New Jersey. During the hearings on open space, we called for a complete economic systems analysis of the State of New Jersey. This would involve not only its entire tax structure, but many other factors which lead to a knowledge of how the State functions, encompassing both supply and demand. Cleaning up and maintaining a healthy environment is going to be expensive, and we must find ways of financing this addition to the already inflationary costs of running the State.

A considerable portion of the property tax is used for education, which must also be updated to include the concept of environmental education, a thoroughly exciting experience for our children. Dr. William Miller last week at the 40th Annual Meeting of the New Jersey Taxpayers Association discussed the subject of a uniform property tax for education, and in his opening statement pointed out that it "would solve some problems and create others." His conclusions stressed the need for continued study, with which I heartily concur.

Consideration should also be given to Dr. Billy Cook's use of the Wisconsin Circuit Breaker for aid to our elderly citizens.

Because of the time allocated to us today, I have only skimmed over a few suggestions. There would be considerably more to add when one begins to add the computation of percentiles, equations, etc. I would be most pleased to expand on any concept in which this Committee would express interest.

Our interpretation of the use of taxes, whether they

be the property tax or an income tax or any other form of tax must begin to seek to understand how things relate to one another and how they, in turn, relate to furthering the quality of life for all people presently as well as in the future.

MR. JOHNSON: Thank you, Mrs. Filippone. Questions? Any questions, Dr. Miller, after citing that authority?

MR. MILLER: I hesitate to start when I am ahead. I do have a question. I am not sure it is within the compass of what you have to say. You talk about innovative use of the property tax and an example is the principle of prime land use for farmland. Do I take it that you mean something different than our farmland assessment act we have now?

MRS. FILIPPONE: Yes, I do.

MR. MILLER: How would your proposal differ?

MRS. FILIPPONE: It stems actually from some tax laws in England at the present time. They have found that it is absolutely necessary to keep a certain amount of land in farming. It is necessary because you have to have a food supply. Therefore, the land that is best used - and you have your experts who can tell you what good land is - is categorized as prime. This land is more valuable as a source of growing produce and to be kept in the farm industry, if you might call it that. So they take this land out of the taxing sector and give it a very low tax rate. But it also can never be sold. In England, it can never be sold. However, my suggestion is that where you have this excellent farming land you take it out of the development area and keep it for farming for the farmer who wants to farm. If a farmer wants to sell to a farmer, fine. But if he sells to a developer - and every farmer who has this land designated as prime land would fully understand the implications of this - I believe in England it is a ten-year reversal. Then you have the appraised value of this prime farmland and your buyer must pay this huge amount of money. So the community does not lose.

It is my feeling if we categorize farmland as prime, and so forth, that you can get down to a point where you do have farmland that can be traded in the market place without any harm done to anyone and yet you still have your farms with your benefits.

MR. MILLER: Would you do the same thing with the location of industrial plants which I believe they also do in England?

MRS. FILIPPONE: You mean with going industrial plants?

MR. MILLER: You establish a location or a series of locations where industrial plants should be, according to planners' decision, and then you couldn't locate an industrial plant anywhere else, just as you must have farm use in the farm identification.

MRS. FILIPPONE: Well, I think it would depend on the industry that you are thinking about. You have to have flexibility. Certain industries, such as the paper industry, have to locate near water. But your land is stationary. You can move industry from one coast to another or to many other parts of the State if you like. But with the principle of land, you have so many different kinds of land within New Jersey itself. So I wouldn't apply the same context to industry because industry can be flexible and move.

MR. JOHNSON: I thought you said at first that the farmland, once designated as farmland, was farmland in perpetuity.

MRS. FILIPPONE: Prime farmland - that which is designated prime.

MR. JOHNSON: Then another classification of farmland, once sold to developers, is subject to a ten-year retro, the sales price being the assessed value for that ten-year period?

MRS. FILIPPONE: If this is what the Commission would decide. I think you can be flexible.

MR. JOHNSON: I am asking you ---

MRS. FILIPPONE: You want my opinion?

MR. JOHNSON: No. I thought you were describing what is done in England.

MRS. FILIPPONE: In England, the sales price for the land at the time of the sale is the basis for the assessment.

MR. JOHNSON: With a ten-year retro?

MRS. FILIPPONE: With a ten-year retro.

MR. JOHNSON: And prime farmland is farmland in perpetuity.

MRS. FILIPPONE: Yes. The prime farmland can never be sold unless there is an emergency.

MR. JOHNSON: How long has that system been in effect?

MRS. FILIPPONE: As far as I know, it has been about three or four years in some areas of England. This is not for the entire country. This is certain areas.

MR. JOHNSON: Thank you. Further questions?

MR. MOWERY: Don't we already have a safeguard in our farmland assessment act with a three-year roll-back, where if it changes use, it is subject to a roll-back?

MRS. FILIPPONE: But it is not enough - not enough for the best land. I have a scale here that I am suggesting. You have certain land that can be sold in the open market. But the finest soil that we have in New Jersey should remain in farmland. This is what this concept tries to explain. It relates also to open space because you have certain kinds of open space that contribute to the well-being of humanity. Your marshes, your forests, your trees - they cannot be replaced. There is this economic concept that has been passed on by Dr. Kiserling of the Committee on Economic Development that states that man has no right to alter the land so drastically that he cannot replace it. We have done this. A parking lot ruins the permeability of the soil. So we have to find an alternate way for the water to be absorbed. This is why it is so very important that we do find ways and means to let land remain in open space - the farm principle is one - and to give tax concessions to open space that is held either by the private sector or can have

some kind of easement put into it.

MR. MILLER: Can I try one other question of a philosophical type. All day we have heard proposals for one form or another of tax concession for socially desirable goals. What will be left for the municipalities to support government if we take all that advice?

MRS. FILIPPONE: I think you have to begin to balance your economy and you have to begin to find ways -- You can take your property tax for education and for welfare, for whatever you want. But there may have to be for housing, for example, Federal money coming into the program. You have to balance it, I think. And I think that the property tax has a very important role to play in restoring the quality of our environment. Not only will it play a role in the education of our children, but also in their health and well-being. We can't forget that.

MR. MILLER: Wouldn't this mean a gradual decline in the capability of local governments to support themselves if you take away the one tax they seem so able to use?

MR. FILIPPONE: You wouldn't take away a disproportionate part of it. I think there was a case recently - I am not sure whether it was in New Jersey or not - which said a certain percentage of a community could not be put in tax exempt land. This should also be a factor that is considered in your deliberations. This applies across the board, with religious organizations, etc. You put them all in the same pot in a community where you have tax exemption so that you don't have an unbalanced structure within your municipality. I think that a uniform property tax throughout the State is inequitable myself.

MR. MILLER: Inequitable?

MRS. FILIPPONE: Yes, I think so.

MR. MILLER: Why?

MRS. FILIPPONE: Because that takes some of your constitutional rights away from you, your ability to choose, your ability to develop as you see fit. If you begin to

make everything uniform, there is no choice. I want to live in the country with trees and open space. Someone else might want to live in a city restored as a cultural center. I think we must maintain the individuality of a citizen. The property tax in some ways as it stands now does this.

MR. HAINES: I have one question. In the last paragraph on page 2 of your statement you mention that you believe that most land in urban areas tends to be undervalued, whereas the improvements are overvalued.

MRS. FILIPPONE: Right.

MR. HAINES: If we proceeded to correct this from your standpoint, would the increase of the land value be greater or less than the decrease for the improvements?

MRS. FILIPPONE: It wouldn't. What I am trying to say here is what you have heard several times today, that when you have an improvement on your property and you keep it improved and you keep keeping it up-to-date with technology - you put your new electric system in, etc. - you are penalized for making improvements. In Newark, for example, some of these houses are structurally sound. As a matter of fact, my husband and I handled an estate recently of a house that was built in 1900. It was a fine house. It needed some fixing, some modernization. However, once this is done the tax rate goes up so high that it becomes prohibitive. It is the Vailsburg syndrome that was discussed at the New Jersey Taxpayers Association. The tax rate becomes so high that the person with the income to buy a \$20,000 house can't handle it.

MR. HAINES: You mean the tax bill rather than the tax rate.

MRS. FILIPPONE: The tax bill, yes. It was that \$1500 tax bill that Dr. Sternley talked about and we experienced this in Newark. It will spread out if we don't give these areas some incentive. This is why we come into the concept of a land tax, but giving an incentive -- again I don't know if I am building the lily, but I thought the investment

credit type idea that Dr. Miller discussed before would be a very fine suggestion. I rather liked that. I think we have to give incentive.

MR. MILLER: The nice thing about it is it would come out of the Federal treasury and not out of New Jersey's.

MRS. FILIPPONE: The investment credit incidentally in 1958 during the Eisenhower administration when this was put into effect for expansion of business worked beautifully. It was a 7 1/2 per cent investment credit. It worked and it did what it was supposed to do.

MR. JOHNSON: It worked so well it was repealed.

MRS. FILIPPONE: That is different.

MR. HAINES: It didn't last long.

MRS. KLEIN: Mrs. Filippone, on page 2 where you speak about a State capital gains tax on speculative land sales - can you enlarge on that in any way?

MRS. FILIPPONE: I would be happy to. We are all aware of our urban sprawl and we have our open land. Our entrepreneurs come out there and they buy it and then quickly sell it in, say, three or four months. This is because they have had the inside information sometimes that a highway may be going in or that some organization is moving out there and there will be a great demand for the property. This is happening time and time again.

I think on these quick sales a capital gains tax should be placed so that we have some benefit for land that has exemptions on it. It would be nice to put it in a trust fund to be used in lieu of taxes. I think as we begin to look at that, you will find that there are a lot of quick sales within this State. I know within our own community, which is not that booming, we have a lot of turnover of vacant land for speculative purposes. It is the new frontier, they call it.

MRS. KLEIN: What about land that is bought in central areas and held for a number of years and the housing allowed to deteriorate until zoning changes are arranged for

high rises or something and then the land becomes extremely valuable. That wouldn't be a quick sale.

MRS. FILIPPONE: No, that wouldn't be a quick sale. The capital gains would be handled similar to the way you handle your stocks. If you hold it for a certain period of time, it would receive short-term capital gains treatment. You see what I mean?

MRS. KLEIN: What is the time limit on that?

MRS. FILIPPONE: Six months.

MRS. KLEIN: And beyond that there would be no capital gains tax?

MRS. FILIPPONE: No. If you wanted to make it a year even - I mean, you have to be flexible. But I think where you have a quick sale where it is readily easy to determine that someone bought it because they knew the price was going to go up very quickly ---

MRS. KLEIN: And that tax would be deductible from a Federal capital gains tax?

MRS. FILIPPONE: Most probably.

MRS. KLEIN: I would like to ask you about your statement that you think that a uniform property tax assessment or a uniform property tax rate would be inequitable.

MRS. FILIPPONE: I do. I think then you lose your ability to choose. I think that there has to be a difference so that you have a right to --- I mean, we will develop as we continue to grow a monolithic society which I don't personally from my own point of view want. I think you can develop guidelines - you can develop a code for your assessors. You can, as the gentleman before me said, have State assessors to see that your assessments are equitable. But to make it a uniform property tax so that everything becomes the same and uniform ---

MRS. KLEIN: The only thing that would become the same would be the tax.

MRS. FILIPPONE: Well, wouldn't the next step then be uniformity of enforcement for whatever your tax is for then?

That's the route that I have usually seen in government.

MRS. KLEIN: I don't know what you mean.

MRS. FILIPPONE: Well, the property tax is used to finance your education and uniformity in education might sound fine, but you can never even get uniformity in two teachers. If you take it one step further, as the gentleman before me said, the State would have to hire the teachers. Then you have certain criteria and you may run into a situation in teaching, as you do with some civil service jobs, where you have someone there that is not suitable and you can't remove. I think Dr. Miller touched on this somewhat the other day. I don't want to hand the buck to him.

MRS. KLEIN: I heard him too.

MRS. FILIPPONE: But I think these problems have to be discussed and considered very seriously.

MRS. KLEIN: I think the only thing people are thinking about in terms of this is that in some towns and in some cities you have a tax base behind each child to be educated, which is a fraction of what the tax base is in another town where a child is to be educated. Do you feel that is part of the variety of choice that must be maintained?

MRS. FILIPPONE: I think we must have a variety of choice, yes. I think a variety of judgment must be maintained also. Otherwise, our economy will become, as I said, monolithic and I don't think this is good for the country. It is not good for the State. We haven't been this kind of a state and we don't want to be this kind. We have to become more flexible. We have to find a place for everyone. But to become totally the same - I don't think this is good.

MRS. KLEIN: So you think the child who is living - let's say by choice - in Jersey City, receiving an education substantially less valuable in cost than a child, let's say, in Basking Ridge or Bernardsville - that this is the kind of variety which we should maintain.

MRS. FILIPPONE: I can only speak from my own experience. I grew up not far from Jersey City. I am glad you used that

place because I know more about it. The school system I came from basically was not that great. I have chosen, because I have worked very hard, to move to Basking Ridge, which has possibly a better educational system. Possibly this is why I want my children to grow up in Basking Ridge. But I think that we highly underestimate the education system in some - I say "in some" - of our poorer communities. You have your calibre of intelligence. We know this. We know how some people study better than others. We have many examples of great people who have come out of the Lower East Side of New York who have achieved greatness. Our President is a man who did not go through a superlative school system in his early years.

Here again, I think if we can build in some kind of initiative factors within our economy, we will be far better off than coming up with uniformity which frequently leads to mediocrity, I am sorry to say. I would rather pursue the road of excellence.

MR. JOHNSON: Mr. Mowery, you had a closing question, didn't you?

MR. MOWERY: Yes. I get the feeling so often that it is a crime to make a quick profit in the sale of land. We are all speculators. Why is it more of a crime to make a quick profit in land sale than the stock market or a horse race? I mean, this is part of our economic system. I get this impression so often that it seems to be if you make a quick profit in the sale of land, it is a crime - you should share this profit with the general public. So if I make a quick killing in the stock market, why doesn't this hold true? Nobody is doing it today, but at one time ---

MRS. FILIPPONE: I think about two years ago I would have agreed with you wholeheartedly. But I think now we are beginning to realize that we are in an environmental crisis and that vacant land serves you more than developed land. And you are only going to sell your land at a profit so that someone else can either hold it to make a greater profit

than you did or to put a house or building or what have you on it. We have to begin to build into our tax structure and into our economy a new concept, which is what is best not only for the good of the public but for the health of the public. Our vacant land as it now stands does absorb. It does purify. It purifies the air. It holds the water. We have to have this. And because of these new concepts that are daily being developed - and as I mentioned, Resources for the Future is beginning to give us economists who believe this some backup on this. We are getting geologists and chemists - everyone studying the value of land use. They had hearings in Washington in the Senate Commerce Committee and then in the Senate Interior Committee on land use policies, under the chairmanship of Senator Jackson. It was unprecedented in its length and in the contributions that people have given to land use planning. We do not at the present time have a national land use policy and because of this, I think we must take some land and set it aside. That is why I think: Make your killing on the stock market if you can. Bet on the horse. But I would like to see this concept at least investigated considerably because it is for the health of people. It is for their well-being.

We have stress syndromes now too beginning to show themselves within our cities. We need the parks. We need some place for people to go to get away from the crowds and the humdrum and noise of the city.

MR. JOHNSON: Thank you, Mrs. Filippone.

Mrs. Helen Fenske, representing Green Village. Or should I say Mrs. Fenske from Green Village? I don't know whom you are representing.

MRS. FENSKE: I am not representing Green Village.

MR. JOHNSON: You are representing Mrs. Helen Fenske?

MRS. FENSKE: Right.

H E L E N C. F E N S K E: My point of view is very similar to Mrs. Filippone's. My paper is rather long, so

I will try to go through it hastily and not repeat too much.

I am Helen C. Fenske, former Director of the North Jersey Conservation Foundation, Consultant to the Office of Resources and Environment of the Ford Foundation, and presently Coadjutant, College of Agriculture and Environmental Science, Rutgers University. I am not an economist or an expert on tax law, but I make the following comments as one who has observed sufficient environmental patterns throughout the country to recognize the vital importance of tax structures on environmental quality.

In the past, the points of view of conservationists have been largely dismissed as being unrealistic and/or incomprehensible when economic policy and structures have been formulated. This inability to relate environmental values in meaningful economic terms still persists.

We feel the recommendations of the Tax Policy Committee will have a direct and vital influence on the future quality of New Jersey's environment. For this reason, an attempt should be made to explain the gap between the conservationists and the economists in the hope that the Committee can forge a bridge which will serve all interests in the State.

Simply stated, the terms that experts in each field use to form the basis for their projections are entirely different, and little or no research has been done, and this is nationally, to wield the two into a single integrated scale.

The conservationist speaks in terms of the essential externalities which, over the years, have been abundant - and free. These are clean air and water, and the natural resources and amenities which support life and make for a quality living. To many, conservationists have appeared to be merely preservationists, or obstructionists, but this is because open space preservation forms the base for clean air, water and natural resources. It is essential to a life-support system and should not be relegated to a fringe consideration.

Hence, conservationists measure the Garden State in terms of its once great versatility of terrain and resources - the lakes, mountains, valleys, rivers, coastline and estuaries.

I color this scale light green, blue and white with dark green, denoting its open space base, and I have this scale (indicating) representing one separate scale and this is where we started from.

Economic development and progress, with its demands for resources and services, represent the other scale. Its measurement has been computed in terms which many consider fairly concise - that of dollars and cents. The growth aggregate represents corresponding subtraction from Scale I, but this has gone uncomputed in measuring progress. The ideal situation would be a system to figure true costs of economic growth.

We are now in the position of having economic growth and development overcome the natural and physical resources of the State needed to support both progress and the population. The New Jersey Commission on Open Space Policy made the following statement in a preliminary report to the Legislature on 6-26-70:

"The remaining New Jersey open space lands are now nearly fully utilized to support the present densely developed and populated sections of the state. These open lands are essential to the environmental well-being of our present urban municipalities."

Yes, we will survive, but that survival may not be in livable terms.

I color this scale black and red for the future unless there are drastic changes in New Jersey's environmental priorities.

In other words, what I am talking about, as your economic scale goes this way (indicating), this scale goes this way (indicating), and it has never been computed or related. We are now up here and down here (indicating) and

this is when we are going to begin to go in the red because they no longer have resources from which to draw. It is essential and it has to be considered. No longer can we put our heads in the sand.

Very little work has been done anywhere to relate these scales in conclusive terms that are useful to the legislators, government officials and official bodies, such as the Tax Policy Committee, who establish policy. Nowhere is this type of research more needed than in New Jersey. If environmental factors are not now given the highest priority, New Jersey will surely become an environmental and economic disaster area.

Recommendations - I urge the Tax Policy Committee to:

1. Finance an immediate comprehensive study of the impact of property taxation and other tax structures on the quality of New Jersey's environment. This indeed would be unique for a state and I would think that you could for this reason get supplemental, maybe foundation funding or something of that sort. Because little or no work has been done.

2. Find new tax revenues to relieve the tax burden on local property.

3. Plan a specific source of steady funding for the State's growing environmental needs.

I have made suggestions relative to each of these points and I will just go over a few of them.

The State imposes tax burdens on local communities and has laws --- I didn't go to Scale III, but you all know what that is. That's the social services which goes up here. O.K. And that has never been related fully.

The State imposes tax burdens on local communities and has laws that cut into the property tax from which towns and cities must derive all their revenue. At the same time, local governments have little or no control over many of these expenditures. Major reliance on property taxation

means cities and towns cannot afford to build - or rebuild - with proper balance given to watersheds, parks, wise development patterns, water supply, recreation and esthetics. This capability is essential to counter air and water pollution, urban stresses, and the growing ugliness of the countryside. We have heard a lot about that today. Further, dependence on local property taxes means the State does not have either the leadership or leverage needed to implement State policy.

In other words, the State imposes too great a burden on communities through property taxation for state and county services over which local governments have little or no control, and I have listed some of these that I have thought of.

A study should not only analyze all demands placed on local property taxation, but also determine the effects such taxation has on ill-planned random development patterns and open space loss. And we have had more specific recommendations today.

Relative to the second suggestion, if we do not raise the needed revenue from new taxes at the State level, we will have to raise more from local property taxes. There is no alternative. Those who are against new State taxes must favor far higher property taxes.

The solution most often offered to increased property taxes is a combination sales and income tax. There is an increased support for the idea that a state must make use of both - the general retail sales tax and the personal income tax. Thirty states now levy both, and more significantly, twelve states joined the double tax ranks since 1960. When both kinds of tax are put into effect, the laws enacting them can be written so that the resident taxpayers can credit what they pay against their state income tax. This protects persons of low income and those with many dependents against any significant payment of sales tax.

I will skip over most of those. I would like to particularly emphasize though (d): Increased funding to

towns and cities for local services which municipalities cannot provide adequately for themselves, but which are essential for the resolution of certain problems.

Some of these might relate to waste management, pollution control of all kinds, water supply, flood plains, etc.

These monies should include new grant-in-aid programs to towns and cities. I am very fond of grant-in-aid programs. The Federal Government uses grant-in-aid programs to promote national objectives, which, in many cases, would be ineffective without such support. The great national turnpike network and pollution funding for interstate waters are examples. Acting alone, individual states could not - nay, would not - formulate and implement such programs.

Similarly, many New Jersey problems result from a lack of State direction or State response to Statewide problems. These should not be contingent on a local property tax for long-range solutions. With 567 communities crowded into this small state, State leadership and policy underwritten by adequate finance programming are more essential than in most states. Unfortunately, New Jersey lags far behind in statewide initiatives.

In other words, grants-in-aid promote state goals by encouraging local governments to act, yet allowing control to remain at the local level. They are, in many cases, superior to direct state action. There seems to be no possibility of cohesive state leadership and policy on behalf of the total needs of the state under the present system of major property taxation.

[Complete statement submitted by Mrs. Fenske can be found beginning on page 131 A of this transcript.]

MR. JOHNSON: I am sorry, Mrs. Fenske. In fairness to those who have waited all day to testify, we must hold to the ten-minute limit.

MRS. FENSKE: That's all right.

MR. JOHNSON: Your paper can go into the record as though you presented it all in person or you can wait until

we have given each person one chance at least and put it into the record yourself. It is up to you.

MRS. FENSKE: That's all right. I understand.

MR. JOHNSON: Are there questions? [No response.]
All right. Thank you.

Mr. Harry J. Pinsky of Camden, speaking for the New Jersey Council on Legislative Issues. Is Dr. Pinsky here? [No response.]

Now another gentleman who has waited all day, Mr. Frank R. MacKannan - and that is spelled M-a-c K-a-n-n-a-n - it is on your list somewhat differently - speaking for United Seniors of New Jersey. And did you wish to split the time with others you may have with you?

MR. MAC KANNAN: I have only a very short statement here that will take probably two to three minutes.

MR. JOHNSON: And for the record, sir, what is your name?

MR. DAYES: Harold O. Dayes.

MR. JOHNSON: You are listed here.

H A R O L D O. D A Y E S: Honorable gentlemen, I am President of the Ocean County Seniors' Coordinating Council, Vice President of the United Seniors of New Jersey, and I am Vice President of the Berkeley Mens' Senior Club.

Down in Berkeley we have had a lot of senior citizens who have had to sell their homes because they couldn't afford the high taxes, the upkeep, or the prices were just too much to manage. They just couldn't afford them and they don't need a six- or seven-room house anymore because their children have left them.

With this money and whatever else they had and Social Security included, they figured they could rent a small place, an apartment, for about \$100 a month and live out the rest of their lives. They couldn't afford to buy another house as you can't build small places anymore. Every place is zoned for 1000 square feet, 1200 or 1800 feet and more. Lot sizes are 100 by 100 or a half acre or an acre, which

means higher taxes, more cost, more upkeep and more work. So they moved into their apartments. Six months later it is \$120, then \$130, and a couple of years later it is \$160 and \$180. This, plus everything going up, has them worried.

I want to propose a bill that would make it mandatory for every township in the State to set aside a percentage of land to be rezoned into lots 40 or 50 by 75, specifically for senior citizens, on which they can have a home from, say, 600 square feet up. This is something they can afford - low cost, low taxes - something they can call their own - something they can be proud of, not a shanty town.

I have an ad for small pre-constructed aluminum homes that could be moved on foundations similar to a mobile home, good looking, low-cost heat, easy to clean. The taxes would be very low. They would still be paying school tax but not so much. We are not against paying taxes, but we don't think we should support our children and our children's children all our lives. It must be accessible to shopping centers, churches, and so forth. The town must build a club for the seniors, for which they would pay a reasonable membership to maintain. It could be a mobile home, but why they call them mobile homes is beyond me. You can't hook them onto your car anymore. You must hire a mover to move them, and movers can move any house, even brick.

Some municipalities have low-rent housing. This should be expanded or extended so that they accommodate more of their needy, local seniors.

We need controls for mobile homes. Most parks require you to buy from them, which means a higher cost in the beginning. Then you can't move them because they only rent space to buyers. You can't sell them without paying them a percentage. You can't even give them to a friend or a relative. Most will not give you a lease over 6 months. You can get an increase as often as they want and you can't move them, so you have to pay it.

Why people pay sales tax for mobile homes, I can't

understand because they are a home and they should not be taxed.

That, gentlemen, is all I have to say, excepting that I agree with Mr. Pierce, I believe it was, who wants us to pay more school tax - have the senior citizens live out where there are not many kids going to school - and they will have to support the schools in the larger cities. However, I do agree that all schools should be under the State if they meet certain recommendations, and these recommendations, gentlemen, I have in our paper - the next one that will be printed - the United Seniors.

MR. JOHNSON: And you will see that that is filed with the Committee?

MR. DAYES: Would it be possible for me to send you a copy?

MR. JOHNSON: Yes, surely.

MR. DAYES: I will give it to Mr. Ben Raby and he will bring it down to you.

MR. JOHNSON: Very good.

MR. DAYES: Thank you very kindly, gentlemen.

MR. JOHNSON: Mr. Timekeeper, how much time do we have left?

MR. FOX: We have about five and a quarter minutes.

MR. JOHNSON: Mr. MacKannan - five and a quarter minutes.

MR. MAC KANNAN: I can't talk that fast.

MR. JOHNSON: You don't have to read it into the record to get it before the attention of this Committee. You can summarize in that period of time and that will be fine.

F R A N K R. M a c K a n n a n: I would like to clarify one thing in my introduction here of myself. I did not include the United Seniors of New Jersey. They are also sponsoring me.

MR. JOHNSON: In introducing you, we so indicated. So that is in the record.

MR. MAC KANNAN: Thank you for permitting me to speak here today. Of course, taxation is one of my pets. The

taxation system in New Jersey is archaic and outdated. Now this is not my observation alone - this is the belief of thousands of taxpayers in New Jersey.

Some taxes are needed. Expenses to operate our State government must be paid. Taxes today are unbearable. Three hours of work out of each eight-hour day for the average wage earner goes to pay taxes. Now this is a hardship on everyone.

I have been called, along with other names, the Ralph Nader of South Jersey. This I consider a very flattering compliment. Just to be slightly compared with our "National Do Gooder" gives me the needed incentive to carry on.

We do not want any more State Tax Studies. This year the 12th Tax Study is under way at a reported cost to the taxpayers of \$250,000. We do not want any more promises of tax relief. We want and we need tax reform now.

I would like to offer some suggestions to improve our present tax system.

The General Fund, the Pork Barrel, must go. Under the laws of New Jersey, taxes can only be dedicated for one year and then become a part of the General Fund. This is an extremely bad law. Taxes should be levied for specific purposes only. If the fund becomes too large, the amount of tax should be reduced or eliminated or the benefits to the taxpayer increased.

The 5 per cent sales tax must be repealed. It taxes too many people who can least afford this type of tax - the Senior Citizens and the poor.

Public hearings or referendums should be held before adding a new tax or increased tax burden on the taxpayers of this State.

Efficiency - this is sadly lacking. Twelve Tax Studies in 12 years. Remember the figure I just quoted? \$250,000 this year. This is a classic example of inefficiency. Have you ever tried to get a yes or no answer from the New Jersey State Reference Library? During a recent telephone call

on a simple question and after riding the merry-go-round for 45 minutes, I was given the name of a man who had the answer. However, he was out of town. I then wrote a letter to him asking for an answer to my question and I am still waiting for his answer. Efficiency?

MR. JOHNSON: Excuse me, Mr. MacKannan. There are only two minutes remaining. I wonder if you would move to your affirmative suggestions.

MR. MAC KANNAN: Yes, sir.

MR. JOHNSON: I hesitate to say that. You have waited all day. But we would like the benefit of your advice.

MR. MAC KANNAN: I have here a yellow paper on property tax reform. Now we have heard a lot about property taxes here today. No one has come up with anything concrete, but this is concrete. This proposal is guaranteed to reduce your property taxes. However, it must be sold by the legislators to the taxpayers and we only want this yellow paper, dedicated by constitutional amendment to reduce the property taxes in the State of New Jersey.

Do you want me to stop there?

MR. JOHNSON: No. I just want you to keep within the time limit. We did want to get to that. Do you want to expand on your formula?

MR. MAC KANNAN: I would like to get back to number five.

Mail - Many of our New Jersey's taxpayers believe their letters are never seen by our legislators. They feel someone screens this mail and discards it. I believe that all mail deserves an acknowledgement.

Also, here is a resolution on Tax Reform, proposed by the Monmouth and Ocean Tax Collectors and Treasurers Association. I would like to know if Senator Harry Sears has received this resolution? If not, here is a copy.

MR. JOHN: Yes, we have one.

MR. MAC KANNAN: I might say this: On this property tax referendum, I have a lot of endorsements from tax collectors,

from mayors of different towns, and I have one here of which I am very proud. I received this:

"Dear Mr. MacKannan: In regards to your copy handed me Tuesday evening, October 13th, I have been informed since that the Municipal Receivers, Tax Collectors and Treasurers Association of New Jersey will include at their October 28th meeting the resolution for an income tax, dedicated by constitutional amendment for the reduction of property taxes. I thought you would be interested in receiving this information."

[Exhibit presented by Mr. MacKannan can be found on page 137 A of this transcript.]

MR. JOHNSON: Thank you. Are there questions of Mr. MacKannan?

MR. MILLER: Mr. MacKannan, I notice you have proposed repeal of the 5 per cent sales tax. As I recall, the current State budget anticipates some \$500 million in revenue from that source. How would you replace it?

MR. MAC KANNAN: I believe luxuries should be taxed, not necessities. I think the State should examine all the revenues. These things here - I smoke those. Put the tax up on the goofy things. Maybe I will quit.

MR. MILLER: Do you know how much tax you are smoking now?

MR. MAC KANNAN: I'm smoking an awful lot of them.

All right. Let's take horse racing. This gentleman here spoke about horse racing. A harness track in the northern part of the State of New Jersey is needed. Pennsylvania wasn't worried about horse racing in New Jersey. They opened up a new track just recently over there. They have both harness racing and flat racing. We do have a couple of harness tracks in New Jersey. We have one in Freehold and one in Atlantic City. But North Jersey is where the people are. Should they be afraid of New York, Roosevelt Raceway or what have you? Of course, not. New Jersey needs the revenue from that harness track.

MR. JOHNSON: Are there other questions? [No response.]
Are there questions of Mr. Dayes?

MR. DAYES: Could I say something on that?

MR. JOHNSON: I am sorry, Mr. Dayes, only in response to a question. Is this responsive to a question posed by Mr. Miller?

MR. DAYES: I don't know.

MR. JOHNSON: Then we will have to wait until we are finished.

MRS. KLEIN: Can I ask Mr. Dayes what he wanted to say, please.

MR. JOHNSON: Do you have a question?

MRS. KLEIN: I would like to ask Mr. Dayes what he wanted to say.

MR. JOHNSON: Mr. Dayes, you have cooperation from the female member of this panel. She wants to ask you what you want to say. That's a question.

MR. DAYES: Just one little question I would like to ask. When you buy a tire for, let's say, \$20 and \$2 excise, why do you have to pay tax on the excise tax? You are a Tax Committee. Will you please tell me why you have to pay tax on a tax?

MR. JOHNSON: Counsel, do you want to respond to that?

MR. MILLER: It seems like an unreasonable kind of thing until you start to look at the sales tax as a tax on spending. And if you insist upon buying tax, you are spending your money the same as anyone else. Nothing you buy, doesn't have some tax hidden in it. It happens the Federal excise tax on an automobile tire is separately stated. But the automobile you buy, the whole automobile, not just the tires, has a lot of tax built into it which the producer passes on. If you were to eliminate all tax previously in the line, you would have nothing left. There would be no way of administering it, in fact. So it is just that the tax is on spending and you apportion the burden, depending on what each man spends. If one man elects to buy something that has a lot of tax in it and another man buys something that doesn't have any tax in it, they are both spending the

same amount and they pay the same tax.

MR. JOHNSON: Are there other questions from the panel? [No response.]

All right. Thank you, Mr. MacKannan.

Mr. Starkey of the New Jersey Education Association.

S. H E R B E R T S T A R K E Y: Mr. Johnson and members of Task Force C, my statement will be very brief. We are just testifying today on one point of the agenda that is before the Task Force today; that is, the item of property tax rate ceilings. I think I can be very brief by simply reading the second paragraph and then going to the documentation and then raising a few questions at the end.

MR. JOHNSON: The second paragraph on page 1?

MR. STARKEY: On page 1.

Rate limitations imposed upon New Jersey's present property tax system - I am not suggesting what you might say if you planned to revise it drastically - but on the present tax system without providing substitute sources of revenue would be disastrous. Many of the school districts that would be affected have very low valuations per pupil and are operating at minimal or substandard expenditure levels. These same districts are presently penalized by outdated and inequitable state school aid allotments. These same districts are also penalized by the partial implementation of the Bateman Commission formula recently enacted by the Legislature - not yet signed into law.

The documentation - if you go to the last page, I have arbitrarily and by no means am I suggesting that this would be a rate limitation at all, but just to show a reasonable number of districts that would be first affected by a 3 1/2 per cent or 35 mill school tax ceiling, if such were imposed, or a \$5 rate equalized, which would be a 50 mill total tax. And these districts are arranged alphabetically by counties. To show what kind of districts these are, I

have divided the equalized valuation per pupil into below average and above average districts. You will note that all but two of these districts are below average in wealth.

Then I have also taken the current expense cost of education and divided that between the low average and above average. You will note that while they are not all in the same percentage below, the districts that are above are in the higher cost areas of the state.

Now a word about the equalized rates that I have used - I note that our equalized rates do not exactly conform with the method of computation, I believe, of the ones that were given out this morning. I think ours are defensible; yet I am sure both methods are possible ways. I note that in the rural areas, the rates are almost identical. They will differ, I believe, because of structure of the urban areas where other than real property is taxed. That is, I believe, the cause for the difference. Which is the right one, I will leave to somebody else.

The question I raise though - in view of this fact, that the inference, I think, in tax rate limitation would be that some districts are simply exorbitant and spending too much - would not be borne out here. The districts that are having high tax rates are that way because of the inequity of our tax system.

Now the questions that I would raise are on the bottom of page 2. I don't know what type of limitations would be imposed. May I suggest, number one, that if an all-purpose rate ceiling is proposed, how would the local tax levy for schools, municipality and county be equitably adjusted when the tax certifications exceeded the ceiling? Would not budget padding be encouraged so that a particular agency, either the schools, the municipality or the county, would not suffer in a cut in services? I don't quite see how that could be accomplished if an over-all ceiling were invoked.

Second, of course, if a separate ceiling is proposed for

schools, one for municipality and one for county, could one agency utilize the unused portion of another agency's ceiling?

Third, how could separate rate ceilings operate in a state with such wide variations among tax districts with respect to the percentage of levy used by schools? Forty-one school districts use less than 40 per cent of the total tax rate, while 54 use 75 per cent or more of the total levy. In like manner, how could a single ceiling on municipal levies be equitably imposed on rural townships, which have very few municipal services, as opposed to the urban areas which would have to raise much more money and have, therefore, much higher rates?

I could expand on that by pointing out there is a grave difference between communities along the ocean - resort communities that have property whose owners do not have children to be educated in the wintertime, and would cause also, I think, very grave inequities in the ceiling.

So we urge the Committee, at least under the present system or any resemblance of the present system, not to recommend a ceiling on the property tax.

[Complete statement submitted by Mr. Starkey can be found starting on page 138 A of this transcript.]

MR. JOHNSON: Is that it, Mr. Starkey?

MR. STARKEY: That is all. We have testified before another Task Force.

MR. JOHNSON: This is not a question from the panel, but we have been asked to ask you for the NJEA view in respect to a suggestion made here during the course of this hearing that a State School Tax be collected and that the State be given authority to control most things, including teachers' salaries.

MR. STARKEY: I thought you would ask that question.

MR. JOHNSON: I am not asking it. This was posed by one of the audience.

MR. STARKEY: I would say we have not taken a position

at this point. I would assume that from one standpoint, there would be many within our membership who from a negotiating standpoint might think that would be a fine idea - to have one unit statewide that would be much more powerful than 573 small units as they are now constituted.

From the standpoint of education and the operation of schools - and we are certainly interested in youngsters as well as teachers - I would say that the idea of what would really be a state-operated school system certainly is worth studying. I hope the Committee does study it. Other states are studying it. But I think no state has yet progressed far enough to be able to see any prospects of such enactment.

I think some of the same objections and some of the same feelings would be generated because it would probably require a uniform, State-imposed property tax. While certainly our Association would consider this equitable, I question the practicality of it in terms of getting it through the Legislature and use as my example the difficulty, for example, of a relatively mild equalization that was enacted in S 575. Yet there certainly was a great deal of difficulty even with that.

MR. JOHNSON: You say in your statement that some districts were penalized by the partial implementation of the Bateman Commission's recommendation. Do you mean if the full recommendations had been adopted, that you would have been much more happy?

MR. STARKEY: Well, we would have been happy. But I am saying with even what was done, not all districts -- Let's assume that the Bateman implementation fully accomplished even at the first level ---

MR. JOHNSON: You supported those recommendations?

MR. STARKEY: Yes, with recommendations for amendments. But with the basic formula, we are in accord. At the first level, if fully implemented, what the Legislature enacted this year, not all districts got the same percentage of that

full implementation. Therefore, I say there is inequity and the poorest districts got the lowest percentage. In other words, we did not really do too much toward equalization of educational opportunity so far because of an insufficient amount of money.

MR. JOHNSON: Did those recommendations compound inequities. Is that what you are saying?

MR. STARKEY: No, I don't think they compounded them. They did not do much to remove the present inequities.

MR. JOHNSON: But you did support them?

MR. STARKEY: Oh, yes, because the formula itself, given enough money - and we hope that your Committee will come forth with money that will make it possible to implement that full program - would certainly improve it greatly.

MR. JOHNSON: Understand with respect to that, that this is not the Revenue Committee. You are making a comment before the wrong committee.

MR. STARKEY: I will be glad to go before the right committee.

MR. JOHNSON: Further questions?

MR. HAINES: I don't want to prolong this. I notice you are connected with the research section of the NJEA. The thought that I have in my mind is not related to your presentation in any way. I was wondering if in your research section you have done anything about recommending consolidation of some of your smaller districts.

MR. STARKEY: We have testified on the Mancuso Commission. And, of course, very little came out of that report. Nothing, in fact, has been done. Certainly that is a factor. I believe you are from Vineland. Am I right?

MR. HAINES: Right.

MR. STARKEY: You can consolidate all you wish in Salem County and in Cumberland County and if you stop right with consolidation within those two counties, you will not still provide enough money without State help to do the job in education. Because there is not much point in

consolidation of poor districts. By doing that, you will not make rich districts.

MR. HAINES: Well, we are pretty proud of what we have accomplished as the result of being the first successful municipal consolidation under the Faulkner Act and we recommend it. I am not speaking as a member of the Task Force. I am speaking as an official of the City of Vineland.

MR. JOHNSON: Yes. Let's make that clear.

MR. HAINES: Right.

MR. JOHNSON: Are there other questions?

MR. MILLER: Mr. Starkey, assuming the full implementation of the Bateman Report, would that result in relatively equal property tax rates for schools throughout the State?

MR. STARKEY: No, because the Bateman formula is tied to a level of expenditure and obviously if a district chose to have a very high quality school system, say, \$1200 per pupil, the formula envisions that there is a level of local support at the \$1200 level, which is higher than another district that chooses to educate at, say, \$800 per pupil.

MR. MILLER: Take those that are at the \$800 level. Could they then operate with relatively the same tax rate?

MR. STARKEY: -- as other districts spending \$800.

MR. MILLER: And also those with less wealth - it would be purely what they spend. So you would have the same tax rate to provide an \$800 program.

MR. STARKEY: In other words, as I understand the formula, if fully implemented ---

MR. MILLER: Don't you understand the formula?

MR. STARKEY: I understand it, but I am not sure we are going to get there. We are quite a ways from getting it implemented. But in theory, if \$800 is spent in every school district, the State will so provide aid that the tax rates should be relatively similar in all communities. This will not happen completely because of Federal aid which may not be considered in this picture by the Federal

government not permitting us to and also there are other kinds of State aid which are handed out, outside the formula, which could affect it too.

MR. MILLER: I am thinking of these high-rate districts shown on the chart. To the extent they are caused by taxation for schools, they would be eliminated.

MR. STARKEY: That's right.

MR. JOHNSON: Other questions? [No response.] Thank you, Mr. Starkey.

Earlier in the day we called for a Mr. Carl Mastrovito. I understand that Mr. Richard McCarthy is here to speak for him. Is Mr. McCarthy in the room? Yes, Mr. McCarthy has been in the room all day.

MR. MC CARTHY: I thought I was going to be carried out.

MR. JOHNSON: You are going to summarize this, I take it.

MR. MC CARTHY: Yes. And I will tell you as I skim through it where I am.

MR. JOHNSON: All right.

R I C H A R D F. M C C A R T H Y: I am Richard F. McCarthy. I am the Tax Collector for Berlin Township. I am also President of the Property Tax Rebellion Association. You heard about tax rebellions all day today.

My statement today concerns itself first with the constitutionality of the present tax structure of the State of New Jersey and, second, with its effect upon the social, cultural and environmental lives of the citizens of this State.

It is important to consider the legality of the present tax structure because if some aspects of it are unconstitutional, these pitfalls must be avoided in the future. It is important to consider the effect of the present structure upon the lives of the citizens of the State because American democracy is based upon the consent of the governed, and

where policies may be legal but unjust, the people will withhold their consent.

This committee must realize the seriousness of any challenge to the constitutionality of any law, but particularly a challenge to the laws of taxation, because of the far-reaching effect an adverse decision would have in the questioned area.

This committee must also realize that there are grounds for such a challenge. This year, two law suits have been filed against the State of New Jersey, one on behalf of an individual taxpayer which is myself, and the other on behalf of the taxpayers of Jersey City. Both suits challenge the constitutionality of the tax structure. There may be a tendency to shrug these suits off as "nuisance" suits, but that would be a mistake because there are similar suits pending in ten different states. Before considering any tax reforms, I believe this committee should review these law suits and all previous law suits pertaining to the present tax structure. I believe that this committee should follow step by step the development of the tax structure and the effect of State control over the policies of the political subdivisions.

Who has the power to tax? Where does this power come from? What is meant by "representative taxation"? These are questions which should be uppermost in the minds of the members of this committee. A portion of each of these questions can be answered by a review of the case of the Township of Bernards v Allen, as cited in 57 NJR (303), etc.

Going on to page five - it is important to note first that the King conceded his powers of taxation because of the people's resistance - I am referring to what happened under the charters of the kings - not because of a legal challenge to his authority; second, that the forceful challenge to the King's powers was made only after the taxes became "onerous", long past the point of tolerable injustice.

In expressing the opinion of the majority of the members of the Court of Errors and Appeals, Justice Depue pointed out that legislative action was needed to implement tax action, and that the lower houses of the Federal and State governments were responsible for originating money bills; that State legislatures can delegate powers of taxation to political sub-divisions but were unable to delegate such powers to non-legislative bodies. In the case of the Township of Bernards v. Allen the Court held that the Commissioners of Taxation was a ministerial body only and therefore lacked the powers to increase or to add to the tax levy as approved by the people.

But what is the effect of the State Legislature delegating the powers of taxation to political sub-divisions, while at the same time retaining for itself the powers to establish policies? Does not this make the sub-division a "ministerial" body in the areas where they do not control the policies and thus lacking taxing powers in those areas? Or what is the effect of the State Legislature creating various bureaus, commissions or departments and delegating to them powers that are so authoritative that they amount to substitute taxing powers? Do not these practices subvert the principle of taxation with representation?

For taxation to be just, it must be equally shared, and the uniform rules requirement of our State Constitution is met by a classification which provides for a uniform tax rate applicable equally to all members of the class. 1 Cooley on Taxation (4th ed.), sec. 311, page 645, and sec. 313, pages 649 and 650, respectively state:

"Uniformity of taxation, as provided for by state constitutions, is required throughout the territorial limits of the taxing district. If the tax is a state tax, it must be uniform throughout the state. If the tax is a county tax, it must be uniform throughout the county. If the tax is a town tax, it must be uniform throughout the town. If the tax is a city tax, it must be uniform throughout the city.

If the tax is a school tax, it must be uniform throughout all the school district. The uniformity corresponds to the territorial limits of the taxing districts." In other words, state taxes are for state purposes, county taxes are for county purposes, local taxes are for local purposes and school taxes are for school purposes. But as has been pointed out in the case of the Township of Bernards v. Allen, the State cannot separate the powers of taxation for the power of legislation.

The unjust effects of such separation can be seen by an examination of how our school systems are financed. Article 8, Sec. 4, Par. 1, of the Constitution of the State of New Jersey stipulates: The legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in the state between the ages of five and eighteen. To effectuate this article, the Legislature placed each school district under the jurisdiction of a school board, and the school boards under the jurisdiction of a State Commissioner of Education. However, the powers of this Commissioner are so broad and authoritative that they are substitute taxing powers. Unlike the Commissioners of Taxation, the Commissioner of Education can overrule the wishes of the people and force them to support educational costs regardless whether they can afford to or not.

The problem of financing education is as complicated as it is inadequate. While the state continues to control the standards of education, a large percentage of the costs are supported by local taxes that are raised through taxing real estate property. Because the tax base varies from municipality to municipality, the state imposed burden is not shared equally by everyone throughout the state. It is because the taxes levied for education, and the methods used, have become so "onerous" that the law suits challenging the financing of public education have been filed.

The present topsy-turvy approach to financing education

cannot go on much longer. While most schools in urban areas are old and inadequate, many schools in suburban areas are often ornate and new. In spite of their differences, both the urban and suburban communities are faced with insurmountable tax problems.

I will go on to the more concrete proposals and then if there is time to go back, I will go back.

Though both Federal and State taxes have grown to a substantial amount in the past three decades, it is still the real estate property that carries much of the tax load.

MR. JOHNSON: Excuse me, Mr. McCarthy. What page are you on?

MR. MC CARTHY: Page 10.

MR. JOHNSON: I wonder, in view of the limited time, if you would want to move to your affirmative recommendations on page 16.

MR. MC CARTHY: All right, fine. I will just go into the recommendations.

1. Regard 10 per cent of all federal taxes collected within a state as state revenues. Each state would receive 10 per cent of all federal taxes collected within that state. The 10 per cent federal surtax charge has been reduced to 5 per cent, and this is scheduled to be eliminated. If necessary, this surtax charge could be re-instated.

2. Within one year of the enactment of the first recommendation, all states would revise their tax structures and submit the revisions to the voters for their approval.

3. That the federal government assume the costs of all welfare programs.

4. That all states assume the costs of all public education.

5. That taxes can only be levied against the residents of the taxing district and/or the properties within its boundaries. (Applies particularly to wage taxes levied against non-residents.) That is being talked about in the State of New Jersey now.

6. Whenever the powers of taxation are delegated to a political sub-division, the complete powers to establish policy are also delegated.

7. To support local purposes, each taxing district establish a fixed property tax that will not exceed 2 per cent of true property value. That true value of property to be fixed at the purchase price, that the value remain constant unless structural improvements affecting area sizes are made, or unless other types of improvements are made within five years after construction is completed, or unless title is transferred through sale. That the assessments standards, and/or the tax rate, cannot be changed without the approval of the legislature, or unless submitted to the voters by a referendum. The voters can petition to have the approval of the legislature also submitted to the voters.

These recommendations will provide state and local governments with the resources to meet their fiscal responsibilities, while at the same time protect the individuals' right to own property.

Based on the taxes collected for 1969 in New Jersey, the federal government would return more than \$850 million as "state revenues." New Jersey only expects the sales tax to yield \$500 million, not even enough to meet current demands.

These recommendations will cause legislators to become more aware of the effect of their legislative actions. Programs on all levels of government will be enacted on a priority basis, making them more closely related to the taxpayer's ability to pay. The taxpayer will also be better able to understand who is responsible for what tax levies, and why, because the lines establishing representative taxation will be more clearly drawn. [Complete statement starts on page 142A]

MR. JOHNSON: Thank you, Mr. McCarthy. Are there questions?

MR. MILLER: I have a question.

MR. JOHNSON: I wouldn't want you to disappoint us, counsel.

MR. MC CARTHY: I was going to feel offended.

MR. JOHNSON: No, on the contrary your elucidation was so clarifying that we couldn't think of anything.

MR. MILLER: What happens to your 2 per cent flat tax rate when you give all the employees in your municipality a salary increase?

MR. MC CARTHY: As you are having sales of property, particularly in this area of inflation, the next person is going to be paying more taxes. What it is going to amount to is like a contract with the municipality: If I buy this house, I am willing to pay to the municipality for as long as I own it X dollars, and the thing is not to exceed the 2 per cent limit. You are taking away welfare. You are taking away education, which is the bulk of the taxes.

MR. MILLER: But then the people who work for the municipality make a contract never to receive any more compensation.

MR. MC CARTHY: No. I believe you will have sufficient revenue in most municipalities as it is to take care of their present needs. Your tax rate averages about 5 per cent now. And in my township about 68 per cent of it goes for education. That is out of our tax dollars plus what we give to the county for welfare. If you take these two items away, we are only spending 10 per cent on our local government. Therefore, it is not that much we are collecting for the property to support.

MR. MILLER: What local area of Burlington Township?

MR. MC CARTHY: Berlin Township in Camden County.

MR. MILLER: What is the area?

MR. MC CARTHY: 3.5 square miles.

MR. MILLER: What is the population?

MR. MC CARTHY: About 5600.

MR. MILLER: Do you think that system will work in Jersey City and Newark?

MR. MC CARTHY: I believe it would. They wouldn't have the welfare problems that they are having. The concept of

your planning and zoning would change radically. The ability of the people to accept more homes and housing in suburban areas would exist. You could locate your commercial and industrial property in a geographical sense that is more suitable rather than an economic sense that each municipality is fighting for.

I am not a tax expert and what I have done is just to make a start. But the main thing of this presentation is that in my opinion - and I think it has been substantiated - there is a serious question of legality of the State government dictating policies to a local level and demanding that they create these taxes. This is the hard core of a lot of these law suits. The question is, even if it is proven legal that they can do it, the resentment of the people is so great - as a tax collector - and I am sure Mr. Haines can bear this out - it is so great that there is going to be a rebellion if something isn't done.

MR. MILLER: Thank you.

MRS. KLEIN: How do we get the Federal government to return that \$850 million?

MR. MC CARTHY: It is already recommended, and, by golly, all you have to do is start fighting for it. And that means the Governor and the Legislature and everybody else. That means that the people right now should demand from the Congressmen who are running, "What are you going to do," as well as from the Senators who are going to run. We should get the two Senators and the Congressmen from the State of New Jersey in a room and say, "Look, you go down there to Washington and this is what we want." The Federal government is dictating the policies of welfare to the state. We have to now accept somebody that moves into the state and immediately put them on welfare. Other states that are not meeting their obligations now are forcing people to move from one state to another. So if the Federal government is going to say, "O.K., you take care of these people immediately," this makes it a Federal purpose, no longer a State purpose.

Now if this doesn't happen, then the Federal government better start keeping their hands off.

MRS. KLEIN: As I understand it, the present plan for tax sharing from the Federal government, when it was fully implemented, - this is the one that President Nixon proposed - would yield to New Jersey \$150 million and that's not now. That's five years from now.

MR. JOHNSON: That is when the revenue is shared.

MRS. KLEIN: That's if that passes; if it is shared on the formula recommended, New Jersey would get \$150 million eventually.

MR. MC CARTHY: But you also now are doing away with the 10 per cent surtax charge. I think if we went around and fought for that 10 per cent surtax to go back on, this could be coming back to the state. You eliminate the necessity of collecting the taxes in the state. You do away with bureauracy as far as that is concerned. You save money.

MR. JOHNSON: Any other questions?

MR. HAINES: In view of what Mrs. Klein has just stated, that under the President's recommendation New Jersey would get \$150 million, and your suggestion here, Mr. McCarthy, that the government would get \$850 million - there is a vast difference of \$700 million.

MR. MC CARTHY: That's right.

MR. HAINES: Is it there?

MR. MC CARTHY: It would be if you put the 10 per cent surtax charge back on. But where is the rest of the money going? We are the 50th state as far as getting aid back from the Federal government. So, you know, we can't keep on giving foreign aid to the other states. We need a little foreign aid up here.

MR. JOHNSON: Thank you, Mr. McCarthy.

During the course of the day we called upon the registrants in the order in which they had registered. We called upon the following organizations and/or individuals and no one responded. I will call upon them again now to see

if there is anyone here representing such organizations who wishes to be heard: Rabbinical Council of New Jersey, New Jersey Association of Public Accountants, North Plainfield's Taxpayers Association, the New Jersey Libertarian Alliance, the Hunterdon Taxpayers Association, and the New Jersey Council on Legislative Issues. Is there anyone here representing any of these organizations? Then one individual, Mr. Grubelich, was called on and he did not respond. Is anyone here?

We have one question of you Mr. MacKannan, if you can answer briefly. It refers to the fact that the Committee asked you how you would replace the revenue currently received from the sales tax should it be revoked in accordance with your recommendation and you then made reference to horse track, luxury taxes and an income tax. The questioner says you indicate the income tax would be a better tax for the low-income residents and he asks if you would briefly clarify that.

MR. MAC KANNAN: The question, as I understand it, - the 5 per cent sales tax must be repealed?

MR. JOHNSON: Dr. Miller pointed out that the 5 per cent sales tax produces a ^{half} billion dollars in revenue and that that revenue would have to be replaced. In response to that observation, it is noted that you then talked about the possibility of more horse tracks, more luxury taxes and an income tax, the latter of which you characterized as being probably better for the low-income person.

MR. MAC KANNAN: I think I said dedicated by constitutional amendment. Now I want to stay away from the general fund. The general fund to me is a sore spot. This should not exist. Even what Mr. McCarthy just said - when this money from the Federal government comes back to the State of New Jersey, where is the money going to go? right in the port barrel? That's what we have had all these years. We don't want this. We want to get rid of the general fund. I know our legislators favor the general fund.

MR. JOHNSON: You are saying you want to go back to dedicated funds.

MR. MAC KANNAN: Dedicated funds - that's right.

MR. JOHNSON: All right. We accept that as one answer. You see as another source of revenue or you recommended, as we understood you, more horse tracks. Is that right?

MR. MAC KANNAN: No, not only more horse tracks - tax liquor, tax all the luxuries - keep away from the necessities.

MR. JOHNSON: Including cigarettes and luxury taxes. I suppose the person wonders what you had in mind when you said luxury taxes. I don't recall.

MR. MAC KANNAN: Horse racing, you mean?

MR. JOHNSON: No, luxury taxes.

MR. MAC KANNAN: Luxury taxes - revenue to replace the repeal of the 5 per cent sales tax. I know the State needs taxes.

MR. JOHNSON: The final question: He seems to wonder why you say the income tax is a better tax for low-income residents.

MR. MAC KANNAN: I have it down here on my formula. If you people would like to bear with me for a few minutes, I would like to ---

MR. JOHNSON: Excuse me, Mr. MacKannan. Is the answer in your proposal here, a flat income tax with the first \$5,000 fully exempted? I think that answers it.

MR. MAC KANNAN: I think that answers the question right there. The base would start at \$5,000.

MR. JOHNSON: Thank you, sir.

Now is there anyone who was cut off because of the time limit who wishes to extend his remarks? And since there have been no questions submitted to the Task Force in writing, we assume that everyone has been heard in respect to this.

LORETTA DELL' ARINGS: May I ask something?

MR. JOHNSON: If you submit it in writing, yes.

The rules are before you and this is what everyone else has had to do. Is this procedural or is it substantive?

LORETTA DELL' ARINGS: I had heard that New Jersey taxpayers are 7th in paying revenue to the Federal government but were 50th in receiving Federal aid. Is that true?

MR. JOHNSON: That is what a certain candidate says, yes.

LORETTA DELL' ARINGS: I have heard it so many times, I was just wondering.

MR. JOHNSON: He has said it so frequently, we must assume that it is based on careful research.

LORETTA DELL' ARINGS: When the Commission issues its report, will it have anything in it about it? Will the Legislature try to get more aid?

MR. JOHNSON: Will our report refer to this fact?

LORETTA DELL' ARINGS: Will it ask the Legislature to try to get more aid from the government?

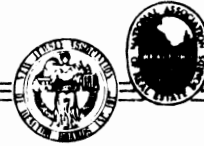
MR. JOHNSON: I think that is the burden of Mr. McCarthy's recommendation and we certainly will give due weight to Mr. McCarthy's recommendations.

This hearing stands adjourned.

[Hearing adjourned]

- - -

NEW JERSEY
ASSOCIATION OF REALTOR BOARDS



Executive Offices: 60 PARK PLACE, NEWARK, N. J. 07102
TELEPHONE 622-2428

STATEMENT PRESENTED BY THE
NEW JERSEY ASSOCIATION OF REALTOR BOARDS
BEFORE TASK FORCE "C" (THE PROPERTY TAX)
OF THE NEW JERSEY TAX POLICY COMMITTEE

Wednesday, October 21, 1970

Good Morning! My name is Robert E. Scott, Jr., and I am a Realtor and Mortgage Banker with offices in Elizabeth, New Jersey. I appear before you today as Chairman of the Taxation Committee of the New Jersey Association of Realtor Boards and speak on behalf of our Association's 3,200-member Realtors and 15,000 licensed associates. We are grateful for the invitation to appear before this distinguished body and feel qualified to treat with the problems of real property taxation in New Jersey because our members State-wide sell New Jersey day in and day out to homeowners, industrial companies and commercial enterprises as a great state in which to live, work and play.

New Jersey is the most densely populated State in the nation with an urbanization ratio of over 88%. We must, therefore, be hyper-sensitive to appropriate land use and vouchsafe the sacred trust reposing in the land.

The antiquated property tax basis in New Jersey, focused on a constant or actually diminishing supply of land, tortures that trust and is inadequate to meet the needs of a dynamic modern society. New Jersey property taxes are the second highest in the nation on a per capita basis representing \$226.68 tax for every man, woman and child in the State (1), but this is a State-wide average. Among the 567 municipalities and 580 school districts in New Jersey there are wildly divergent levels of tax load. A recent survey compiled by Allen D. Manville for URBAN AMERICA AND THE FEDERAL SYSTEM published by the Advisory Commission on Intergovernmental Relations relating property tax to income and home value showed a family of 4 with \$10,000 gross income, residing in Newark paid the highest taxes in the nation compared to a family of comparable size in the largest city in any other state and by almost

(1) October, 1970 Bulletin 70-47, New Jersey Taxpayers Association.

twice as much as the second highest.

This oppressive level of taxation is having a deleterious effect on the landscape and economy of New Jersey. The most manifest example of this fact is the ravage wrought by fiscal zoning which we prefer to call "zoning against people". I am sure you are all aware of the fundamental calculations made in planning decisions in many municipalities where the planning body stipulates that the minimum lot size should be one acre and that with development costs this will mandate a minimum house value of \$50,000; the resident family of a \$50,000 house will typically produce fewer school age children than younger families who are poorer and more fruitful. The children produced will cost X dollars for schooling and the \$50,000 ratable will at least allow the municipality to break even relative to the services involved. This concept of fiscal zoning has given impetus to the wasteful land practices known as urban sprawl in much of metropolitan New Jersey and which is largely self-defeating in that it requires more roads, sewer and water lines, mass transit facilities, etc., to service a given number of people than if there were greater housing density.

There are profound damages being wrought by the development pattern encouraged by excessive real estate taxes. New Jersey is rapidly becoming non-competitive in the race to attract new industry because of our inability to provide blue collar housing. The most recent survey by the Society of Industrial Realtors revealed that adequate housing for all levels of personnel had replaced a stable tax base as the number 1 criterion for industrial site selection. The general stringent

money market conditions that we have struggled with for the last three years have certainly deterred much new residential construction but the fact that many towns have closed their borders against low and moderate income housing has aggravated the housing crisis. The spiralling tax rate has become confiscatory in some cities and is now working to destroy any incentive to conserve our existing housing stock. In Newark I understand a demolition contractor operating at a rate of 100 property demolitions per month cannot keep pace with the rate of abandonment.

The unstable tax rate rapidly escalating from year to year is a deterrent to long term income property investment in many of our cities. Compounding this problem is the inequity of increased assessments for property improvements. Scattered attempts to revive some cities by alleviating the crushing burden of taxation through various devices have proven futile and are as Dr. George Sternleib from Rutgers says, ". . .like a man without any shoelaces trying to lift himself up by his bootstraps." The methods of tax abatement or "in lieu of" payments to inspire rejuvenation of the center cities deprive the very bodies who need money the most, the poorer cities, these vital funds.

There is another terrible toll being taken by excess property tax levels which is impossible to quantify - that is, the shattering of the American dream of home ownership for many middle and lower income families. Much has been made of the deprivation incurred by the increase in mortgage interest rates over the last several years but let us compare it with the effects of rapid tax increases in the City of Plainfield, in my

county of Union. Assume a \$25,000 property with a \$22,500 FHA 30-year mortgage which in 1969 would have commanded a maximum rate of $7\frac{1}{2}\%$ with monthly debt service of \$166.95. The same loan today would command an interest rate of $8\frac{1}{2}\%$ which on a 30-year term would result in a charge of \$182.48 per month toward principal and interest - an increase of \$15.53 per month and \$186.36 per year. Assuming the property were assessed in 1969 for \$25,000, applying the then current ratio of 47% and rate of \$9.81 the annual tax load was \$1,152.67; using the same assessment with today's ratio and the current rate, the annual tax load would be \$1,353.60, an increase of \$200.93 per year as opposed to an increase due to higher interest costs of \$186.36 per year.

Leaving aside the effects of the interest rate increase for the moment, using a standard and admittedly superficial rule of thumb of 25% of gross monthly income equalling the charge for interest and principal and taxes, if interest rates had remained the same, the buyer would still have to be earning \$803.72 more today to qualify to buy that house than he would have in 1969.

The demoralization of New Jersey residents due to the altered character of their environment and the stresses of tax uncertainty have produced a general public malaise which is evidenced by recent articles about taxpayers' revolts in Plainfield and in Paterson and by the record number of school budget rejections in the last few years. The ratio of property tax collection in Newark has fallen to 88% - even New York City has a collection ratio of over 97%! There is a widespread taxpayer revolt brewing and the only reason its impact is not more pronounced is because of a lack of coordinated leadership.

New Jersey's property tax tradition is rooted in the agrarian economy of the 18th century and it is an anachronism. Landed property is no longer the sole criterion of ability to pay taxes. Our property tax tradition retards development of the State by encouraging wasteful land use planning, necessitating a massive expensive infrastructure of utilities and transit facilities and by discouraging investment capital in the form of equity investment in income property and in new job creating industry and commerce. It is a narrow inflexible base, inadequate to fund the needs of a modern society; there is only a given quantity of land and increased taxation based on that finite quantity of land will sooner or later become confiscatory.

The net ratable base of some cities is declining due to public acquisitions for social or government projects, the support of which in many cases is funded from property tax creating a self-defeating cycle. I have in mind land acquisitions for facilities such as schools, hospitals, prisons, etc., which enjoy exemption from property taxes and whose operation is funded from the property tax.

The property tax base is further restricted by certain social welfare programs, such as tax exemptions for senior citizens and veterans. If it is the judgment of our society that such special benefits are warranted - why should they be bestowed only on senior citizens and veterans who are homeowners? The property tax base is diminished by exemptions for governmental and quasi-governmental projects such as the Port Authority and religious, charitable and eleemosynary organizations. It is further eroded by tax abatement for special

projects such as low income housing. The anomalous tax structure rooted in yesteryear has engendered a crazy quilt patchwork of taxes, exceptions and exemptions chipping away at the effects and not at the causes of our problems.

The New Jersey situation with our high degree of urbanization and onerous level of property taxation is so unique and the problems so severe as to demand bold, sweeping changes in our tax structure. Any solution involving broadbased taxes to be considered seriously, must be structured in such a way as to ensure that property taxes will not only be reduced dramatically but cannot again escalate to their present level. Our Association's policy is that "the burden of rapidly increasing school costs and other social programs (should) be removed from the property tax".

Local property tax levies have risen 135.7% in the last ten years (1960-70). Municipal levies increased 63.1% but County levies increased 151.9% and school levies increased 171% (2). Clearly increased prosperity and education have brought pressures for better education and more expensive services. Our goal is to remove all costs of public education and public welfare from the municipal budget. We recognize this is a radical proposal of difficult immediate accomplishment. However, the first step could be to shift the cost of teachers' salaries to the State level. The State Constitution at Section IV recognizes the obligation of the State in the area of public education. The cost of implementing this recommendation would be approximately \$600 million. The school budget

(2) New Jersey Taxpayers Association Bulletin 70-44
July, 1970.

on the average is typically 60% of the municipal budget and teachers' salaries generally run about five-sevenths of the school budget. Aside from the relief afforded the property tax base this move would have the additional advantage of eliminating competition between school districts by salary whereby some poorer districts now lose quality instruction or fail to offer instruction in some fields. Inequities in educational opportunity due to accident of birth would be reduced.

Presently each district is faced with negotiating with its teachers, sometimes resulting in strikes or sanctions which can disrupt the education process. A State-wide teacher salary scale with teachers employed by the State and negotiations with teachers' unions conducted only with the State would go far to correct the abuses possible under the present system.

State aid to local schools to shift part of the burden from the property owner has proven inadequate to the task and difficult to administer. It relies upon assessed values and equalization ratios as computed after continuing sales studies, to determine the local fair share of each municipality. Inherent in the plan are multiple possibilities for inaccuracies, use of improper sales, local attempts to include favorable sales, and the possibility of legislative adjustment of the formula to favor certain communities. Under our proposal much of the content and educational program could remain under local control and the physical plant would still be the responsibility of the property taxpayer. It would confer upon the Legislature a heightened sense of responsibility by relating the right to mandate levels of expenditure to

the responsibility for raising taxes to fund those expenditures. All too frequently the State now mandates certain minimum standards over which the local district has no vote but which it must somehow finance. Inherent in this shifting of responsibility would be a reduction in the local districts' borrowing power to relate more directly to their diminished responsibility. We further believe that consolidation of some school districts to a more economic size would produce further savings.

While it is beyond the power of our Legislature to effect this change, we would concurrently urge that steps be undertaken to complete the federalization of the public welfare program. Recent Federal Supreme Court decisions outlawing residency requirements for welfare eligibility have made this a national problem and the high levels of assistance created by our State government have escalated the costs of this social program beyond the ability of the property tax base to support it. The net effect of these two changes would be to reduce the typical municipal budget by approximately one half.

With the property tax restructured and relegated to its legitimate role as an income source only for the support of vital municipal and county facilities such as police, fire, sanitation, municipal and county employees, highways, bridges, records, jails and courts, it would then become feasible to eliminate or significantly reduce the bewildering array of property tax exemptions. Under our proposal there is no reason why the Port Authority should not pay property taxes to support police and fire protection, feeder roads, etc.

We believe that public and non-public facilities which now enjoy tax exempt status could contribute their fair share once property taxes are directly related to the cost of local and county services. If, however, it is deemed appropriate by the Legislature to continue property tax exemptions for certain facilities, we commend to your attention the formula for equalizing those exemptions over the County as contained in the Apy report (Report of Commission to Study the Laws of New Jersey Exempting Real Property Held by Religious, Educational, Charitable, and Philanthropic Organizations and Cemeteries from Taxation, January 30, 1970).

At a time when we are falling behind in new construction of vitally needed housing we offer a plan to conserve our existing housing stock and rehabilitate slum areas.

The huge cost of slums has been documented many times in terms of disease, crime, juvenile delinquency, waste, and erosion of the dignity and the character of our fellow citizens. Not always as fully appreciated is the fearful economic cost of slums.

The fact is that our communities are caught in a descending spiral which leads to widespread municipal insolvency. The accumulated and continuing spread of blight eats away at their assessable base. As the blight spreads, it is inevitably followed by crime, fire, disease, and delinquency. Thus, does the need for services increase. But the communities' ability to meet the increased budget is automatically impaired by the very blight that creates the demand. More blight, more demand for services, less revenues to

meet the demand - that is the downward spiral in American cities and towns and in many suburbs. Most often those with the greatest slum problem have the least capacity to deal with it.

It is obvious that we must check the cycle of decay before slums are born.

There is no justification for Federal or state assistance except to municipalities which will face up to the whole process of urban decay and undertake long range programs to prevent the spread of blight into good areas of the city through vigilant maintenance of housing and neighborhood standards and strict occupancy controls. Our program calls for changes in old concepts we have always considered inviolate. Our present system of basing the assessed valuation of houses on true market value, for example.

We recommend consideration of a new system of assessing one to four family houses. Perhaps an illustration is the quickest means of explaining the proposal. Visualize, if you will, three almost identical houses, side by side, built at the same time. The dwelling in the center barely meets minimum housing codes, the left one is well maintained, freshly painted, grounds in beautiful shape, picket fence, etc. The house on the right has been "milked", perhaps owned by a slumlord, and has been allowed to drift down the road of blight for years.

What are the taxes on these three houses under today's system? The owner who has maintained his property pays the highest tax. The middle one, who just complies with the code, pays a lower tax, and the third owner, who has disregarded the law and allowed his place to become a

shambles, pays the lowest tax. With so many dwellings in the third category, is it any wonder that many municipalities, particularly the large cities, are in financial trouble? At the current excessive rate of taxation there is a serious disincentive to rehabilitation, improvement and maintenance.

Our proposal recommends that assessors use the minimum housing code standard, exemplified by the middle house, as the base of assessing all three properties. It will make the assessor's job easier and will help effectuate the code enforcement program. We advocate that by 1980 we have completely phased in a new philosophy of taxation which would equalize the tax on all three imaginary properties at the standard level of the average property. We recommend a ten year period to attain this goal because it entails more stringent building code enforcement than exists now and immediate enactment would throw many properties into foreclosure. In the interim we recommend a tax incentive for rehabilitation similar to that contained in Bill #A-56, which has been introduced unsuccessfully in one form or another in the last several years. Essentially, this would establish a 5 year moratorium on increased assessments due to improvements made to bring a structure up to minimum property standards.

In the interest of effecting further economies in government spending, which will make our previous recommendation more meaningful, we urge that your report contain proposals aimed at consolidation of duplicate services now being provided by various levels of government.

We realize that it may sound rather like "Pollyanna" but nevertheless we are convinced that unless greater efforts are made to increase the cost effectiveness of tax dollars spent, the decade ahead will be marked by fiscal uncertainty and crisis.

We have arrived at these recommendations after years of experience and thorough exploration of alternative proposals. We specifically reject the so-called Single Land Tax approach whereby only the land is taxed.

This approach would not alleviate the tax load on real property. It would force the premature development of land, encourage wasteful and inappropriate land use, make some municipalities giant landowners through tax foreclosure in areas not yet ready for development and penalize unjustly land held in its natural state.

Our position can be summarized as advocacy of a complete restructuring of property taxation in New Jersey to reduce the onerous level of taxation and limit the opportunity to increase it. The summary sheet on the following page outlines our analysis and conclusions.

In conclusion, we would like to voice our bitter disillusionment with the distribution of the Sales Tax revenues, which have made us sadder but wiser when it comes to expectations for property tax relief from new tax programs.

I can assure you that if your recommendations are designed to reduce and level off the demands on the property taxpayer then our Association will work to help sell those recommendations on a statewide basis.

However, if the recommendations of the Committee are for the implementation of a new or increased tax which is not specifically dedicated to real property tax relief, then our Association may be forced into providing the leadership for a taxpayers' confrontation.

<u>Problem</u>	<u>Reason</u>	<u>Cure</u>
1. Mushrooming Property tax levies. 135% increase in N. J. in 10 yrs.	Population explosion Changing age composition Increased prosperity brought demand for more and better services.	Eliminate social costs from Property tax base.
2. Inequitable distribution of tax burden	Exemptions in-lieu payments Social benefits (Veterans Exemptions Senior Citizen Exemptions)	All properties should be taxed for services and capital costs of municipally owned property. Social benefits to come from broad base.
3. Raising money by municipalities for items over which they have little or no control	State mandated expenditures	Body controlling expenditures should have direct responsibility for raising the money.
4. Complexities in allocating state aid.	Equalization required. Leaves room for inequities.	Elimination from property tax of state aid items entirely and put under State revenues.
5. Tax as a percentage of value does not keep pace with needs.	Property values lag behind economy.	Broad based taxes should handle social benefits.

Real Property Tax

Should cover municipal services only police, fire, streets, municipal employees. Capital expenditures to build and maintain municipal and school buildings. Should cover only those expenses controlled wholly on the local and county level.

County levies should cover only highways, bridges, records, jail, courts and necessary or desirable county properties. Regional levies should be based as above.

Broad Based Tax

All social benefits:

Veterans and Senior Citizens

(Elimination of social and school operations from real estate tax should eliminate need of senior citizens deductions).

Welfare grants and administration.

School current operating expenditures.

The broad underlying principal is to place the raising of funds squarely in the hands of the bodies spending the funds, or mandating their expenditure.

The amount of land is fixed while the population increases. It is unrealistic to continue to tie education of more people, welfare for more people, and any other social benefits to a base which is limited in amount and can grow only at a pace much more limited than required expenditures.



CO. ADMIN. BLDG., SOMERVILLE, N.J. 08876 TEL: (201) 725-4700

NEW JERSEY COUNTY PLANNERS ASSOCIATION

OFFICERS

George M. Ververides	PRESIDENT
Alfred H. Linden	VICE PRESIDENT
Bruce W. Hamblin Jr.	SECRETARY
Kenneth Hiltbrunner	TREASURER

AN OPEN LETTER TO THE CITIZENS OF NEW JERSEY

The New Jersey County Planners Association is presenting the following proposal on tax reform in order to draw attention to the need for eliminating the disastrous affect of the property tax. Excessive property taxation is a major factor in distorting community development in the State of New Jersey, substantially spreading urban blight and encouraging the sprawling destruction of the countryside. The present system of high property taxation must be changed, otherwise urban deterioration will continue and local government will fail to meet the needs of its citizens.

The crisis in housing, in the construction of new housing and in the lack of maintenance of existing housing, along with the increased cost of housing, is also substantially related to the high property tax. It is recognized that there are many other significant factors affecting the cost of housing, but the taxation of housing at a higher rate than that of any other commodity is a major causal factor. Moreover, the attempt by local government to fend off residential development is adding to the scarcity and cost of housing. This proposal would alter the tax structure to reward, instead of penalize, local government for accommodating the demand for housing.

The County Planners Association in presenting this proposal to the public is hopeful that it will stimulate widespread discussion. The proposal is not in the form of legislation, and future action on the proposal is dependent upon its reception among the citizenry and the Governor's Tax Reform Commission. We offer this proposal not as a complete solution, but as one possibility of modifying the tax structure in the State of New Jersey.

Very truly yours,

George M. Ververides

THE PROPERTY TAX IN NEW JERSEY AN EQUIVALENCY GRANT - IN LIEU OF TAX PROPOSAL

There is universal recognition that the property tax, as levied in the State of New Jersey is iniquitous, distorts municipal finances, warps comprehensive planning and hinders housing development. The National Commission on Urban Problems states:

The (property) tax amounts to a very high consumption tax on housing expenditure and thus tends to reduce consumer demand for housing. This in turn tends to limit growth in the stock of urban housing and to limit improvement in the quality of the existing housing stock.

The reliance on the property tax, particularly during a period of continuing inflation, inevitably weakens the ability of local government to fulfill its assigned responsibilities. The continuing rise of property taxation well in excess of the cost of living tends to create community dissension because the tax frequently falls hard on segments of the population with very limited ability to pay. At the same time the property tax is very remunerative, producing far more revenue than any other tax at the state or local level.

There is embodied in the socio-economic fabric of the communities a set of values that are intertwined with the property tax suggesting an immediate drastic reduction will be difficult. Also, the outright replacement of the property tax will require a massive revenue alternative. In recent years the property tax has been drastically increased on an annual incremental basis. It would seem that proposals to alleviate the deleterious impact of heavy property taxation might also be implemented on an incremental basis.

The following proposal will not immediately, or even in the near future, solve the problem of an iniquitous and regressive property tax. A major new source of revenue either from a state income tax or substantial federal revenue sharing would be required if an immediate and significant reduction in property taxes is to be achieved. The federal administration's bill for revenue sharing would provide sufficient revenues to accommodate the equivalency grant proposal, at least for the initial years. The equivalency grant and in lieu of tax proposal will provide a modest but growing alleviation of the regressive impact of the property tax. Moreover, legislative enactment of this proposal would have a dramatic impact on the availability of land for housing construction.

The proposal will not solve the problem of high interest rates and high costs of construction; but at least land for residential construction will become more available. Residential development will then be an asset to municipal finances, thus providing inducement for the municipality to zone land for residential development. In this process municipalities will then be able to engage in comprehensive planning unfettered by the reality that most residential development has been a fiscal liability to the municipality. This proposal should

This report was prepared for the New Jersey County Planners Association by its Committee on Taxation, Arthur L. Reuben, Chairman.

also be extremely beneficial to communities faced with the problems of blighted residential structures. The inducement offered to rehabilitate existing structures represents a modest revenue proposal which should serve as a catalyst for the improvement of residential structures, thus aiding in the rehabilitation of blighted neighborhoods.

THE EQUIVALENCY IN LIEU OF TAX GRANT

The State of New Jersey shall grant to each municipal taxing district an equivalency grant based upon the expected tax return allocated to county and municipal educational costs from specified new residential structures as well as additions and alterations to specified existing residential structures. The residential structures covered shall include both single-family, two-family, and multi-family dwelling units. The tax rate in each taxing district shall first be computed in the same manner as in the past. The equivalency grant for residential construction will then be utilized as additional source of revenue reducing the general tax rate to all residential taxpayers in the district. All grants will only apply to the values of residential structures with land values excluded.

The equivalency grant on new residential construction shall be based upon the following formula: The cost of construction of residential units shall be determined from data now compiled by the Department of Labor and Industry. All local governments shall receive from the State of New Jersey a grant equivalent to the educational taxes on new residential units that are at or below the eightieth percentile in cost of construction during the calendar year of construction. For residential units that are above the eightieth percentile of cost of construction, the base rate of the eightieth percentile structure shall be applicable but decreased at the rate of 10% for each 1% increase in the cost of the structure. Equivalency grants for new residential units shall receive a 25% increment supplementing the basic formula for those units with three or more bedrooms.

The equivalency grant for additions and alterations to existing residential units shall be similar but with the following modifications. The assessment of the equalized value of the residential structure inclusive of the improvements shall be compared with the state-wide eightieth percentile cost of construction of a new residential unit in the year that the addition or alteration appears on the tax rolls. For residential units above the eightieth percentile cost of construction, the equivalency grant will be decreased in the same manner as for new construction at the rate of 10% for each 1% increase in the cost of the structure.

In order to stimulate the removal of blight and to encourage property owners to improve their properties there shall also be an equivalent tax exemption granted to the owner of the housing unit being improved, with the local taxing district also receiving an equivalency in lieu of tax grant equal to the tax exemption. The normal maintenance and repair which are not now subject to building permit requirements shall be excluded from any benefits.

The full equivalency grant and in lieu of tax benefits shall be continued for a period of 30 years, calculated on each year's tax rate and continuing with the structures through periods of reevaluation. At the end of the thirtieth year the equivalency grant shall be reduced

by 10% with each passing year, to terminate at the fortieth year. Municipalities, where construction of new housing is undertaken with public funds or under tax abatement precedents, shall receive state benefits equivalent to the taxes that would have been paid if the housing units were fully assessed.

EXAMPLE:

COMMUNITY 'Z' --- 1,000 DWELLING UNITS

Total Property Tax		\$1,000,000
Tax on Average House - \$1,000		
Construction of 200 new houses or apartments with expenditures and revenues increasing proportionately		
200 x \$1,000		\$200,000
Tax on Land	\$200	
Tax on Structure	\$800	
Educational Equivalency	\$600	
(Grant from State where educational expenditures comprise 75% of tax revenues)		
200 x \$600		\$120,000
New Total Property Tax		\$1,080,000
New Tax on Average House - \$900		

POSTSCRIPT

The cost of this program to the State of New Jersey in the year 1969 would have been approximately 20 million dollars. If we assume that the dollar amount of residential construction will increase by 50% in 1971 (a much greater increase than historical trends warrant) then this proposed legislation would require a revenue appropriation of 30 million dollars. In a State budget approximating 1,600 million dollars this sum is not excessive. Also by way of comparison, are the data released by the Federal Bureau of Internal Revenue stating that collections in the State of New Jersey in 1968 were approximately 6,500 million dollars. The cost of this program would continue to increase in subsequent years, but the revenue base of the State of New Jersey and federal revenue sharing grant-in-aid programs are also scheduled to increase. Any program to materially aid local government's fiscal position and alleviate the property tax will be costly. The equivalency in lieu of tax grant has the advantage of rewarding the municipalities that are coping with the problems of development.

In lieu of tax grants have a precedent in the State of New Jersey in the payments to municipalities for the acquisition by the State of specified reservoir sites. Tax exemption also has precedent for pollution control facilities and partial exemption exists under the Limited Dividend Law for Housing, and the Fox Lance Law for industrial and commercial development. The tax exemption program unfortunately continues to place the burden of local finance upon the property tax. The equivalency in lieu of tax grant proposal would shift this burden on a gradual basis to the much broader resources of the State.

HARRISON A. WILLIAMS, JR., N.J., CHAIRMAN
ALAN BIBLE, N.D.
FRANK CHURCH, IDAHO
JENNINGS RANDOLPH, W. VA.
EDMUND S. MUSKIE, MAINE
FRANK F. MURPHY, UTAH
EDWARD M. KENNEDY, MASS.
PAUL D. VANDERBURG, TEX.
STEPHEN M. YOUNG, OHIO
WALTER D. DUNN, MISSOURI
VANCE HARTKE, IND.

WILLIAM F. BRIDGES, STAFF DIRECTOR
JOHN GUY MILLER, MINORITY STAFF DIRECTOR

SUBMITTED BY A. R. LUARTES

United States Senate

SPECIAL COMMITTEE ON AGING
(PURSUANT TO S. RES. 39, 91ST CONGRESS)

WASHINGTON, D.C. 20540

September 21, 1970

Mr. A. R. Luartes
Chairman
Legislative Committee
Camden Council for the Betterment
of Senior Citizens
31 Maple Avenue
Cherry Hill, New Jersey

Dear Mr. Luartes:

You and your associates at the Camden Council for the Betterment of Senior Citizens have my heartfelt thanks for providing such an excellent summation of arguments for property tax relief to elderly homeowners. You have succinctly made the case for action which will assure older Americans that their limited, fixed income will not be wiped out or badly eroded by the continuing and often drastic increases in the property tax. The enclosed transcript on "Home Ownership Aspects" provides additional information on the subject discussed in your letter.

My feelings on the matter are expressed in the enclosed Floor statement. As you will see in the final paragraphs on page two, I propose that a multi-agency Task Force be established at the earliest possible date to provide cost estimates for several possible means of providing such tax relief. Only after we have such estimates and additional information, can we hope to have informed discussion on Congressional response.

At this point, there is still a chance that my proposal could become part of a bill now under consideration by the Senate Finance Committee. If you and your Council members see merit in this approach, you can be sure that I will welcome your support. If, however, you feel that other kinds of action are possible, I would be happy to hear further from you.

Sincerely,


Harrison A. Williams, Jr.
Chairman

STATEMENT

TO: N. J. Tax Policy Committee
Task Force C. "The Property Tax"
Leonard C. Johnson, Chairman

October 21, 1970

FROM: Geoffrey W. Esty, M.D.
President, Economics Education Institute, East Orange, N.J.
Member, Board of Directors, Robert Schalkenbach Foundation, New York City

SUBJECT: Potentials of the Property Tax

Amidst spreading citizen tax strikes, community violence, polarity of domestic life styles and social disintegration, stands the ever-enduring Property Tax, contributing to violation and disrespect of the law, and at the same time, possessing a latent potentiality for equality and social justice.

The property tax is not one tax, but two: a tax on improvements, buildings and other land uses, and a latent tax on site or location values. The tax on improvements to land is regularly assessed at rates required for public services. However, buried in the total figure are nominally assigned percentages of site or land values, having usually little relation to values resulting from population or changes of location factors. The current property tax, then, tends to higher and higher rates on improvements, while site or location values remain nominally and generally grossly undertaxed.

Land, whether urban, suburban, rural or farm, are valued in accordance with the supply and demand. Market price of sites is the net amount after the deduction of taxes thereon. Speculative values are added to theoretical site values and are greater where low or unrealistic assessments of sites are permitted.

As a physician and a behavioral scientist, my concern with children, families, ill health, poverty, slums and delinquencies has resulted over the many years in an active and continuous inquiry into the possible constructive and positive ways of promoting sound total health and social relationships. A particular interest has been directed to "psycho-economics" or the psychology of taxation. It has become abundantly clear that our present forms of taxation tend to be arbitrary and penalizing, evoking a natural resistance and hostility to authority, resulting often in evasion and a flagrant disregard for the law, and a double standard for our children to cope with.

Clearly, the usual property tax system provides for huge financial "windfalls" to land owners who under-use or misuse their holdings. Conversely, the system penalizes those whose social consciousness impels them to upgrade their properties.

Economists seldom give thought to the potentialities of positive incentive taxation systems, which would be in tune with instinctual human behavior. Take just one simple example:--If an owner of a slum building, acting perhaps as a public spirited citizen, should paint his building or put in proper plumbing and repairs, he is penalized for this effort of improving his property for the benefit of his tenants, by an increase of his property taxes. He therefore tends to resist such improvements except under the penalty of the law, and tends furthermore to crowd as many tenants into the building as possible, in order to realize a maximum rental income. It is readily apparent, therefore, that such penalizing taxation perpetuates and even promotes the slum--or its eventual desertion!

Briefly, then, my proposal incorporates both factors inherent in the property tax:--improvement values, and site values. Both can benefit the community through the use of incentive taxation, provided taxes on improvements are lowered gradually or at any rate held at current rates, while the collection of site or location value taxes are gradually raised systematically, and preferably yearly.

The lowering of the tax on improvements on land results in incentives to build, improve, or rehabilitate, according to the land's best use and location. The increasing taxation of site values will promote rather than retard the economy. It should make slums unprofitable, and encourage their elimination or rehabilitation with less dependence upon government subsidy. It would tend also to encourage unused or poorly used land toward an optimum development, according to location.

The taxation of site values constitutes a natural source of government revenue, for the values of sites are socially created. It is not only fiscally sound, but equitable and just. Its determination and administration can be recorded on property and land value maps, assisted by modern computer systems. On completion of graded site values and improvements determination, the community can reassess both at yearly or bi-yearly intervals to maintain current ratables.

There are many methods in use over the world employing public collection of "economic rent" (site or land value taxation). All are based on a degree of tax incentives. Pittsburgh has had a graded tax plan in operation since 1914, and more recently Southfield, Michigan. California's Irrigation Districts are based upon land values only. Australia's six states, the Capital Territory, and many of the local governments tax land values to some degree. Land value taxation was introduced into New Zealand in 1891; Denmark in 1932. In Canada, the principle of levying a greater tax on land values and a lesser one on improvements had become established in municipal taxation systems of British Columbia, Alberta, Saskatchewan and Manitoba by 1914.

From what little has been said here, it can be seen that the New Jersey Property Tax with its incentive component is very flexible and can be adapted to the needs of this State in many ways. Furthermore, the provisions applying to taxation in New Jersey's new Constitution of 1947 left the matter of raising revenue by taxation to the Legislature, but provided that property taxed must be uniformly assessed and taxed.

Your Task Force C. Committee may wish to consider, as one example, the tax pooling of municipalities in certain counties on the county level, thus saving costs and obtaining uniformity.

In testifying before the Alexander Tax Commission in 1962, I said: "I would respectfully submit, Mr. Chairman, that New Jersey is indeed at an historical cross-road, and that your Commission has the power to recommend either a method of incentive taxation, which will enhance the future well-being of this State, or to suggest, instead, still other forms of penalizing taxation which may well hazard the future economic health of this State." If the time was crucial in 1962, how much more crucial has it become in 1970!

I fear that New Jersey is afflicted with "iatrogenic disease" with respect to its current tax practices. In this context, the term is used with respect to a common world-wide societal disease, the name of which has been borrowed from medicine:

"It is defined as a physician-induced condition, and arises when an inappropriate treatment, given perhaps for a misdiagnosed illness, is continued and even stubbornly escalated. When such treatment gives rise to symptoms of its own, it is called 'iatrogenic disease.' Unless the error is appreciated, the treatment stopped, and therapeutic direction shifted, the patient ultimately dies."

I strongly urge that your Committee arrange for a conference for the purpose of studying the many potentials of the property tax as an incentive tax system. I have been given the personal assurance of Perry Prentice, Executive Vice President (retired) of Time Inc, to conduct at your pleasure a conference similar to the one described by the enclosed reprint from the Nation's Cities of May 1970, entitled "Better Assessments for Better Cities." Mr. Prentice is a director and Chief Consultant of the Robert Schalkenbach Foundation of New York.

Additional materials can be made available including reprints from previous nation-wide conferences, and the new film "Better Cities"--award winning documentary film--winner of 1969 International Film and TV Festival of New York.

I stand ready to assist you in making these arrangements.

Statement of Augustus Wasmith on behalf of

ASSOCIATED RAILROADS OF NEW JERSEY

to
Task Force C, The Property Tax
of the
New Jersey Tax Policy Committee
at a Public Hearing

October 21, 1970

Assembly Chambers, Trenton, New Jersey

We desire to submit to this Commission a brief review of railroad taxation---a subject which has been examined three times by the Commission on State Tax Policy in the following reports:

Third Report (1948) entitled

"The Taxation of New Jersey Railroads"

Tenth Report (1963) entitled

"Increased State Aid to Public Schools and Distribution
of the Cost of Expanding Public Services." pp.111-117

Eleventh Report (1965) entitled

"Railroad Taxation in New Jersey---The End of an Era."

The Third Report recommended changes in the existing 1941 Railroad Tax Act (summarized at page 58 of the Eleventh Report) designed to provide total railroad tax revenues of \$16 million, as opposed to the existing (1941-1947) level of \$18.775 million. These recommendations were enacted.

In discussing the Future Tax Burden of the Railroads, the Commission stated (page 24):

"...that the economic condition of the railroads as a group, or at least those railroads which serve New Jersey, and the comparative tax burden imposed in other states, would normally warrant a reduction in the railroad tax imposed in this State. A reduction cannot be recommended, however, at a time when all other property owners are being required to increase their contributions to the cost of government, and at a time when the State is faced with the need for additional new revenue. By the same token, it is a much better time, when the revenue structure is being revised, to take advantage of the opportunity to adjust State finances to declining railroad tax revenues."

The Tenth Report found it quite clear that there had been no improvement in the economic status of the railroads since 1948 (p. 113). The Commission recommended as follows (p. 117):

"As a first step toward a rational solution of the railroad tax problem the Commission recommends that all railroad taxes be for State use and that the State provide replacement revenue for the municipalities to save them harmless as a result of this change in tax policy. The replacement revenue could be derived partially from the continued taxation of railroads and partially from any new tax source which the State may adopt."

The Commission did not have the time to resolve the adjustment problems involved in this change in tax policy and stated that if the recommendations were acceptable in principle they could be remanded to it for further study and report. The Legislature did so by JR - 7, approved June 6, 1963.

The Eleventh Report was in two parts. An interim report of May 18, 1964 was issued because the Commission felt immediate tax relief was necessary and desirable; it recommended reduction of \$2.5 million by elimination of the Class I tax on main stem (right-of-way) and the Class III tax on tangible personal property (primarily rolling stock). These recommendations were enacted on December 29, 1964, but the effective date was postponed until January 1, 1966.

The Commission's final report submitted in December, 1965 recommended that all Class II property (all real property in railroad use other than main stem) in passenger service be exempt from taxation; and that remaining Class II railroad property---after a transition period at a higher level---be taxed at a flat rate to reduce the total railroad property tax burden to \$8 million.

These recommendations were again implemented and the total railroad property tax burden did reduce to \$8 million in 1968.

In discussing the Need for Tax Reduction, the Commission considered the aggregate annual net deficits and working capital deficits of New Jersey railroads, set forth in Tables 5 and 6 on page 12.

The largest net deficit shown was (\$63,782,764.) for 1961; largest working capital deficit (\$64,275,539.) for 1963. Unfortunately, the comparable figures for the year 1969 are (\$114,891,393) and (\$150,819,518), as shown on Appendix A, attached.

Since publication of the Eleventh Report, the Central Railroad Company of New Jersey went into reorganization under the Bankruptcy Act on March 22, 1967; and Penn Central and Lehigh Valley did so this summer. It is again quite clear that the economic status of the railroads has declined.

Conclusion

The Commission on State Tax Policy in its summary of the Eleventh Report (pp. vii and viii) stated:

"2. To achieve such tax reform, it is desirable at this time that the State take over the taxation of Class II railroad property. This will make possible the adjustment of the Class II tax level in the future as circumstances may require without adversely affecting individual municipalities." (emphasis supplied)

1. We believe that present circumstances warrant such adjustment and that this Commission should recommend a reduction from the present tax rate of \$4.75 for each \$100. of true value (R.S. 54:29A-7).

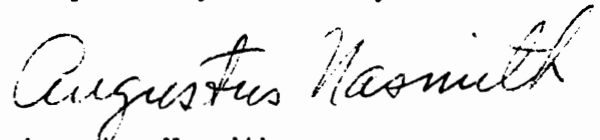
2. In addition, we ask you to recommend two amendments to the Sales Tax:

(a) Railroad track materials, communication, signal and power equipment should be exempt, in addition to the present exemption for sales of locomotives and rolling stock (R. S. 54:32B-8 (bb)).

This would afford railroads the same exemption as gas, electric and telephone utilities have for machinery, apparatus or equipment and cables for use in transmission or distribution of their services (R.S. 54:32B-8 (m)).

(b) Railroads should have the same exemption for repairs to locomotives and rolling stock as is afforded for repairs to trucks and trailers under Sec. 3 (b) 2 (iii).

Respectfully submitted,

A handwritten signature in cursive script that reads "Augustus Nasmith". The signature is written in dark ink and is positioned above the printed name.

Augustus Nasmith

Appendix A

System Net Income or Deficit* 1969

Jersey Central System	(\$ 9,042,400)
Erie Lackawanna (Includes New Jersey and New York)	1,258,859
Lehigh and Hudson	(96,928)
Lehigh Valley	(7,539,684)
Penn Central Company (Former Pennsylvania Railroad Company and New York Central)	(91,631,726)
Penn-Reading	(4,526,679)
Reading	(3,312,835)
Total	<u>(\$114,891,393)</u>

* () Denotes deficit.

Working Capital* 1969

Jersey Central System	(\$ 6,665,527)
Erie Lackawanna (Includes New Jersey and New York)	(13,957,113)
Lehigh and Hudson	(21,939)
Lehigh Valley	(2,816,280)
Penn Central Company (Former Pennsylvania Railroad Company and New York Central)	(111,698,340)
Penn-Reading	(3,795,378)
Reading	<u>(11,864,941)</u>
Total	<u>(\$150,819,518)</u>

* Includes material and supplies and debt within one year.

() Denotes deficit.

Public Hearing by Senate Committee C (The Property Tax)...October 21, 1970

I am Helen C. Fenske, former Director of the North Jersey Conservation Foundation, Consultant to the Office of Resources and Environment of the Ford Foundation, and presently Adjutant, College of Agriculture and Environmental Science, Rutgers University. I am not an economist or an expert on tax law, but I make the following comments as one who observed sufficient environmental patterns throughout the country to recognize the vital importance of tax structures on environmental quality.

PRELUDE

In the past the points of view of conservationists have been largely dismissed as being unrealistic and/or incomprehensible when economic policy and structures have been formulated. This inability to relate environmental values in meaningful economic terms still persists.

We feel the recommendations of the Tax Policy Committee will have a direct and vital influence on the future quality of New Jersey's environment. For this reason, an attempt should be made to explain the gap between the conservationists and the economists in the hope that the Committee can forge a bridge which will serve all interests in the State.

Simply stated, the terms that experts in each field use to form the basis for their projections are entirely different, and little or no research has been done to weld the two into a single integrated scale.

SCALE I

The conservationist speaks in terms of the essential externalities which, over the years, have been abundant...and FREE. These are clean air and water, and the natural resources and amenities which support life and make for a quality living. To many, conservationists have appeared to be merely preservationists, or obstructionists, but this is because open space (forms the base for air, water and natural resources. It is essential to a life support system and should not be relegated to a fringe consideration.

Hence, conservationists measure the Garden State in terms of its once great versatility of terrain and resources...the lakes, mountains, valleys, rivers, coastline and estuaries.

I color this scale light green, blue and white with dark green denoting its open space base.

SCALE II

Economic development and progress, with its demands for resources and services, represent the other scale. Its measurement has been computed in terms which many consider fairly concise...that of dollars and cents. The growth aggregate represents corresponding subtraction from Scale I, but this has gone uncomputed in measuring progress. The ideal situation would be a system to figure true costs of economic growth.

We are now in the position of having economic growth and development overcome the natural and physical resources of the state needed to support both progress and the population. The New Jersey Commission on

Hearing - New Jersey Tax Policy Committee - October 21, 1970

Open Space Policy made the following statement in preliminary report to the legislature on 6/26/70:-

" The remaining New Jersey open space lands are now nearly fully utilized to support the present densely developed and populated sections of the state. These open lands are essential to the environmental well-being of our present urban municipalities."

Yes, we will survive, but that survival may not be ~~FAVORABLE~~ FAVORABLE TERMS.

I color this scale black...and red for the future unless there are drastic changes in New Jersey's environmental priorities.

SCALE III

We all know that New Jersey is the state with the most people per square mile, exceeding concentrations greater than that of India. As the population increases, the growing burden, complexities and costs of public and social services will be compounded. As a result, New Jersey will impose ever increasing demands on local property taxation in order to pay for these services and social solutions.

Crime, racial tensions, pollution, visual and physical degradation of our cities and countryside are directly related to poor planning and a past delinquent attitude toward the importance of amenities essential to a quality life for New Jersey citizens. This, then, is the third scale which should be introduced. It is viewed as public costs, but rarely are its soaring demands related to Scale I or II.

I color this scale red...all RED.

Very little work has been done anywhere to relate these scales in conclusive terms that are useful to the legislators, government officials and official bodies, such as the Tax Policy Committee, who establish policy. Nowhere is this type of research more needed than in New Jersey. If environmental factors are not now given the highest priority, New Jersey will surely become an environmental and economic disaster area.

RECOMMENDATIONS

I urge the Tax Policy Committee to:-

1. Finance an immediate comprehensive study of the impact of property taxation and other tax structures on the quality New Jersey's environment.
2. Find new tax revenues to relieve the tax burden on local property.
3. Plan a specific source of steady funding for the State's growing environmental needs.

The following suggestions are offered for your consideration regarding each of these three recommendations.

(Re: 1. -Study)

Hearing- New Jersey Tax Policy Committee - October 21, 1970

(Re: 1. -Study)

The State imposes tax burdens on local communities and has laws that cut into the property tax from which towns and cities must derive ALL their revenue. At the same time, local governments have little or no control over many of these expenditures. Major reliance on property taxation means cities and towns can not afford to build...or rebuild with the proper balance given to watersheds, parks, wise development patterns, water supply, recreation and esthetics. This capability is essential to counter air and water pollution, urban stresses, and the growing ugliness of the countryside. Further, dependence on local property taxes means the State does not have the leadership or leverage needed to implement state policy.

In other words, the State imposes too great a burden on communities through property taxation for state and county services over which local governments have little or no control. Some of these are:-

- a. Exemption from property tax on state properties
- b. Police, prison and court systems
- c. County extension services
- d. Welfare and health services
- e. Air, water and open space controls
- f. Waste management
- g. Maintenance of roads
- h. Programming and facilities for education

A study should not only analyze all demands placed on local property taxation, but also determine the effects such taxation has on ill-planned random development patterns and open space loss.

(Re: 2.-New Tax Revenues)

If we do not raise the needed revenue from new taxes at the State level, we will have to raise more from local property taxes. There is no alternative. Those who are against new State taxes must favor far higher property taxes.

The solution most often offered to increased property taxes is a combination sales and income tax. There is increased support for the idea that a state must make use of both...the general retail sales tax and the personal income tax. Thirty states now levy both, and more significantly, twelve states joined the double tax ranks since 1960. When both kinds of tax are to be put in effect, the laws enacting them can be written so that resident taxpayers can credit what they pay against their state income tax. This protects persons of low income and those with many dependents against any significant payment of sales tax.

Shifting business taxes to individual taxpayers, or to property taxes should be avoided. When tax reform is undertaken, it is suggested that business income taxes take the place of whatever inequitable taxes now are derived from business.

Although taxes are not easy to raise....they are easy to spend. A priority system must be established. I feel strongly that most new tax revenue raised by the State should be used to help towns and cities relieve the tax burden on local property. Some suggestions as to how this might be accomplished are:-

- a. Additional funding to towns and cities for education.
- b. Payments in lieu of taxes for State property.
- c. Payments for exemptions and/or other erosions of the local tax base imposed upon towns and cities. Property tax exemptions, as in the case of veterans, disabled persons and the elderly, are desirable, but they reduce the productivity of the property tax and shift additional burdens to other local property taxpayers. They also operate more harshly on some communities than on others.
- d. Increased funding to towns and cities for local services which municipalities can not provide adequately for themselves, but which are essential for the resolution of certain problems.

Some of these might relate to waste management, pollution control of all kinds, water supply, flood plain and open space preservation, health and welfare services, education, the administration and programming for police, prison, fire and court systems.

These monies should include new grant-in-aid programs to town and cities. The Federal Government uses grant-in-aid to promote national objectives, which, in many cases, would be ineffective without such support. The great national turnpike network and pollution funding for interstate waters are examples. Acting alone, individual states could not...nay, would not, formulate and implement such programs.

Similarly, many New Jersey problems result from a lack of state direction or State response to state-wide problems. These should not be contingent on a local property tax for long range solutions. With 567 communities crowded into this small state, State leadership and policy underwritten by adequate finance programming are more essential than in most states. Unfortunately, New Jersey lags far behind in statewide initiatives.

In other words, grants-in-aid promote state goals by encouraging local governments to act, yet allowing control to remain at the local level. They are, in many cases, superior to direct State action. There seems to be no possibility of cohesive State leadership and policy on behalf of the total needs of the State under the present system of major property taxation.

Hearing - New Jersey Tax Policy Committee - October 21, 1970

(Re: 3 - Financing New Jersey's Environmental Needs)

For a State whose limited financial resources are already stretched to meet pressing public needs, the prospects of being required to spend additional money on the conservation and redemption of natural and aesthetic qualities is not attractive. However, because environmental concerns have held such a low priority in the past, we now have degradation and its attendant social and economic problems 15 to 20 years ahead of any other state in the Nation. Environmental concerns, now reaching crisis proportions, should be given the greatest attention in a tax reform package. *Tax structure is hard to use as a positive tool, but we must be sure it is not used negatively.*

New financial resources specifically geared to meet these needs should be found. Traditionally New Jersey has avoided earmarking revenues in perpetuity, but a strong argument can be made for special revenues devoted to conservation purposes for the next six to ten years. Subsequent use of funds could be determined by the legislature or a special commission.

Taxing Land Profits and/or Land Transfers

Most land speculation is directly attributable to population growth, the fixed supply of available land, and the public investment in new highways and other community services. These factors have led several public finance economists to suggest taxation of land profits or a land transfer levy as ideal sources of revenue. Questions of constitutionality and administration difficulties have been raised regarding the land profit tax, but the logic of devoting the proceeds from a land transfer tax to the conservation of natural resources is attractive and should be considered.

Taxation as a Control Device

Apart from raising revenues for environmental needs, the tax system may itself influence individual behavior in ways which serve and disserve environmental objectives. An example might be that of the farmers and other low-intensity users of rural land who were being forced by rising property tax burdens to sell their land for premature and unplanned development.

Preferential tax structure for farms has slowed the loss of farms to development. However, it appears that the lure of windfall capital gains, coupled with the unfavorable economics of farming for many operators are far more powerful pressures than are the benefits of preferential or deferred taxation.

Developers continue to leapfrog to available random open space areas with little concern for logical planning, environmental concerns, or the public costs of services and transportation. Nevertheless, a growing number of states use preferential and deferred taxation as a useful tool to slow the loss of open space.

Private Initiative to Supplement State Open Space

The State should encourage private charitable initiative to supplement its open space needs. New Jersey is one of the few states not

Hearing - New Jersey Tax Policy Committee - October 21, 1970

benefitting from the efforts of private and semi-private organizations and agencies. Contrast its record with the neighboring state of Massachusetts where some 40,000 acres of coastal and inland wetlands, scenic and historic sites, forests, fish and game sanctuaries and recreation areas are held and maintained by the private sector for the public good. Or Connecticut where numerous local land trusts have preserved a total of 38,000 acres in and near cities and towns.

At the moment, New Jersey has neither state funding for open space acquisition nor the assistance of the private sector to meet its needs. The key is appropriate tax relief for those lands privately owned and maintained by charitable conservation organizations for public use.

Inheritance Tax Review

Inheritance tax laws need to be studied for their impact on open space loss. Present structure forces the dissolution of meaningful large unspoiled tracts which are often near large urban areas. Frequently, these tracts are sufficiently large to permit a genuine, if temporary, escape from automobiles and industrial smokestacks. The beautiful 400 acre Dodge property in Madison might shortly become a classic case in point.

CONCLUSION

New Jersey's revenue system is badly stretched to meet existing budgetary needs, but its present dependence on property taxation tends to increase environmental degradation and prevent renewal of our cities.

The State needs to develop a soundly conceived and effectively administered tax structure which goes beyond major property taxation in order to achieve two major environmental goals:-

1. The proper preservation, planning and use of the State's diminishing open space and natural resource amenities.
2. The redemption and/or rebuilding of environmental qualities so callously destroyed or ignored in and near our cities and older towns.

SUBMITTED BY FRANK R. MacKANNAN

PROPERTY TAX REFERENDUM

Property Taxes in New Jersey are unbearable. They have almost reached the point of *confiscation*, are we as taxpayers going to *stop* this trend? *We can*, through proper tax legislation. Our elected representatives are supposed to represent us, *the voters* . . . let us tell them like it is!

MY PROPOSAL

1. **No Income Tax for the New Jersey General Fund.** (Under present State Law, taxes in New Jersey are dedicated for one-year only, then become part of the *General Fund* — "*The Pork Barrel*").
2. **REPEAL 5% SALES TAX.**
3. **A flat Income Tax dedicated by Constitutional Amendment** to reduce Property Taxes in New Jersey is a *must*.

This is *not* a gamble, this is a *sure winner*.

ALL TAXPAYERS WIN

4. Figured on a *flat* basis, 2% of your gross income would *reduce* your Property Tax by 2/3. (2% of \$10,000—\$200.00. What is your *Tax Bill*?) Remember, this is a *flat tax*. If your income is *large* you pay *more*. If lower you pay less. *School Taxes are the big item on your Tax Bill*.

New Jersey State pays 28.5% towards support of local schools. *National Average is 40.7%.*

Delaware	70.6%
New Mexico	62.7%

MY FORMULA

If New Jersey paid 50%, Property Taxes would be reduced 2/3. To pay 50%, New Jersey would need 600 million in additional money. Total income in New Jersey is over 30 billion. 2% of this is a *cinch* to produce the 600 million new money needed to *reduce Property Taxes by 2/3*.

Remember . . . A flat Income Tax dedicated by Constitutional Amendment forever is the only answer. An income of \$5,000 (excluding Social Security) will be used as the starting figure for the proposed *flat base tax*. (Less than \$5,000 non-taxable.) **Tell your elected officials this is what we want.**

If you favor this legislation *sign* this sheet and *mail* to your elected Assemblyman in Trenton, New Jersey 08625.

Name

Address

.....



FRANK R. MacKANNAN

(A Concerned Taxpayer)



NEW JERSEY EDUCATION ASSOCIATION

180 West State Street • Trenton, N. J. 08608 • Tel: (609) 599-1561

STATEMENT by S. Herbert Starkey, NJEA Director of Research representing the New Jersey Education Association before the public hearing of Task Force C of the New Jersey Tax Policy Committee, in the Assembly Chamber, State House, Trenton, New Jersey, Wednesday, October 21, 1970.

The New Jersey Education Association appreciates this opportunity to present its views with regard to the imposition of property tax rate ceilings or limitations.

Rate limitations imposed upon New Jersey's present property tax system without providing substitute sources of revenue would be disastrous. Many of the school districts that would be affected have very low valuations per pupil and are operating at minimal or substandard expenditure levels. These same districts are presently penalized by outdated and inequitable state school aid allotments. These same districts are also penalized by the partial implementation of the Bateman Commission formula recently enacted by the Legislature.

Attached to the statement is a table listing 29 tax districts that would be adversely affected if certain assumed tax ceilings were imposed in the 1970 calendar year. For school purposes an equalized tax rate ceiling of 35 mills or \$3.50 per \$100 of full valuation was selected. A total all-purpose tax rate ceiling of \$5.00 was used. The rates were selected to produce a relatively small number of tax districts affected by the assumed ceiling.

In 1970, there are 14 school districts with an equalized school tax rate of more than 35 mills. Thirteen of the 14 have valuations per pupil less than the state average.

There are 24 tax districts with all-purpose property tax rates above 50 mills or \$5.00 per \$100 of full valuation, Nine of the 24 tax districts also base school rates above the assumed ceiling. Only Montclair among the 24 districts has wealth per pupil above the state average. Seventeen of the 24 tax districts have coterminous school districts where school expenditures per pupil are below the state average.

This rather limited study clearly shows that tax districts with high property tax rates generally are not high expenditure units but rather are forced into making high tax effort because of the lack of ratables. This is further compounded by insufficient state school equalization aid. Further cuts in school services as a result of tax rate limitations might well raise constitutional questions of a failure to provide equal educational opportunity.

Before rate limitations are seriously considered, answers to the following questions are needed:

1. If an all-purpose rate ceiling is proposed, how would the local tax levy for schools, municipality and county be equitably adjusted when the tax certifications exceeded the ceiling? Would not budget padding be encouraged so that a particular agency would not suffer a cut in services?
2. If a separate ceiling is proposed for schools, municipality and county, could one agency utilize the unused portion of another agency?
3. How could separate rate ceilings operate in a state with such wide variations among tax districts with respect to the percentage of levy used by schools? Forty-one school districts use less than 40% of the total tax rate, while 54 school districts utilize 75% or more of the total levy. In like

manner how could a single ceiling on municipal levies be equitably imposed on rural townships and urban cities?

We urge the Committee not to recommend property tax rate limitations if the present system is to be retained.

TAX UNITS AFFECTED BY AN ASSUMED PROPERTY TAX RATE CEILING OF
\$3.50 FOR SCHOOLS AND \$5.00 FOR TOTAL RATE

Tax Unit	1970 Equalized Tax Rate		Equalized Valuation Per Pupil		Current Expense School Cost Per Pupil, 1968-69	
	Schools	Total	Below	Above	Below	Above
	(\$3.50 or over)	(\$5.00 or over)	Average	Average	Average	Average
			(State Average-\$35,103)		(State Average-\$712)	
EGG HARBOR CITY	\$3.90	\$6.16	\$15,494	--	\$558	--
PLEASANTVILLE	--	5.44	16,646	--	525	--
AUDUBON PARK	4.57	8.70	4,791	--	581	--
BERLIN TWP.	3.54	5.19	15,031	--	466	--
CAMDEN	--	6.22	16,595	--	610	--
CHESILHURST	4.06	6.26	11,565	--	588	--
CLEMENTON	--	5.02	20,903	--	450	--
PINE HILL	3.64	5.88	11,681	--	493	--
WATERFORD	--	5.02	22,802	--	525	--
WOODBINE	3.97	5.01	10,767	--	656	--
EAST ORANGE	--	6.40	33,771	--	--	\$ 785
GLEN RIDGE	3.71	6.39	32,108	--	--	780
MONTCLAIR	--	5.21	--	\$41,702	--	892
NEWARK	--	5.90	21,323	--	--	729
ORANGE	--	6.05	33,564	--	--	775
FRANKLIN (Glouc.)	3.80	5.12	14,820	--	621	--
MANTUA	3.83	--	13,132	--	490	--
HOBOKEN	--	7.65	16,871	--	668	--
JERSEY CITY	--	6.71	25,568	--	607	--
UNION CITY	--	7.04	20,831	--	645	--
WEST NEW YORK	--	6.10	26,672	--	638	--
TRENTON	--	6.21	21,039	--	--	767
FARMINGDALE	3.60	--	17,979	--	584	--
FREEHOLD TWP.	3.72	--	28,414	--	643	--
HIGHLANDS	--	5.29	27,549	--	524	--
ROOSEVELT	3.59	--	--	45,755	--	1,089
VICTORY GARDENS	4.11	--	13,519	--	--	820
OGDENSBURG	--	5.02	25,317	--	635	--
WINFIELD	16.21	21.15	3,665	--	--	930

STATE SUBMITTED BY RICHARD F. MC CARTHY
POST OFFICE BOX 83
WEST BERLIN, NEW JERSEY

Mr. Chairman, and distinguished members of this tax study commission. My statement to-day concerns itself first with the constitutionality of the present tax structure of the state of New Jersey, and second with its effect upon the social, cultural environmental lives of the citizens of this state.

It is important to consider the legality of the present structure because if some aspects of it are unconstitutional, these pitfalls ^{MUST} can be avoided in the future. It is important to consider the effect of the present structure upon the lives of the citizens of the state because American democracy is based upon the consent of the governed, and where policies may be legal but unjust, the people will withhold their consent.

This committee must realize the seriousness of any challenge to the constitutionality of any law, but particularly a challenge to the laws of taxation, because of the far reaching effect an adverse decision would have in the questioned area.

This committee must also realize that there are grounds for such a challenge. This year, two law suits have been filed against the State of New Jersey; one on the behalf of an individual taxpayer, and the other on behalf of the taxpayers of Jersey City. Both suits challenge the constitutionality of the tax structure. There may be a tendency to shrug these suits off as "nuisance" suits but that would be a mistake because there are similar suits pending in ten different states. Before considering any tax reforms, I believe this committee should revoke these law suits, and all previous law suits pertaining to

the present tax structure. I believe that this committee should follow step by step the development of the tax structure and the effect of state control over the policies of the political sub-divisions.

Who has the power to tax? Where does this power come from? What is meant by "representative taxation"? These are questions which should be ^Puppermost in the minds of the members of this committee. A portion of each of these questions can be answered by a ^{revue} of the case of the Township of Bernards v. Allen, as cited in 57 N.J.L. (303), and 61 N.J.L. (228). N.J.L. 57 cites the decision of the New Jersey Supreme Court, 61 N.J.L. cites the decision of the New Jersey Court of Errors and Appeals.

The case concerned the budget for the Township of Bernards, Somerset County. The budget was approved by the inhabitants of the Township at a meeting held on March 4th, 1893. A charge was made that the budget did not provide for either adequate services or public protection.

In accordance with his powers, the Governor appointed three persons, freeholders and residents of the Township, as Commissioners of taxation for the Township. The Commissioners then levied new taxes on the property of the Township. The authorities of the Township objected, and the Commissioners sought legal remedy to enforce their levy. The case was first heard by the Supreme Court, and the levy was partially reduced. The Township authorities were dissatisfied with this decision and appealed the case to the Court of Errors and Appeals. Though both court rulings are important, it is the higher court that most clearly drew the lines and the limits of the powers of tax-

amount so ordered.

The Commissioners had increased the amount of the levy by \$16,124. In its decision, the Court reduced the increase by \$13,924. leaving an increase of \$2,200. The original levy for a police force was nullified, and the costs for Assessing and Collecting taxes were reduced from \$1,700 to \$200. The Court also permitted the new levy of \$2,000, for the support of Public Health, to stand.

The authorities of the Township of Bernards were dissatisfied with the decision, and appealed the case to the Court of Errors and Appeals. The higher court overruled the first decision and the budget was reinstated as originally approved by the inhabitants of the Township. It is in this ruling by the higher court where the powers of taxation are reasonably drawn.

The power to tax belongs to the national and the state governments by virtue of their constitutions, but this power rests upon the idea of the peoples' consent to be taxed. Under the theory that local governments can best solve their own problems, state legislatures have delegated some taxing powers to their political sub-divisions, through elected officials. Representative taxation implies that only those elected to a legislative office should have the power to tax. It is not in the nature of the executive, or non-legislative, body to have taxing powers. Taxation must, ^{be} representative in the sense of being accountable to the people through their elected representatives.

The laws of early England are the main source for the principles of American law. At one time the powers of taxation rested solely in the hands of the kings. However, the costs of foreign wars were so great a burden upon the people, (sound familiar), that the taxes became "onerous", and the people resisted. The king was then forced to concede his taxing powers to the people.

During Colonial times the lower house of the legislative bodiessuccessfully claimed their right to originate money bills. This power still rests in the lower houses of our Federal and State governments.

ation. The following schedule shows the original levy, the levy of the Commissioners, and the levy determined by the Supreme Court:

Budget Items	Township Levy	Commissioners' Levy	Court Levy
Support of Poor.....	\$1,200.....	\$3,300.....	\$1,200
Roads	4,000.....	14,000.....	4,000
Snow	500.....	500.....	500
Public Health.....	None	2,000.....	2,000
Police Force.....	None	324.....	None
Assessing and Collecting.....	None	1,700.....	200

The opinion of the lower Court was delivered by Justice J. Dixon, and contained two points that bear upon the question of the powers of taxation: 1. Under the Commissioners of Taxation Act (Rev. Sup., p. 614), the power of the commissioners is confined to cases where the local authorities or officers were bound by law to provide for the performance of those public duties to which the title refers, and they have failed to do so. 2. Where the amount to be raised for the discharge of those public duties is by law committed to the discretion of the local authorities, and they have lawfully exercised their discretion, commissioners of taxation have no power to change the

It is important to note first that the King conceded his POWERS of taxation because of the people's resistance, not because of a legal challenge to his authority; second, that the forceful challenge to the King's powers was made only after the taxes became "onerous", long past the point of tolerable injustice.

In expressing the opinion of the majority of the members of the Court of Errors and Appeals, Justice Depue pointed out that legislative action was needed to implement tax action, and that the lower houses of the Federal and State governments were responsible for originating money bills; that State legislatures can delegate powers of taxation to political sub-divisions but were unable to delegate such powers to non-legislative bodies. In the case of the Township of Bernards v. Allen the Court held that the Commissioners of Taxation was a ministerial body only and therefore lacked the powers to increase or to add to the tax levy as approved by the people.

But what is the effect of the State legislature delegating the powers of taxation to political sub-divisions, while at the same time retaining for itself the powers to establish policies? Does not this make the sub-division a "ministerial" body in the areas where they do not control the policies and ²⁴ *THUS* lacking taxing powers in those areas? Or what is the effect of the State legislature creating various bureaus, commissions or departments and delegating to them that are so authoritative that they amount to substitute taxing powers? Do not these practices subvert the principle of taxation with representation?

For taxation to be just, it must be equally shared, and the uniform rules requirement of our State Constitution is met by a classification which provides for a uniform tax rate applicable equally to all members of the class. 1 Cooley on Taxation (4th ed.), sec. 311, page 645, and sec. 313, pages 649 & 650, respectively state:

"Uniformity of taxation, as provided for by state constitutions, is required throughout the territorial limits of the taxing district. If the tax is a state tax, it must be uniform throughout the state. If the tax is a county tax it must be uniform throughout the county. If the tax is a town tax, it must be uniform throughout the town. If the tax is a city tax, it must be uniform throughout the city. If the tax is a school tax, it must be uniform throughout all the school district. The uniformity corresponds to the territorial limits of the taxing districts." In other words, state taxes are for state purposes, county taxes are for county purposes, local taxes are for local purposes and school taxes are for school purposes. The state delegates the powers of taxation to the lower levels of government for the support of those purposes that are designated by the state. But as has been pointed out in the case of the Township of Bernards v. Allen, the State cannot separate the powers of taxation from the powers of legislation.

The unjust effects of such separation can be seen by an examination of how our school systems ^{are} ~~are~~ financed. Article 8, Sec. 4, Par. 1, of the Constitution of the State of New Jersey,

stipulates: The legislature shall provide for the maintenance and support of a through and efficient system of free public schools for the instruction of all the children in the state between the ages of five and eighteen. To effectuate this article, the Legislature placed each school district under the jurisdiction of a school board, and the school boards under the jurisdiction of a State Commissioner of Education. However, the powers of this Commissioner are so broad and authoritative that they are substitute taxing powers. Unlike the Commissioners of Taxation, the Commissioner of Education can overrule the wishes of the people and force them to support educational costs regardless whether they can afford to or not.

The problem of financing education is as complicated as it is inadequate. While the state continues to control the standards of education, a large percentage of the costs are supported by local taxes that are raised through taxing real estate property. Because the tax base varies from municipality to municipality, the state imposed burden is not shared equally by everyone throughout the state. It is because the taxes levied for education, and the methods used, have become so "onerous" that the law suits challenging the financing of public education have been filed.

The present topsy-turvy approach to financing education cannot go on much longer. While most schools in urban areas are old and inadequate, many schools in the surban areas are often ornate and new. In spite of their differences, both the urban and surban communities are faced with insurmountable

tax problems.

Because of the population explosion in their area, suburban communities are being forced to build schools faster than it is economically feasible. The cities, on the other hand, have so many other social and economical problems that they cannot afford to replace their outmoded schools. Because of their social problems, and their outmoded schools, the cities are at a disadvantage when it comes to competing with "nice suburban schools" for qualified teachers.

The taxpaying ability of a community is related to its assessed valuation, and nearly all states provide some part of their State aid on the basis of this local wealth. However, few of these aid programs take into consideration the type of ratable that makes up the wealth. Nearly all residential ratables contribute more to the cost of education than can possibly be recovered through property taxation. A predominately residential community, with taxable property valuation of \$7,000,000, could have a local education cost of \$650,000, plus state aid. However, another community of the same size and population, but having a favorable balance between residential and non-residential ratables, could have the same cost, but a \$14,000,000 tax base. In terms of purchasing power, each educational unit would cost the taxpayers of community A twice as much as it costs the taxpayers of community B. However, the state will not let community A reduce its educational costs to the "ability to pay" level.

New Jersey's tax system is rooted in a rural economic concept. At one time, most people lived, worked and shopped in the same community. In many cases, the commercial and industrial businesses contributed directly to educate the children of their customers and employees. Today, there are electric plants run by atomic energy and worth millions of dollars in taxes, and there are also shopping centers and industrial parks. Though these businesses are supported by customers and employees from an extremely wide area, their taxes only support the municipality where they are located. Except for relatively small taxes levied by the state, these businesses contribute little to educate the children of their customers and employees.

New Jersey is also known for the municipalities that have been established as "tax havens". Teterboro, Gibbstown, Tavis Stock and Pine Valley are a few.

It is time we turned our attention to how our present tax system developed, for a better understanding of why our problems have not been solved. During the eighteenth and nineteenth centuries, local governments conducted their own affairs with little or no interference from the state, and the state, incidently, was not as subjected to the demands of national programs. In this era, most taxes were levied by local governments to meet local their own specific purposes. To support these purposes, the taxation of real estate was developed. Because property owners made the most demands on government, because the value of a man's real estate holdings reflected his

wealth, and because most elected officials and voters were men who owned their land free and clear, were some of the reasons for selecting property as the principle tax base.

Though both Federal and State taxes have grown to a substantial amount in the past three decades, it is still the real estate property that carries much of the tax load. The revenue collected from property taxation, throughout the country, amounts to \$33 billion dollars a year; this amount is exceeded only by the Federal income tax and the social security tax.

No other group of taxpayers have had their taxes increased even by half of the amount of the increase that has been imposed upon property owners. The burden upon property owners is now "onerous", having long ago passed the point of tolerable injustice. Many senior citizens, and families in the middle and low income brackets are now faced with the loss of their homes. Though the need for tax reforms has been recognized for some time, tax studies after tax studies are substituted for tax action.

The break down in the property tax structure is due to the fact that property no longer reflects the wealth of the individual. Through government insured mortgages, and liberal state mortgage policies, people of moderate means can now own their homes; therefore, the value of the home does not reflect always the ability of the owner to pay any and all taxes.

Because his home is usually heavily mortgaged, the value of a home to today's owner is the difference between the balance of the outstanding mortgage and the market value of the property. Today, the interest on mortgages runs anywhere from 4% to 8%; in addition to this, the home owner is also required to pay from 1% to 7% of the market value of his property in taxes, even though he may own only 10% or 15% out right.

The injustice of using property as a tax base in today's economy, under any circumstances, is obvious; and has been so recognized for many years. However, to force local governments to continue to support federal and state programs through this system is intolerable.

When some lower levels of government were either unable, or unwilling, to solve the problems which developed as the population grew, and the systems of transportation and communication expanded, the federal government became more involved in areas that had been regarded as strictly the responsibility of the states; and the states, in turn, increased their domination over their political sub-divisions. In this manner certain problems became recognized as inter-government problems.

However, instead of the higher level of government assuming the fiscal responsibility for these inter-government problems, the practice of demanding that lower levels of government meet established standards, on a cost sharing basis, was developed during the 1930s. This practice of mandating policies, plus the continued use of property value as one of the major basis

for taxes, is imposing an unjust and excessive tax burden upon most home owners. While these mandates may be universally applied according to standard formulas, there is a wide variation in both their need and the tax basis which support them.

The tax burden becomes excessive when the base selected is not broad enough, or strong enough, to support the demands of the mandate. The tax burden is unjust because the powers to set policy (legislate) are separated from the powers to tax, leaving the taxpayer confused and helpless. The members of this Commission must study the effects of the separation of these two powers, if a new tax structure is to be just and non-confiscatory.

As was pointed out, nearly all residential ratables contribute more to the cost of education than can possibly be recovered through property taxation. But there is a shortage of homes in New Jersey, a shortage that the state is trying to solve by financing housing programs. New homes increase the taxes and increased taxes force people to sell their homes, and the vicious circle grows. It is like loading up a twenty ton truck and driving it across a bridge designed to support ten tons, it shouldn't be done.

Another questionable practice of the present tax structure is that each municipality is required to establish a "Reserve for Uncollected Taxes" as part of their yearly budgets. Through this reserve, some home owners are forced to pay the taxes that others neglect.

If you were to examine the records of the 1947 Constitutional Convention, Committee on Taxation and Finance, you would find that several experts in the field of property taxation testified that property should be classified, and taxed according to the same standard of value. Up until that time, property was assessed according to "True Value". It was pointed out that the term true value was too vague and led to many law suits. The Committee accepted the proposal but when it was put before the entire delegation, the Convention accepted only that part which referred to the "same standard of value".

As a result of the case of Switz v. Middletown Twp., 23 N.J. (580), 1957, the Legislature of the State of New Jersey defined "same standard of value" as "true value", in effect amending the Constitution without a constitutional amendment. Within ten years, the work of the Committee on Taxation and Finance was completely undone, and New Jersey went backwards again.

Under N.J.S.A. Art. 8, Par. 1, Sec. 1, Note 18, page 602; there is a notation which states: Value of property for purpose of taxation has some measure of permanency which renders it secure against general, temporary inflated or deflated, and changed economic conditions do not necessarily justify an increase or decrease in valuation. Id.

This principle is undermined by the Table of Equalization, which "equalizes" the property valuation of a municipality by comparing sales to assessments. All properties are then presumed to be assessed in the same ratio to true value.

However, vacant land, during the past few years, has increased in value faster than residentially occupied land. When the land is sold, the value of the occupied land is reflected in the equalization table as having relatively the same value as the vacant land sold.

Let us now look at the case of a man who purchased a home in 1945. The home was situated in a "rural" area, and was on five acres. At that time, the man was forty years old and he purchased the property planning to retire and have his home all paid off. He paid \$10,000 for the home.

Because of the population explosion and improved transportation, the area is now regarded as suburban, and the property is worth \$40,000 and the taxes have increased from \$300 dollars a year to over a \$1,000. The man is 65, he wants to retire and live in the home he worked so hard to own. How can this man enjoy himself? Is this what we want for our senior citizens? No, wait a minute, is this what you want to face in a few years? How can this situation be justified?

The practice of higher levels of government mandating the policies of lower levels of government, and the unrestricted use of property value as a basis for taxation are two of the most prominent contributors to the present injustices of New Jersey's system of taxation, and consequently to the taxpayers resentment. Clear lines of responsibility must be established between the legislator and the taxpayer so that the person taxed will better understand who is taxing him and why.

Legislatures can only be fully aware of the burden they are placing upon the taxpayer when they initiate government programs and levy the taxes for their support. The taxpayer also becomes very aware of his actions, often causing the legislature to choose one program over another, or to enact both programs on a limited basis. However, when the legislature is permitted to enact the programs while forcing lower levels of government to levy the taxes for their support, they lose the cumulative effect of their actions. Taxpayers too remain unaware of the effect of the actions of the legislature, causing the loss of two strong restraining influences.

The battle cry of the American revolution was, "No taxation without representation." Now, nearly two hundred years later, Americans are being taxed without representation, and they don't even know it.

The Presidential Advisory Commission on Inter-governmental Relations for example, has recommended that the Federal government should assume the complete costs of all welfare programs, and the states should assume the complete cost of all public elementary and secondary education. The Commission has also described the practice of letting the Federal government mandate what the states must spend, and the states to mandate what local governments must spend, as dangerous.

While several governors have voiced their approval of these proposals, Federal and State legislators, the ones with the power to act, have ignored the report.

I would like to make the following recommendations in the hopes that they will spur legislative action:

1. Regard 10% of all federal taxes collected within a state as state revenues. Each state would receive 10% of all federal taxes collected within that state. The ten percent federal surtax charge has been reduced to five percent, and this is scheduled to be eliminated. If necessary, this surtax charge could be re-instated.

2. Within one year of the enactment of the first recommendation, all states would revise their tax structures and submit the revisions to the voters for their approval.

3. That the federal government assume the costs of all welfare programs.

4. That all states assume the costs of all public education.

5. That taxes can only be levied against the residents of the taxing district, and/or the properties within its boundaries. (Applies particularly to wages taxes levied against non-residents)

6. Whenever the powers of taxation are delegated to a political sub-division, the complete powers to establish policy are also delegated.

7. To support local purposes, each taxing district establish a fixed property tax that will not exceed 2% of true

property value. That true value of property to be fixed at the purchase price, that the value remain constant unless structural improvements affecting area sizes are made, or unless other types of improvements are made within five years after construction is completed, or unless title is transferred through sale. That the assessments standards, and/or the tax rate, cannot be changed without the approval of the legislature, or unless submitted to the voters by a referendum. The voters can petition to have the approval of the legislature also submitted to the voters.

These recommendations will provide state and local governments with the resources to meet their fiscal responsibilities, while at the same time protect the individuals' right to own property.

Based on the taxes collected for 1969 in New Jersey, the federal government would return more than \$850 million dollars as "state revenues". New Jersey only expects the sales tax to yield only \$500 million dollars, not even enough to meet current demands.

These recommendations will cause legislators to become more aware of the effect of their legislative actions. Programs on all levels of government will be enacted on a priority basis, making them more closely related to the taxpayers ability to pay. The taxpayer will also be better able to understand who is responsible for what tax levies, and why, because the lines establishing representative taxation will be more clearly drawn.

STATEMENT OF DR. HARRY J. PINSKY FOR PUBLIC HEARING OF OCTOBER 21, 1970

STATEMENT FROM NEW JERSEY
COUNCIL ON LEGISLATIVE ISSUES

RECEIVED OCT 26 1970

The history of the property tax in New Jersey has been long and inglorious. Its inequities and its self-defeating nature have been recognized and described by the supreme court of the state (Switz vs. Middleton Township), by the reports of the Commission on State Tax Policy (see especially the 12th), and most certainly by the citizens, all of whom are hurt by local property taxes.

Although one glaring fault of the local property tax system has been removed by legislative action, the inability of the basic structure to respond to the needs of the people remains. With the enactment of Chapter 51 of the New Jersey statutes, it is no longer possible to discriminate among taxpayers within the same taxing district. Different percentages of true value within the same district are no longer possible. However, different percentages are used by different districts, and the results are just as destructive and invidious as before.

First, the tax is unfair because it is regressive. A homeowner in a large city is probably paying tax on property which is losing value, rather than gaining it. The homeowner may also be--and probably is--a low income worker. A greater percentage of his income therefore goes to the property tax than his suburban neighbor. Because of the problems of the large cities in this state as well as in other states, the city homeowner may be receiving fewer services and may be sending his children to poorer schools than his suburban counterpart. The city homeowner will probably find it economically impossible to move because he cannot command a high enough price for his home. He may be trapped in the city for other reasons as well. The urban tenant is also affected, because the tax is reflected in an already too-high rent.

Secondly, the tax is not responsive to the need of the people. These needs include decent cities and a decent environment. Clearly the cities are in need of income but they cannot attract high income families so long as such high property taxes continue to be imposed. Unlike the neighboring cities of Philadelphia and New York--each with its own mountainous problems to be sure--the large New Jersey cities have little to offer in the way of culture and entertainment. There is thus even less inducement for high income families to move into the cities, which, for lack of increased receipts, will continue to rot.

Finally, the tax is extremely unpopular. The citizens of this state are more and more aware of its ineffectiveness and its inequities. Those on fixed incomes, retired people, the aged, the poor, are especially hurt. As Justice Heher said in Switz v. Middletown Township thirteen years ago, "The problem is not one of deep public concern. . . ." Now, as then, the Legislature must take cognizance of the essential fault and the public need, and seek for the remedy.



The remedy, however, must be far reaching. Another attempt simply to revise the property tax statutes will neither satisfy the public nor help the state and its local governments.

There is much that could be done. Local governmental units could be reorganized into more appropriate structures. New governmental or quasi-governmental units could be created to perform specified functions: sewage, transportation, pollution control, and education are some examples. Such units would recognize and be based upon the undeniable interdependence of our cities and suburbs. Services may thus be enhanced at a lower cost and for more people. Such "metros" are already in existence in various of our states and in Canada. They deserve thorough study.

On a shorter term basis, however, some alleviation of the ills besetting us can be achieved by enacting tax relief measures. It is obvious, of course, that the money to finance the services so desperately needed must come from somewhere. If there is property tax relief, the difference in revenue must be made up to the local governments. The question is how.

Alleviation of the property tax burden and the inequities engendered from it entails a redistribution of the burden elsewhere. Redistribution through local non property taxes is undesirable and probably highly detrimental for the reasons set forth in the Twelfth Report of the Commission on State Tax Policy. The redistribution must, then, be on a state wide basis and it must fairly reflect ability to pay. The income tax, if it is progressive, is the most likely choice. However this is achieved, however, some of the state-collected revenues must then be fed back into the local governmental units. The most common methods of doing this are tax sharing, tax credits, and tax supplements.

The tax supplement is a logical administrative device where a particular tax base is used for both state and local purposes. The local rate is added to the state rate, both are collected by the state administration, and the allocate share of the collections (on the basis of geographic origin) is credited to the account of the local taxing jurisdiction. The classic example is the manner in which some states still share the property tax with their local political subdivisions. This device has several advantages: (1) identical state and local tax definitions; (2) single administration; (3) retention of local responsibility for imposing the tax and fixing its rate; (4) ability of the electorate in each jurisdiction to balance the case for the tax against the need for the additional local services. However, it does not seem to be responsive to the particular problem at hand.

Tax sharing is the most familiar intergovernmental device in state-local tax relations. The tax is imposed by the state and its yield shared with local governments. Typically the tax is state

administered. On occasions, however, it is locally administered with a portion of collections retained by the administering jurisdiction. This too eliminates dual tax administration. Local governments have the benefit of the state's enforcement facilities. Local independence with respect to expenditures is maintained, while scope for intercommunity tax rate competition is eliminated. The basis for distribution, however, may be difficult, especially where the geographic origin or the tax is uncertain of identification.

Perhaps the most promising of these devices is the tax credit, which, as the Commission's Twelfth Report indicates, has been successfully employed in Wisconsin. It is directly applicable to local property tax systems. The tax credit as employed in Wisconsin would seem to have a very high degree of political acceptability, because it affords direct relief to the property owner, as opposed to the eligible municipality. The source of the credit is the state sales and use taxes. The amount of the credit is reflected on the tax bill of each individual property owner, so that he is quite aware that the amount of sales, use (or income) tax he has paid does inure directly to his benefit. This would probably render more acceptable the increased or new state taxes necessary to afford local property tax relief.

As described in the Twelfth Report:

"The basic principle of the system is that the state will recognize a standard tax rate on full value taxable, and it will share the local burden above the standard rate. The state will also appropriate a limited dollar amount which it will use for such sharing. The Wisconsin law provides for a formula for distribution to municipalities for the moneys in this sharing pool so that the higher the relative local tax rate, the greater will be the share received by the municipality. The program makes no distinction between a high tax burden resulting from being a low valuation area and a high tax burden because of high-cost governmental programs."

It is urged that serious consideration be given to enactment of a similar system now. The problems caused by local property taxation are too acute to await further delay. The system as administered in this state has always been inequitable and ineffective. Citizen impatience is growing. At the same time, enactment of a progressive tax to supply the needed local revenues lost through property tax relief is rendered more acceptable by the fact that such relief is in fact granted to the individual taxpayer in the form of credits directly to him.

THE CITY OF JERSEY CITY
DEPARTMENT OF COMMUNITY AFFAIRS

THOMAS J. WHELAN, MAYOR
CITY HALL, JERSEY CITY, N. J. 07302



ALAN L. CANTER
DIRECTOR
DIVISION OF PLANNING

October 19, 1970

*Property Tax Task Force
Leonard C. Johnson, Chairman
134 West State Street
Trenton, New Jersey*

Enclosed please find a copy of the proposal which shall be presented by the Jersey City Division of Planning at the public hearing on Wednesday, October 21, 1970. In addition, supplemental material is included with each proposal, as indicated within the body of the proposal itself.

In addition to 25 copies of the packet which we have submitted, please also find four copies which might be utilized by the press who will be present at the hearing on October 21, 1970.

Sincerely,

Alan L. Canter (M.H.)
Alan L. Canter
Director, Jersey City Division
of Planning

TAX INCENTIVE PROPOSAL

The Jersey City Division of Planning under the direction of Alan Canter urges the Property Tax Task Force of the New Jersey Tax Policy Committee to investigate for proposed legislation a tax incentive program consisting of possible abatement and exemption for housing improvements. Such a program currently operates in New York City and was also recommended by the National Commission on Urban Problems in 1968. In addition, a similar proposal was presented for the State of New Jersey five years ago by Jersey City. Briefly described, it would involve a temporary abatement of the property tax with regard to all or a considerable part of the property owners' expenditures to rehabilitate older housing. In New York City, for example, the benefits provided under such a program include: (1) Tax Exemption - any increase in assessed valuation resulting from alterations and improvements may be exempted for twelve (12) years to the extent of the reasonable cost of such alterations and improvements; (2) Tax Abatement - Real estate taxes upon any such property may be abated up to the extent of eight and one-third ($8 \frac{1}{3}$) percent of seventy-five (75) percent of the reasonable cost of the alterations and improvements each year for a period of no less than nine (9) years and no more than twenty (20) years. The program would ideally act as an incentive for property owners to make necessary housing improvements without the immediate repercussion of increased

assessment on those improvements. Before suggesting how the program might function in New Jersey, however, it is necessary to place such a proposal in perspective in terms of the overall functioning of urban government financing in general and of the property tax system more specifically.

Many recent governmental reports such as the Douglas Commission's work on Building the American City and the Advisory Commission on Intergovernmental Relations' study entitled The Role of the States in Strengthening the Property Tax observe that it is a part of the crisis of urban government finance that so much of the large and growing sums required for finances must now come from revenue sources that place an especially heavy burden upon poor and moderate-income groups. In particular, the property tax, which is both regressive and tends to deter housing construction and maintenance in many areas, is inequitably administered. Many reports, such as that of the Douglas Commission, note that the defects inherent in the property tax limit its desirability as the primary means for urban government financing. As is the case in Jersey City, approximately 80% of Jersey City's revenue is derived from the property tax.

Although significant steps by the federal government are urgently needed to help deal with the crisis of urban government financing, the National Commission on Urban Problems stressed that

most of the action must be at the state and local level. The Commission noted that, "the states have a major share of the responsibility because of their ultimate legal control over the property tax system and other local taxes because of the close relationship between state and local government finances." The Douglas Commission therefore submitted recommendations (some of which are listed below) which mainly contemplate state and local government action toward a broader and fairer base for urban financing. Although our proposal to you does not attempt to analyze the suggested recommendations, we believe that the Tax Policy Committee itself is in an ideal position to further investigate the applicability and feasibility of the proposals which have been made by several governmental groups. Moreover, any adjustment or alteration of the property tax necessitates the provision for alternate sources of revenue. Such recommendations include the following:

Broadening the base of State taxation by significant use of both a personal income tax and a general sales tax, including authorization for local governments to impose supplementary rates on a piggy-back basis;

A review by each State of its pattern of State-local relationships to provide a more effective and equitable means of State aid to local school financing; assumption by the State government of financial responsibility for non-Federal public welfare costs; and

provision of incentives in State grant programs to improve local governmental structures;

Reexamination by State and local governments of the potentiality of user charges to finance public services;

State legislation for increased regionalization of property taxation for public schools in metropolitan areas, utilizing a countywide or multicounty taxing area, with proceeds allotted to school jurisdictions as prescribed by State laws;

Joint Federal-State-local action to establish a system of interstate metropolitan taxing areas under which, by State and local decision, a supplemental rate could be added to the Federal income tax with proceeds returned to the local governments involved,

Before beginning to more fully analyze the Jersey City Planning Division's specific recommendation, however, it seems important for the New Jersey Tax Policy Committee to seriously investigate recommendations for alternate means of revenue gathering in order to lessen the emphasis currently placed upon the property tax as the primary source for revenue. Secondly, the property tax itself should not only be considered in an economic perspective, as a "tool" for revenue gathering, but should also serve as an incentive for property owners to make the necessary home improvements without the fear of immediate increased taxation. As analyzed in his study of housing and property owners in Newark, George Sternlieb observed that the majority of property owners were reluctant to make necessary

home improvements because of their unwillingness to face immediate property tax re-assessment. His findings would emphasize the need for the type of program which the Jersey City Division of Planning proposes below.

The tax abatement program would involve a temporary exemption of the tax with regard to all or a considerable part of the property owners' expenditures to rehabilitate older housing. Especially where rates are high, the property tax in the past has tended to deter socially desirable improvements of this kind; some owners, as noted above, avoid or postpone repairs and alterations, which might result in material tax increases. Although we do not propose at the present time to delineate specific provisions for such legislation, desirably, any such tax abatement and exemption provisions should include the following components:

1. QUALIFYING AREAS: The program should be limited to relatively old housing, in order to hold the revenue cost within bounds and to focus upon the most critical component of the housing stock and to prevent abuses (such as successive stage enlargement or improvement of relatively new structures in order to obtain the tax benefits). In New York City, for example, conditions for eligible housing are outlined and include housing in urban renewal, local neighborhood improvement or housing maintenance areas. The types of housing eligible are also delineated and include residen-

tial structures of three or more families occupied by persons or families of low-income.

2. IMPROVEMENTS: The specific types of alterations and improvements qualifying under the tax program would have to be clearly specified within the legislation. However, improvements which would eliminate presently existing unhealthy or dangerous conditions or which would replace inadequate and obsolete heating and sanitary facilities should all be considered, in addition to other improvements. In New York City, the Housing and Development Administration under the law must determine and certify the reasonable cost of the alterations and improvements made.

3. TIME PERIOD FOR THE PROGRAM: Such a program should apply for only a limited period (perhaps five or eight years) after any such expenditure is made, after which time the owner would pay his full tax assessment.

Specific components of a tax abatement program for New Jersey (or for specific areas in New Jersey) will have to be studied further for their implications, since, as illustrated by the New York City Tax Benefit Law, several initial aspects of the program were not fully analyzed as to future effects and proved detrimental to the program during its first two years in operation. It is for this reason that the Jersey City Division of Planning has not prepared for the Property Tax Task Force specific criteria on eligibility, qualifications, or the administration of such a pro-

gram, but we would suggest that our recommendation be put to further investigation.

We would like to point out however, that the Tax Benefit Program in New York City within the past four years has been the most successful program in New York City in terms of the number of residential structures to be rehabilitated. Quite often, this program has been implemented in conjunction with the City's Municipal Loan Program. Such a Program of tax benefits operating in a similar manner in New Jersey would act as an incentive for property owners to rehabilitate their structures. At present, one should note that property tax policy in New Jersey is discouraging owners from making needed improvements that would add greatly to the value and life of their properties and to the housing stock and total living environment, especially in highly concentrated urbanized areas such as Jersey City, Newark, Hoboken and Union City, to name only a few areas.

The Jersey City Division of Planning therefore urges the Property Tax Task Force to begin further research and investigation on the applicability of such a tax benefit program, either for the entire State or for specific urban areas (as noted above), which would especially benefit in a social sense from such a program. Moreover, from an economic viewpoint, the increased life and value of the housing when the tax benefit program terminates can equalize the taxes lost during the abatement program if the

proper time period is enacted within the legislation. This has been one of the estimates made by the New York City Program, however, the program there is still too recent to provide final conclusions in an economic sense.

The Jersey City Division of Planning would be willing to cooperate with a group for further investigation and research on the tax benefit program prior to formulation of legislation. We have also included with our position paper a copy of New York City's Tax Benefit Program; additional sources on urban government financing and several chapters from the Douglas Commission Report dealing with alternatives for urban government financing. We recommend all of these references to the Property Tax Task Force and the Total Tax Policy Committee in the expectation that you shall investigate proposals and suggestions for dealing with the property tax and urban government financing and tax policy in general.

APPENDIX I

ADDITIONAL SOURCES ON THE PROPERTY TAX AND GOVERNMENT FINANCING

Advisory Commission on Intergovernmental Relations,

The Role of the States in Strengthening the Property Tax.
Washington, D. C., 1963.

National Commission on Urban Problems.

Building the American City. Washington, D.C., 1968

Netzer, Dick. Economics of the Property Tax.
Brookings Institute, Washington, D.C., 1966.

Netzer, Dick. Impact of the Property Tax:
Effect on Housing, Urban Land Use, Local Government Finance.
Research Report No. 1 - Prepared for the National Commission on
Urban Problems, Washington, D.C., 1968.

Slitor, Richard E. The Federal Income Tax in Relation to Housing.
Research Report No. 5 - Prepared for the National Commission on
Urban Problems, Washington, D.C., 1968.

Welch, Ronald B. Tax Institute of America,
The Property Tax: Problems and Potentials., 1967

APPENDIX II

The City of New York

Tax Benefits for Housing Improvements Programs

The City of New York
HOUSING AND DEVELOPMENT ADMINISTRATION
Department of Development
100 Gold Street
New York, N. Y. 10038

INFORMATION BULLETIN

TAX BENEFITS FOR HOUSING IMPROVEMENTS

Pursuant to

Section J 51-2.5 of the Administrative Code

TAX BENEFITS FOR HOUSING IMPROVEMENTS

SECTION I. TAX BENEFITS

Owners of residential buildings occupied by three or more families for permanent purposes, and other eligible owners as will appear below, may obtain tax benefits for the making of certain alterations or improvements in such buildings which eliminate presently existing unhealthy or dangerous conditions or to replace inadequate and obsolete sanitary facilities, any of which represent fire or health hazards.

Painting, ordinary repairs, normal replacements or maintenance items are not deemed alteration and improvements and are not eligible for these tax benefits.

The following tax benefits are authorized by the provisions of Section J51-2.5 of the Administrative Code of the City of New York, as amended to date:

1. Tax Exemption - Any increase in assessed valuation resulting from such alterations and improvements may be exempted for twelve (12) years to the extent of the reasonable cost of such alterations and improvements as certified by the Housing and Development Administration.
2. Tax Abatement - Real estate taxes upon any such property may be abated up to the extent of eight and one-third (8 1/3) percent of seventy-five (75) percent of the reasonable cost of the alterations and improvements each year for a period of no less than nine (9) years and no more than twenty (20) years.

Allowance of these tax benefits is subject to the following conditions:

1. The City Planning Commission certifies that the alteration will not interfere with projected public improvements or the clearance and rebuilding of substandard and insanitary areas.
2. The Department of Buildings certifies that the building is structurally sound and complies with applicable provision of law.
3. The Housing and Development Administration certifies that the property has been improved or will be improved in conformity with the applicable plan or program if the property either:
 - a) Is in an area for which a final plan has been approved for urban renewal pursuant to Article 15 of the General Municipal Law or any prior statute.
 - b) Is in an area where a program of local neighborhood improvement or housing maintenance is being carried out.
4. The alterations or improvements were completed within two years of the starting date and in any event, were completed prior to December 31, 1970
5. The property has a total assessed valuation prior to conversion, alteration or improvement of less than \$70 for each square foot of lot area.

6. The plans for rehabilitation or improvement (unless the right to tax benefits depends on receipt of a municipal loan, discussed below) contain bedrooms in a number equal to at least 50 per cent of the apartments created.

These benefits also apply to:

1. Multiple dwellings which are altered, improved or increased in valuation with the aid of a loan provided by the City of New York for the installation of proper heating facilities, the elimination of conditions dangerous to human life or detrimental to health, or other rehabilitation or improvement provided that:
 - a) The rent of such dwellings is controlled by the Office of Rent Control.
 - b) The dwellings are occupied by persons or families of "low income" (usually six or seven times the annual rental of the apartment) as defined in Article VIII of the Private Housing Finance Law.
2. Class A or Class B multiple dwellings now used in whole or in part for single room occupancy (whether or not such dwellings are subject to rent control) which are converted to Class A multiple dwellings which are not used in whole or in part for single room occupancy and the rents subsequent to the conversion are under control and do not exceed the rental fixed by the Office of Rent Control.
3. Non-residential buildings or structures, or private dwellings, converted to Class A multiple dwellings, as above (see #2), provided that they are within an area designated for urban renewal, local neighborhood improvement or housing maintenance, and the conversion, alteration or improvement is certified as in conformity with plans for the area.
4. Cooperative apartments, where the carrying charges were initially fixed or approved, and will be approved after conversion, alteration or improvement, by a governmental agency having jurisdiction, e.g., State Commissioner of Housing and Community Development, the Housing and Development Administration of the City of New York, or the Federal Housing Administration.

The Housing and Development Administration, under the law must determine and certify the Reasonable Cost of the alteration and improvements made and for this purpose may require the submission of such data and proofs by the owner as it deems necessary.

The law provides that no owner (or his agents and employees) of a dwelling, to which these tax benefits apply, shall discriminate against or deny to any person because of race, color, creed or religion, any of the dwelling accommodations in such property or any of the privileges or services incidental to occupancy therein.

Where a building contains stores or other space not occupied for dwelling purposes, the proportionate cost of the improvement of alteration applicable to such non-residential space is not eligible for these tax benefits.

SECTION II PROCEDURE FOR OBTAINING TAX BENEFITS

Completed Alterations and Improvements

1. Forward the following forms and documents, where applicable, to the Office of Rehabilitation Financing, Department of Development, Housing and Development Administration, 100 Gold Street, New York, New York 10038.
 - a) On forms supplied by the Housing and Development Administration:
 - i. Six (6) copies of Application for Certification for Tax Exemption and Tax Abatement (Form R-2)
 - ii. If heat has been installed - Two (2) copies of DATA SHEET - installation of Heat (Form R-3)
 - iii. Proof of payment affidavit for work done (Form R-4 or R-5)
 - b) Copy of all contracts covering the work done.
 - c) Copy of the plans and applications approved by the Department of Buildings for the work done.
 - d) Copy of the Application for the Certificate of Operation filed with the Department of Air Pollution Control.
 - e) Cancelled check, receipted bills or other evidences of payment for work done.
 - f) If application is filed by an attorney, agent or other representative on behalf of the owner, a letter of authorization signed by the owner.
 - g) Certifications required under the law from the City Planning Commission and the Department of Buildings heretofore obtained by the owner. If such certificates have not been issued, the Housing and Development Administration will request them from these agencies.
2. If any of the foregoing agencies find that the facts do not warrant the issuance of a certificate because the property does not meet the requirements for tax benefits, the application for certification of reasonable cost of the alteration or improvement will be denied.
3. Upon receipt of the required certificates, documents and data, the Housing and Development Administration will proceed to determine the eligibility of the work for tax benefits and issue its Certificate of Reasonable Cost. Copies of the required certificates will be forwarded to the owner of the property or to his designated representative.
4. In order to receive the tax benefits, the property owner is required to file a further application with the Real Property Assessment Department between February 1st and March 15th in any year at its office in the borough in which the property is located. The Real Property Assessment Department provides special application forms for this purpose to which the certifications mentioned above are to be attached. The Real Property Assessment Department will notify the City Collector as to the amount of the taxes to be abated.
5. In order to permit expeditious processing, property owners are requested to submit applications to the Housing and Development Administration at the earliest possible date, and, in any event, before February 1st.

CHAPTER 3

The Crisis of Urban Government Finance

Metropolitan areas, with about two-thirds of the Nation's population, make up an even larger part of the American economy. Moreover, they account for most of the recent growth in population and economic activity, with a similar trend anticipated for the next two decades: careful projections prepared for this Commission show that 90 percent of the increase in American population between 1960 and 1985 is likely to occur within present metropolitan areas.¹ Personal income averages about half again more per person in these areas than elsewhere, and taxable property values per capita also average higher in metropolitan areas.² In the light of such facts, one might well ask: Is there *really* a crisis in urban government finance? Or, perhaps, are the widely heard claims to that effect merely the exaggerations to be expected from a democratic society in the throes of adjustment to urban growth and change?

Surely the term crisis might be questioned if it were to imply some immediate financial catastrophe, or an early approach to some absolute fiscal limit upon the provision of public services and facilities in urban areas. But in terms of a more temperate definition, there is extensive evidence of a present and growing crisis for urban government financing. This conclusion can be reconciled with the facts cited above concerning the comparative economic position and growth patterns of metropolitan areas, on at least three grounds:

(1) More public services are needed and considerably higher governmental costs are incurred in metropolitan areas than elsewhere;

(2) Serious financing problems are faced by State and local governments as a whole—as evidenced by the rapid rise in their expenditure, indebtedness, and taxation—so that the possibly stronger economic position

of metropolitan areas must take account of this general situation; and

(3) Inherited institutions of urban government and its financing are not well designed to tap the economic capacity of *entire* metropolitan areas; instead, they deal with numerous subordinate parts of such areas, seriously limiting effective and equitable capture of the large sums that are needed for public purposes.

Following is a summary of illustrative evidence on these and related aspects of the urban financing crisis.

THE SCALE OF URBAN FINANCE REQUIREMENTS

Expenditure by local governments in metropolitan areas is now running at an annual rate of about \$370 per capita, or about one-tenth as much as the average income of metropolitan area residents.³ More than 40 percent of such spending supports education—mainly for public schools but including some amounts for local colleges and junior colleges. Social welfare takes about 17 percent of the total. Roughly 10 percent supports each of three categories—water and sanitation, highways and other transportation, and police and fire protection. All other urban expenditures make up the remaining minor fraction.⁴

Urbanization results in a large expansion of local government costs. In 1962, per capita expenditure of local governments was one-third higher in metropolitan areas than elsewhere. This is partly because metropolitan pay rates are higher: in 1962, earnings of full-time local government employees averaged 28 percent more in SMSA's than elsewhere. Also, with population growth taking place mainly in metropolitan areas, they have a particular need for additional public facilities and thus for more capital outlay. But the main reason for higher urban spending is the wider range and more intensive nature of public services in areas of concentrated population. This appears in the relative volume of local government employment and expenditure for all major functions except

¹ See Patricia Leavy Hodge and Philip M. Hauser, *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*. Washington: The National Commission on Urban Problems, Research Report No. 3, 1968.

² As to personal income, see U.S. Department of Commerce, *Survey of Current Business*, August 1967, p. 25; as to taxable property values, see U.S. Bureau of the Census, *Local Government in Metropolitan Areas* (Volume 5, 1962 Census of Governments), p. 11.

³ For supporting data, see ch. 8, p. 408.

⁴ For supporting data, see ch. 8, p. 409.

two—education, and streets and highways. For education, per capita spending runs about the same for metropolitan and other areas; for highway purposes, the average is lower in metropolitan area. However, data for 1962 show local public expenditure per capita averaging⁵—

Over 200-percent higher in metropolitan areas than elsewhere for public housing and urban renewal, nonhighway transportation, refuse collection, and parks and recreation;

From 100- to 200-percent higher for three costly functions—police protection, fire protection, and sewerage; and

From 35- to 90-percent higher for such other functions as public welfare, libraries, water supply, health and hospitals, and interest on debt.

The net result of all these differences is that total local government spending averages about one-third more, per person, in metropolitan areas than elsewhere. Some of the extra load may apply through charges, or initially through borrowing for capital outlays, but the major portion depends upon taxation, and it is thus not surprising to find that per capita local taxes average far higher in metropolitan areas than elsewhere—in 1962, \$130 as against \$82 per capita.⁶

This comparison is not offered as evidence of inequity. It is reasonable to expect higher taxation in areas that require and receive more public services than are necessary in less closely populated territory. This helps to explain some of the rapid growth that has been taking place in domestic public expenditure. It also indicates that further urbanization will continue this expenditure trend. And it points up the resulting present and prospective strain upon public financing arrangements which were largely developed for a far less urban society.

FINANCING TRENDS AND PROSPECTS

Local public spending, taxation, and indebtedness have been rising rapidly ever since World War II—far outpacing the growth of the economy as a whole. Consistent figures specifically for urban government areas are available only for the 38 largest metropolitan areas, covering the interval from 1962 to 1966.⁷ During that recent 4-year period, such areas experienced a population rise of only 7.3 percent but an increase of one-third in total local government general expenditures and similar increases in local government revenue and indebtedness. As a result, per capita amounts of local govern-

ment finance in these major SMSA's rose considerably: revenue and expenditure by about one-fourth, and outstanding debt by about one-sixth.

In the absence of earlier comparative urban finance data and related economic measures, it is necessary to refer to comprehensive nationwide figures. However, since metropolitan areas account for about three-fourths of the totals, and other smaller urban areas for much of the rest, the indicated trends are still highly relevant to the status of urban financing.

During the two decades from 1946 to 1966, when the gross national product rose about 250 percent, there was a sixfold growth in local government revenue, expenditure and debt. With a corresponding trend for States, there was a similar multiplication of State-local financial totals. Meantime, Federal Government debt rose very little, and Federal revenue and expenditure at a lesser rate than gross national product.⁸

But since the 1946-66 interval included the immediate post-World War II years, when adjustments toward a more nearly normal economy were taking place, it is better to deal with a more recent period; i.e., the 9 years from 1957 (when benchmark data were obtained from the census of governments) to 1966, the latest year for which data have been published. Between 1957 and 1966, there was a rise of about two-thirds in gross national product (up 67.9 percent) and personal income (up 66.2 percent), but a *doubling* in total revenue, expenditure, and indebtedness of local governments, and a corresponding rise in State finances. The changes for Federal Government finances were far less—revenue up 62 percent, expenditure up 75 percent (or, excluding grants to State and local governments, 67 percent), and total debt 18 percent. The strong upward trend in local and State-local financial scale was highly consistent during this period, and considerably outpaced the growth in the Nation's total product and income, year after year.⁹

With State-local tax revenue rising about 8 percent annually (as compared with 4.5 percent for Federal tax collections), the result has been a material shift in the composition of the total tax take, and its relationship to personal income. Federal taxes in fiscal 1966 equaled 17.8 percent of all personal income, as against 19.9 percent 9 years earlier, while State and local taxes moved up during this interval from 8.2 to 9.7 percent of personal income. Or, to express the shift in another way, the State-local proportion of total taxes increased from 29.2 percent in

⁵ For supporting data, see ch. 8, pp. 409-410, tables 2 and 3.

⁶ U.S. Bureau of the Census, *Local Government in Metropolitan Areas* (vol. 5, 1962 Census of Governments), p. 184.

⁷ See U.S. Bureau of the Census, *Local Government Finances in Selected Metropolitan Areas in 1965-66*.

⁸ For supporting data, see ch. 8, p. 410, table 4.

⁹ For supporting data, see ch. 8, p. 411, table 5.

1957 (having risen from 21.8 percent of the total in 1946) to 35.1 percent in fiscal 1966.

This State-local tax record is striking evidence of the strong pressures that have applied to these governments for the extension and improvement of public services, especially when one takes account of the nature of the taxes involved. The State-local revenue system is relatively sluggish in its response to economic growth. Various studies strongly indicate an income elasticity for State-local taxes averaging around unity; i.e., with a rise of 1 percent in gross national product or personal income likely to result in an automatic rise of about 1 percent in total State-local tax revenue. Assuming such a relationship it would appear that, of all State-local tax revenue in 1966, more than one-sixth was supplied by tax-increasing action by these governments in the previous 9 years, and more than four-tenths resulted from such action in the 20-year period 1946-66. Stated in another way: The average effective rate of State-local taxation, in relation to personal income, was enlarged through tax-increasing efforts by nearly one-half between 1946 and 1957 and by another 18 percent between 1957 and 1966. Similarly, a recent study by staff of the Advisory Commission on Intergovernmental Relations estimates that about one-half of the increase in State-local tax revenue between 1950 and 1966 resulted automatically from economic growth with the rest coming from new or broader taxes or tax rate increases.¹⁰

This is in sharp contrast with the Federal tax picture. Particularly because of the National Government's heavy reliance upon income taxation, Federal revenues are less sluggish in their response to economic change, so that a 1-percent rise in national product or income automatically results in a proportionately larger increase in tax revenue. Thus, with the economic growth that was occurring between 1957 and 1966, the Federal tax proportion of income would have risen materially (instead of dropping off from 19.9 to 17.8 percent) if it had not been for various rate reductions made during this interval. (Federal tax cuts had also occurred between 1946 and 1957, to provide the slight drop in the Federal tax-to-income relationship that occurred during that interval.)

As noted above, these different developments with regard to Federal and State-local tax rates have considerably increased the State-local share of all tax revenue. They have also involved a shift toward more reliance upon regressive types of taxes; i.e., those which involve a larger burden in relation to income for the poor than

for the prosperous. Collections from the two major regressive components—the property tax and sales taxes (both general and selective, and including customs)—made up 36.3 percent of the Federal-State-local total in 1966, as compared with 33.9 percent in 1957; individual income taxes, the one big progressive part of the tax system, changed from 37.9 to 37.4 percent of the total; the proportion from corporate income taxes dropped from 22.5 to 20 percent; and all other taxes moved from 5.7 to 6.3 percent of the total between 1957 and 1966. The record for the property tax alone is especially notable—its yield made up 15.3 percent of the all-government tax total in 1966, as against 13 percent in 1957 and less than 11 percent 10 years earlier, in 1946.¹¹

It is impossible to predict with any precision the future course of State-local finances, or to say how long it may be until the rate of increase in this sector might taper back nearer to the pace of general economic change. The actual rate of further rise, of course, will depend considerably upon the performance of the economy as a whole, including price level developments. It is possible, however, to make several observations about the prospects:

(1) The strong recent upward trend in local and State government finances shows no sign of slackening. Rather, if anything, there is some evidence of acceleration: State-local tax revenue was up 8.9 percent in calendar 1967 from the previous year, as compared with an average of 7.8 percent for the previous 9-year period, and State-local construction expenditure increased 10 percent in calendar 1967, including a whopping 13-percent rise at the local government level.¹²

(2) Various underlying basic elements that have contributed to the recent upward trend can be expected to continue, though perhaps with some changes in pace or composition. These include population growth, increased urbanization, rising price levels and generally higher income levels, providing added leeway for a net expansion of the public share of total consumption.

(3) Public expectations continue strong for better governmental services and facilities, particularly in major urban areas. Despite concern and controversy about methods for footing the bill, there seems even more widespread recognition of unsolved problems and needs; for example, with re-

¹⁰ Advisory Commission on Intergovernmental Relations, *State and Local Taxes: Political and Economic Contributions to Revenue Growth*. (Report in process of publication.)

¹¹ For supporting data, see ch. 8, p. 411, table 6.
¹² See U.S. Bureau of the Census, *Quarterly Summary of State and Local Tax Revenue, October-December 1967*, and *Construction Expenditure of State and Local Governments, October-December 1967*.

gard to education, crime control, traffic, and transportation.

(4) Strong pressure can be expected for local governments' pay rates to continue up more rapidly than other wage and price levels, in order to maintain and improve the competitive position of these employers in attracting a larger work force. (This has been one major element in the rise of local expenditure, of which a sizable part goes into payrolls.)

At least for the next few years, then, it seems most likely that growth in the financial scale of State and local government—and particularly of urban local government—will continue to outrun by a considerable margin the pace of general economic development. In turn, this means that an even larger part of the Nation's product and income must somehow be devoted to these public needs.

Should the differential trends of the past decade continue for only another 5 years, a further rise of about one-sixth in the relative scale State-local expenditure can be expected—that is, up from about 18 to 21 percent of total personal income—with local governments accounting for about two-thirds of such spending. There seems little reason to expect any lesser growth than this, unless the National Government takes over some major present State-local responsibilities (e.g., replacing the present intergovernmental system of public assistance by a direct Federal program for income maintenance). Similarly, a continuance of recent developments will demand further tax broadening and rate-increasing efforts by State and local governments, to bring their tax yields up to around 11 percent of total personal income in 1973, as compared with the 9.7-percent level of 1966 and the 8.2-percent level of 1957.

This, then, is one important aspect of the urban financing crisis—the obvious strong tendency for domestic governmental requirements to outpace economic growth: a problem most evident in major urban areas but also bearing heavily upon State governments and the State-local financing system as a whole.

SOURCES OF URBAN GOVERNMENT FINANCING

Locally raised taxes provide about one-half of all the funds to finance urban public services, with the balance supplied by Federal and State intergovernmental revenue and local nontax sources, mainly service charges and benefit assessments. Most of the intergovernmental sums are from States (especially for schools and for public welfare where locally administered). Although direct Federal-local grants have been increasing rapidly, such aids account for only a very small part of the total recent increase in

urban government revenue. For example, the 38 largest SMSA's had \$7.8 billion more revenue in 1966 than in 1962, but only \$346 million of this difference was increased direct Federal aid.¹³

Of all tax revenue of urban governments, about five-sixths comes from property taxation. In most metropolitan areas the proportion is considerably higher, since there is only scattered local use of other highly productive taxes. On the other hand, there are some areas where local general sales taxes (generally State-collected and returned) or payroll or earnings taxes supply a sizable fraction of all local tax revenue.

Heavy reliance upon property taxation is widely seen as an important element in the urban financing crisis. Sometimes the property tax is blamed for conditions or problems that are not inherent in this particular revenue device itself but instead arise from the governmental fragmentation of metropolitan areas. In other words, such a governmental pattern—rather than the property tax as such—deserves most of the blame for the intrametropolitan “fiscal disparities” which are described below. There are, however, some defects which seem to be inherent in the property tax and which limit its desirability as a *primary* means for urban government financing. As it is now so widely used, the property tax—

Imposes a disproportionately heavy burden upon housing, an essential and socially desirable form of private consumption;

Tends to deter the adequate provision and sound maintenance of urban housing;

Operates regressively, so as to involve a larger burden in relation to income for poor families than for those better off; and

As presently administered, commonly involves serious departures from the legal intention of the law, that all taxable property in any particular locality should be burdened uniformly in relation to its value.

The heavy load which property taxation so widely places upon housing is a result of (1) the large sums needed for essential public services in urban areas, where this type of tax is generally the predominant financing source, as already noted, and (2) the fact that residential property makes up about half of the total tax base in such areas.¹⁴ As a result, it has been

¹³ See U.S. Bureau of the Census, *Local Government Finances in Selected Metropolitan Areas in 1965-66*.

¹⁴ See Dick Netzer, *Impact of the Property Tax—Effect on Housing, Urban Land Use, Local Government Finance* (National Commission on Urban Problems, Research Report No. 1), pp. 17-19; and U.S. Bureau of the Census, *Assessed Valuations for General Property Taxation* (Preliminary Report No. 4, 1967 Census of Governments), tables 2 and 4.

pointed out in a study prepared for this Commission:

• • • Property taxes average about 19 percent of the rental value of nonfarm housing in the United States currently, equivalent to an excise tax of nearly 21 percent on rental value, excluding property taxes.

• • • [Property] taxes as percentages of actual cash outlays for housing range—excluding the South—from sales-tax equivalent rates of 18 percent for large apartment houses outside New York City to 30 percent or more for single-family houses in the northeast, and multifamily properties in New York City. • • •

These very high tax rates are greatly in excess of the rates applicable to other forms of consumer expenditure, with the exception of taxes on liquor, tobacco, and gasoline. • • • *It is simply inconceivable that, if we were starting to develop a tax system from scratch, we would single out housing for extraordinarily high levels of consumption taxation.* More likely, we would exempt housing entirely from taxation, just as many states exempt food from the sales tax.¹⁵

The deterrent effect of property taxes on the provision and maintenance of urban housing is, of course, one aspect of the relatively high tax burden just described. A differentially heavy rate of tax will operate in this way for any particular form of consumption, but the results can be especially unfortunate in the case of urban housing renovation. A Commission survey conducted through the International Association of Assessing Officers revealed widespread assessor response to building permit activity involving even the most modest repairs.¹⁶ Especially where assessing is outdated and lacking in uniformity to begin with, the act of repairing a house may trigger a reassessment which causes the building that is renovated to receive a new valuation which is increased disproportionately not only to the improvement just added but also to the valuations of neighboring or similar structures.

Much of the regressivity or "antipoor bias" of the property tax results because housing takes a considerably larger part of the income of poor than of prosperous households. In addition, much of the property tax on business property

¹⁵ Netzer, *op. cit.*, pp. 22 and 25.

¹⁶ To obtain information needed by the Commission with regard to assessors' treatment of property alterations authorized by local building permits, the International Association of Assessing Officers canvassed a number of major assessing jurisdictions. Facts supplied by 50 such offices indicate that nearly all of them routinely receive building-permit information, and use it as a guide for selection of properties to be reassessed. Only a minority of these agencies specify some minimum dollar figure below which a permit-authorized alteration will not result in an assessment review. Many reporting assessors emphasize that they do not "automatically" accept the value of the improvement shown on the building permit as a measure of change in property value, on the ground that this figure may be inexact. Nevertheless, the newly-improved or altered properties may be differentially treated, relative to taxable realty generally, if other assessments in the area have become outdated, unless this factor is fully taken into account in the selectively updated reappraisals. With the rapid changes taking place in most major urban areas, the heavy workload of assessors, and the common infrequency of comprehensive reassessment, the probable result may often be—as many property owners believe—a disproportionate raising of the tax valuations for individual properties that are altered or renovated. See also Netzer, *ibid.*, p. 29.

is undoubtedly shifted to consumers through higher prices; as in the case of any general consumption tax, this involves a greater tax load in relation to income for the poor than for better-off consumers. Taking account of both these factors, one careful scholar has concluded that the degree of regressivity [of the property tax] is probably greater than that for any other major tax used in the United States.¹⁷

The final problem mentioned above—differential taxation of properties legally entitled to uniform treatment—arises from (1) the sheer difficulty of accurate and up-to-date assessment, especially in the metropolitan context of extremely diverse property and rapid economic change and (2) inherited defects in property tax laws and assessment machinery, as more fully examined in the next chapter.

The property tax is unique among major American revenue sources in the degree to which its base is determined by official action (subject, of course, to possible taxpayer appeal) rather than primarily by "self-assessment" as in the case of the income and sales taxes. This is understandable. Unlike most of the income flows or transactions reached through those other kinds of taxes, the value of individual parcels or items of taxable property is not (except for the small proportion of properties currently changing hands) directly reflected in any relevant source. Present value must therefore be calculated or inferred from other evidence, often involving some uncertainty or inexactness. Thus, absolute correctness and uniformity of valuations for property taxation is an impossible target, which may be approached but not fully attained.

The problem of accurate valuation is especially serious for business property. At the other extreme, it is generally agreed that a close approach to uniform assessment should be possible for single-family houses. Nevertheless, wide assessment variations appear in most areas for even this class of property.

This problem can be seen in data provided by the census of governments. The uniformity test is the pattern of consistency (or inconsistency) within taxing jurisdictions in the ratio of assessed to market value of surveyed properties. The 1967 data reveal that in 122 large cities the ratios for half of all houses deviated at least 14 percent up or down from the average. Worse, in 18 of these cities, the deviation for half of the houses was at least 20 percent.¹⁸

¹⁷ Dick Netzer, *Economics of the Property Tax* (Washington: The Brookings Institution, 1966), p. 59.

¹⁸ For supporting data, see ch. 8, p. 412. Extensive earlier evidence of assessment variations for single-family houses appears in U.S. Bureau of the Census, *Taxable Property Values* (Volume 2, 1962 Census of Governments).

An illustration clarifies what this 20-percent deviation means. In one of the 18 cities just cited, take three houses (and lots), each worth \$20,000:

	Market value	Assessment ratio (percent)	Assessment	Tax rate (percent)	Tax
High house.....	\$20,000	36	\$7,200	8	\$576
Average house.....	20,000	30	6,000	8	480
Low house.....	20,000	24	4,800	8	384

In this example city, the average assessment ratio for all houses is 30 percent of market value. But one-fourth of all houses are assessed at 20-percent more than that ratio (36 percent) or higher, and another fourth are assessed at 20-percent less than that ratio (24 percent) or lower. Thus three example houses, high, average, and low are assessed respectively at \$7,200, \$6,000 and \$4,800. Applying a typical tax rate, their annual tax payments, in the same order, are \$756, \$480 and \$384. The high pays \$196— or 51 percent—more than the low.

Widespread persistence of excessive variation in property tax valuations can in part be traced to unsound assessment arrangements. We offer in the next chapter several recommendations for action on this problem, which should, if carried out, bring property tax assessments far nearer to an acceptable standard of equity and uniformity.

Most of the revenue obtained by urban local governments from nonproperty taxes is from general or selective sales taxes. These, like the property tax, tend to operate regressively to the particular disadvantage of poor households.

Altogether, then, it is part of the crisis of urban government finance that so much of the large and growing sums required must now come from revenue sources that place an especially heavy burden upon the poor—in particular the property tax, which is not only regressive but tends to deter housing construction and maintenance and in many areas is inequitably administered.

FISCAL DISPARITIES WITHIN METROPOLITAN AREAS

The problems outlined above appear most vividly in the core cities of metropolitan areas—particularly the major older cities of the Northeast and Midwest, but increasingly also in other parts of the Nation. There is a serious and growing disparity in the relative fiscal capacity of the central cities and their respective suburban fringe areas.

parts of the Nation) tremendously increases of many central cities is actually below that of adjacent metropolitan-fringe territory. As has been pointed out:

*** In nearly all the larger metropolitan areas in the Northeast and Midwest, per capita taxable property values (corrected for differences in assessment levels) in the central cities are well below those in the outlying parts of the same metropolitan areas.¹⁹

This is a relatively recent development, differing sharply from conditions of 30 or 40 years ago. As the same writer notes:

*** In the past, *** nearly all the economic activity in metropolitan areas was concentrated in the central cities and could be reached by central city taxes. Today, taxable wealth and capacity have dispersed throughout metropolitan areas—beyond the reach of central city taxes—while needs for special public services continue to be concentrated within the central cities.²⁰

However, it is the higher public expenditure needs of the central city, rather than an absolute deficiency in its tax base, that especially demand attention. At least three factors contribute to the additional requirements of the central city:

(1) Above all, this is where the poor and disadvantaged tend mainly to be concentrated. There are more high-cost citizens from the standpoint of such poverty-linked services as public assistance, public health and hospital care, housing, other social services, and education of disadvantaged children.

(2) The fact that population concentration (as noted above in the contrast between metropolitan areas as a whole and other parts of the Nation) tremendously increases the necessary scope of such costly services as police and fire protection, parks and recreation, and sanitation. For most central cities, furthermore, these services—as well as the local highway system and traffic control activities—must meet the needs of an expanded daytime population which includes a net inflow of nonresident suburban commuters.

(3) Since the central cities developed before suburbia, their public facilities—schools, hospitals, water supply and sewerage systems, and the rest—typically include a far higher proportion of deteriorated structures and equipment, in need of replacement or major renovation. Expanding suburbia, of course, also must provide for new public plant, but these needs are in the context of present and prospective growth, rather than—as in the case of many central

¹⁹ Dick Netzer, *The Urban Fiscal Problem* (Institution of Local Government, University of Pittsburgh, 1967), p. 9. See also ch. 8, pp. 412-414.

²⁰ *Ibid.*

cities—of a stable or declining population and sluggish economic development.

As a result of these factors, most metropolitan central cities have higher taxes than the average for their respective suburban-fringe areas. Furthermore, given the fragmented structure of local government, most metropolitan areas include some territory with tax rates *far* below that of the core city. As a result, local financing conditions add to the many other forces that are encouraging fringe-area growth to the relative disadvantage of central cities. This process is not self-correcting, but self-reinforcing. As has been observed:

If the central cities must impose higher tax rates on their more limited tax bases * * * there is likely to be some inducement to residents and businesses to move to lower-tax jurisdictions in the same metropolitan areas. * * * This migration in turn further weakens central city tax bases, setting the stage for a new descent on the fiscal and economic spiral.²¹

Similar conclusions are reached in a recent major study by the Advisory Commission on Intergovernmental Relations, entitled "Fiscal Balance in the American Federal System." Part II of that study, dealing with "Metropolitan Fiscal Disparities," was based upon a detailed comparative analysis of data for the 37 largest metropolitan areas in the Nation for the years 1957, 1962, and 1965, and led to conclusions that may be briefly summarized as follows:²²

There is a growing concentration of high cost citizens in central cities.

The paradox of poverty in the midst of plenty emerges most strikingly in the central cities of large metropolitan areas. The decline in absolute poverty is overshadowed by economic disparities between large central cities and their suburbs.

The deepening fiscal crisis reflects the exodus of middle- and high-income families and businesses from the central city to suburbia.

In central cities, the burden of local taxes averages 7.6 percent of personal income

compared to only 5.6 percent of income for residents outside central cities.

Central cities nevertheless increased their relative tax effort during a period when their property tax base experienced a deceleration in rate of growth or an absolute decline.

In the 37 largest metropolitan areas, current public school expenditure in 1965 averaged \$449 per pupil in the central cities, compared with \$574 per pupil in suburbia. "Children who need education the most are receiving the least."

State aid to school districts aggravates this situation by favoring rural and suburban districts.

Per capita noneducational (municipal) outlays of \$232 per capita were made by the 37 largest central cities in 1965—\$100 greater than their suburban counterparts.

Of growing significance are fiscal disparities among rich and poor suburban communities in many metropolitan areas.

IN SUMMARY

It is all too clear, then, that—

There is a crisis of urban government finance.

This crisis is most strikingly evident for central cities of the largest metropolitan areas but also affects other large cities and an increasing number of suburban communities.

The crisis is rooted in conditions that will not disappear but threaten to grow and spread rapidly unless major shifts occur in recent demographic trends (especially that which has concentrated so many disadvantaged people within the central cities and other poverty pockets of metropolitan areas, or unless significant changes are made in traditional patterns of governmental structure, responsibilities, and financing.

The crisis is of mounting proportions and feeds upon itself.

²¹ *Ibid.*, p. 10.

²² Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Fiscal System*, Vol. 2, pp. 5-6.

CHAPTER 4

State-Local Action Toward Better Urban Financing

The mayor of a large city, in testimony to this Commission, said:

Our problems are financial ones. I have sometimes characterized the three major problems as being money, finances, and revenue.

His phrasing was intended humorously, but his point was dead serious. Responsible officials of cities across the land similarly describe financial limitations on their efforts to create acceptable urban environments. If we talked about better publicly supported housing, better neighborhoods and better communities without addressing ourselves to the money problems, we could legitimately be charged with avoiding one of the central aspects of these issues.

Money is not the only limiting factor, as the mayor quoted above would undoubtedly agree. Other constraints result from poor governmental structure, discussed earlier; shortages of competent personnel; and often in view of the complexity of problems and the rapid pace of change—a dearth of reliable data to guide effective administration. Money is, nevertheless, one critical element in meeting urban problems. Throughout metropolitan America—as the preceding chapter underscores—there is a pressing need for both more adequate and more equitable financing of essential public services.

Significant steps by the Federal Government are urgently needed to help deal with the crisis of urban financing. We offer specific proposals on that score in the next chapter. But most of the action needed must be at the State-local level. The States have a major share of the responsibility because of their ultimate legal control over the property tax system and other local taxes and because of the close relationship between State and local government finances.

We therefore submit recommendations that mainly contemplate State and local government action toward a broader and fairer base for urban financing. Our proposals are for—

Broadening the base of State taxation by significant use of both a personal income tax and a general sales tax, including authorization for local governments to impose supplementary rates on a piggy-back basis;

A review by each State of its pattern of

State-local relationships to provide a more effective and equitable means of State aid to local school financing; assumption by the State government of financial responsibility for non-Federal public welfare costs; and provision of incentives in State grant programs to improve local governmental structure;

Reexamination by State and local governments of the potentiality of user charges to finance public services;

State legislation for increased regionalization of property taxation for public schools in metropolitan areas, utilizing a countywide or multicounty taxing area, with proceeds allotted to school jurisdictions as prescribed by State laws;

Joint Federal-State-local action to establish a system of interstate metropolitan taxing areas under which, by State and local decision, a supplemental rate could be added to the Federal income tax with proceeds returned to the local governments involved; and

State legislative action to improve the property tax by eliminating unenforceable features, professionalizing the assessment function, moving to full-value assessment, ascertaining and publicizing assessment ratios, and providing effective taxpayer appeals machinery.

A BROADER FINANCING BASE

Some defects of the property tax are inherent in its very nature, and can only be handled by limiting reliance upon this form of taxation to some reasonable level.

In the nation as a whole, about five-sixths of all local tax revenue in metropolitan areas is obtained from the property tax. Even when intergovernmental receipts and nontax sources are added, property taxation accounts for nearly half of all urban government revenue. Property taxation supplies nearly as much revenue as all other State and local taxes combined.

There is marked geographic variation on this score. The property tax portion ranges from

(362)

less than one-fifth to more than two-thirds of State-local tax revenue in various individual States. Similar diversity appears in effective rates of property taxation: for example, for single-family houses in 122 major cities in 1966-67, from less than 1 percent in nine cities up to more than 3.5 percent in four cities at the other extreme.¹

These variations reflect the differing degree to which various States have placed increasing reliance on nonproperty tax sources. The proportion of all general revenue of State and local governments obtained from property taxation ranges from less than 20 percent in a few States up to more than 40 percent in a number of others.² This helps to account for the interstate range of nearly four-to-one in property tax revenue per \$1,000 of personal income, as against the much narrower range of only 1.6-to-one in the relation of total State-local general revenue to personal income.

Relative de-escalation of the property tax will depend, above all, upon further State action toward increased tapping of other revenue sources.

Recommendation No. 1—Move to balanced State-local revenue systems

The Commission recommends that those States which have not done so move as rapidly as possible toward a balanced State-local revenue system which, besides providing for equitable property taxation, involves significant use by the State of both a personal income tax and a general sales and use tax. We also urge that States which have not done so consider granting authority for local governments to impose limited supplementary rates of income or sales tax, to be collected and returned by the State to the taxing jurisdictions.

Thirty States now impose both personal income and general sales taxes; in 17 of these States, local sales taxes are also authorized (usually with State collection and distribution), and two States authorize local supplements to State income taxes.³ Thus there is widespread precedent for the main thrust of our recommendation, which takes account of two major elements of fiscal reality: (1) strongly rising needs and expectations for public services at both local and State government levels; and (2) the prospect that additional Federal Government financing, although highly desirable, cannot be

expected fully to meet these growing requirements.

It would be unrealistic and irresponsible to urge expanded State participation in the financing of urban needs without recognizing also, as we do in this proposal, the question of how the necessary funds are to be obtained. Fortunately, recent action in numerous States provides a helpful guide. In particular, effective means have been devised to maintain the productivity of general sales taxes but at the same time to remove their regressive impact upon low-income people. Such arrangements, which originated in Indiana and have since spread elsewhere, involve a special crediting in State income tax laws. Either by exempting food and medicine, or by appropriate credits (under income tax formulas) for taxable purchases of such necessities, it is possible to avoid inequities that otherwise arise with general sales taxes. We commend the sales tax, with such features, as one element of a balanced tax system which would help stem excessive property tax levels.

The three types of tax referred to do not, of course, account for all of the States' financing arsenal: we have further suggestions to offer in a later chapter with regard to the taxation of land. However, these "big three" are of primary importance: 70 percent of all State-local tax revenue is obtained from property, general sales, and personal income taxes. Their respective percentages in calendar 1967 were as follows: property, 43.1; general sales, 16.7; personal income, 9.8.⁴ It is increasingly clear that *both* general sales taxes and personal income taxes must be used by State and local governments if urgent public service needs are to be met without an undesirable further increase of property tax rates in many areas. (Where property taxation is very low, balance of course would be achieved by raising the level.)

All or most of the added funds from a broader tax system would best be collected by the State governments, even though destined for distribution in large part to local governments. Related State action is therefore indicated concerning their grant-in-aid programs. Present State-local fiscal patterns are generally the result of historical problem-by-problem handling. In very few instances have State grant-in-aid systems been subjected recently to comprehensive reexamination and overhauling.

Recommendation No. 2—Review and revision of State-local fiscal relations

The Commission urges State governments to review intensively and where appropriate to revise their existing arrangements for

¹ U.S. Bureau of the Census, *Property Tax Rates in Selected Major Cities and Counties* (Preliminary Report No. 3, 1957 Census of Governments).

² U.S. Bureau of the Census, *Governmental Finances in 1965-66*.

³ Advisory Commission on Intergovernmental Relations, *State and Local Taxes: Significant Features, 1968*.

⁴ U.S. Bureau of the Census, *Quarterly Summary of State and Local Taxes, October-December 1967*.

State-local fiscal relations so that, as a minimum:

(a) Each State provides a generous foundation program for local school financing;

(b) Educational grant formulas take account of the additional costs of enriched school programs for economically and culturally deprived children;

(c) Each State government finances all or substantially all public welfare costs that are not covered by Federal aid; and

(d) Various State grant programs include appropriate incentives toward improved local government structure, including the development of major viable multipurpose governments in metropolitan areas.

We emphasize financing requirements for education and public welfare on obvious grounds. Public schools make up by far the most costly single elements of local government, and their benefits are not limited to small local areas but have a widespread impact in our increasingly mobile society. The States' responsibility for underwriting a sizable share of public school costs thus is socially and economically justified, as well as consistent with the legal framework for public education in most States.

Provisions are widespread for State grants to underwrite certain excess costs of public schools in sparsely populated rural areas, particularly in the form of aid for pupil transportation. Various programs exist also for special State aid for educating physically handicapped children. Until recently, however, State grant systems have rarely made any allowance for the overburden involved in providing, through local public schools, enriched programs for economically and culturally deprived children. We urge specific State attention to this as one desirable component of State school-aid systems.

In about half the Nation, public welfare costs are financed nearly entirely from State and Federal sources. However, in States where such an arrangement does not apply, the locally financed portion represents a significant burden, adding materially to property tax requirements. This cost component is likely to be especially onerous because it tends to vary inversely with local fiscal capacity. Moreover, such financing arrangements commonly place a heavier burden upon major central cities, where so many poor families are located, than upon most suburban communities.⁵ We strongly urge, therefore, that those States which have not done so assume direct responsibility for sub-

stantially all public welfare costs that are not financed by the Federal Government. The same reasoning justifies generous State underwriting of other important though less costly poverty-linked services, such as those in the field of public health.

Intensive review of existing grant-in-aid programs in any particular State should take account of the relation of such grants to local government structure. As shown by experience with State aid to local school districts, fiscal aid may be deliberately used to encourage desirable structural changes, or on the other hand, may actually tend to shore up outdated institutions.

Recommendation No. 3—Increased local government use of user charges, where appropriate

The Commission urges that local governments reexamine intensively their existing practices with regard to service and benefit charges, and make adjustments needed to put appropriate services on a self-sustaining basis. We also urge the State governments to encourage and assist local governments in such efforts.

User charges already represent a significant revenue source for urban local governments. However, there is great variation: some governments use them to an important extent, while others in effect make the general taxpaying public subsidize various activities which provide selective benefits. Although user charges have little relevance to some costly services, such as education, public welfare, police and fire protection, they can be an important resource for financing of urban highways and parking facilities, water supply and sewers, waste disposal, and recreational activities.

User charges can help to hold property tax requirements within reason and to provide equity between taxpayers and specially benefited users of various services. Two other aspects of this proposal deserve particular attention: (1) User charges can help to prevent excessive or wasteful levels of user demand—illustrated by carelessness in water consumption where no metering applies, or by excessive urban street congestion in commercial sections where street parking is allowed free or at only very nominal meter rates; (2) With rising levels of urban government salaries and other expense factors, the fees or prices set for particular public services need to be periodically adjusted lest charges lag seriously behind related costs.

A word of caution should be added about balancing or choosing between user charges and taxes for particular activities. Most urban government services have an important element of general public benefit; for example, an adequate

⁵ See ch. 8, pp. 409-410.

sewer system is of major concern to the community as a whole, not only to individual households. Unless such social factors are sufficiently recognized, the more attractive sound of charges than of taxes may encourage excessive use of charges, with undesirable or inequitable results. In fact, some municipalities substantially subsidize their general government needs from the revenue surpluses of their water supply or electric power utilities. This is the effective equivalent of placing a high excise tax upon the utility services involved. Such taxation may, obviously, be even more regressive or otherwise undesirable than the use of the property tax or other available means of financing. Benefit charges are also sometimes misused in a potentially discriminatory fashion—for instance, by imposing fees for admission to local parks, in order to limit their use to nearby or socially desirable patrons. While reasonable charges may be justified for the use of some public recreational facilities (e.g., golf courses or marinas) that have a selective appeal, it is of major social importance that facilities which serve more basic needs be available at little or no direct cost.

Thus we are not urging the maximum possible use of benefit charges but their greater application in those instances where, in the light of careful consideration, they offer an economically and socially desirable substitute for taxation.

Regionalizing school costs

Public education involves by far the largest component of local government activity. This function typically accounts for about four-tenths of all local public expenditure in metropolitan areas, and an even higher fraction elsewhere.⁶ A sizable portion of local education expenditure is financed from State and Federal grants, and such aid should continue to grow, as we urge above. However, a major part of school spending is met from local sources, principally property taxation. The base for such financing is fractionated geographically, and in most metropolitan areas there is a considerable range in the relative fiscal capacity of school-administering governments. Basic restructuring of local government and provision of increased Federal and State aid are needed to help meet this situation, but another approach is also widely indicated.

Recommendation No. 4—Countywide or multicounty taxation for public schools.

The Commission recommends that States provide that a significant proportion of all local property tax support for public schools

be supplied through levies imposed by countywide or multicounty school taxing districts, with the proceeds allocated to school-administering units on a State-prescribed basis.

This proposal has limited relevance where public schools are already administered (and locally financed) through countywide units. For a number of other States also its adoption would mainly involve an expansion of existing arrangements that provide some countywide taxation for school purposes. Usually, however, such county levies are only minor, and most States lack any such device for spreading the local tax burden for education.

Local public education is a highly logical candidate for a broader local base on several grounds: because of its costliness, it makes up a sizable part of local property taxes everywhere; it permits a simpler basis for allocation of funds than could apply to many other local government services; and the benefits of public education, in our increasingly mobile society and economy, reach out far beyond individual school administering areas.

State action along this line would end part of the substantial escape from property taxation which is now enjoyed in various local tax havens. By curtailing present wide disparities of property tax rates in metropolitan areas, it would reduce incentives toward socially undesirable fiscal zoning, and, perhaps, also lessen resistance to the more basic restructuring of local government which is so urgently desirable in many areas.

The Commission is not proposing here a regionalization of education, but rather of *property taxation for educational purposes*. Neighborhood schools as service units and school systems as administering entities would not be replaced, but a larger part of their financing would come from a geographically broader base.

Interstate metropolitan taxing areas

Most of the foregoing discussion has referred to steps toward a broader and fairer base for urban government financing that can—and should—be taken by State and local governments. Effective action along the lines suggested, we are confident, would be highly productive. Moreover, we are sure that the problems of urban government must continue in the future as in the past to be handled mainly by local and State action. Not only because of the structural inheritance of our Federal system but for a host of other reasons, the role of the National Government can at best be selective and indirect, stimulative and helpful—especially in financing. The National Government is *not* suited to take on directly any sizable part of the

⁶ See ch. 8, pp. 409–410, tables 1 and 3.

responsibilities traditionally handled at the State and particularly at the local level. Hence the concern we have expressed for a more effective structure of local government, especially in major urban areas.

Even widespread action on all the matters discussed above, however, would not fully deal with a financial problem that is especially pertinent to metropolitan areas which cut across or are adjacent to State boundaries. In 1960, such areas had more than 41 million residents, or nearly one-fourth of the Nation's total population. For any such area, problems of local disparities in fiscal capacity and of constraints upon tax policy become interstate in nature. But no effective means is now available to deal with such problems on an areawide basis, *involving concerted action by governments on both sides of the State boundaries*. As a result, each of the States concerned is likely to encounter special difficulty in carrying through desirable actions it might otherwise undertake. For example, a vigorous effort by various means to get rid of tax havens in one State's portion of such an interstate area would face the threat of traditionally privileged businesses moving to low-tax parts of the area in the neighboring State.

Recommendation No. 5—Supplement to Federal income tax in interstate metropolitan areas

The Commission recommends, for consideration by Congress and the various States concerned, enactment of a system by which a supplemental rate of personal income tax could be applied within interstate metropolitan areas, to be collected directly in conjunction with the Federal income tax and with the proceeds returned to appropriate local governments.

It should be emphasized that, if such a system is developed, the supplemental tax rate would be imposed by local or State action, rather than by the Federal Government; the proposal thus contemplates a "piggyback" arrangement like that now widely used for locally imposed, State-collected supplements to State sales taxes. The plan might operate through certification by the Governors of the affected States that a favorable vote in an areawide election had favored the imposition of a supplemental rate for Federal collection and return, and with allocation of the resulting revenue to be as specified by the respective Governors in accordance with statutory provisions in their respective States. Appropriate Federal legislation should no doubt (as in the case of the States' "piggybacking" provisions) set a limit on the supplemental rate available, and on the frequency of allowable change or cancellation; at least for administrative rea-

sons, it might even be found desirable to provide for only a single available rate of supplementation, subject to "yes-or-no" action by eligible areas.

It is obvious that the design of a workable system of this nature demands careful analysis of many factors, so that it would be presumptuous to spell out proposed features in complete detail. The suggested basic approach, however, deserves thoughtful and sympathetic consideration on several grounds:

(1) An advantage already noted would be to reduce the constraints upon otherwise desirable action concerning urban government structure and financing that apply uniquely in interstate metropolitan area;

(2) Another advantage is the opportunity it would open for increased local use, in an efficient fashion, of income taxation as a partial substitute for property taxation. A limited number of local governments (mostly sizable municipalities) already administer their own personal income taxes, but in most instances these apply only or mainly to salaries and wages. It is generally agreed that separate taxes of this nature cannot be nearly as well administered locally as on a State or National basis. Only two States have thus far authorized local "piggybacking" on their State income taxes; while further action of this nature is probably desirable and likely (despite problems of appropriate revenue allocation where local governments are numerous) it cannot operate on an interstate basis.

INCREASED EQUITY IN PROPERTY TAXATION

The foregoing recommendations relate to the widespread need for deemphasis of the property tax. They propose action that is critically desirable in many areas, especially because of inherent defects of this form of taxation which limits its desirability as a predominant revenue source. But such basic action cannot come overnight. In the meantime financing needs for urban government continue to mount. Moreover, it would be most unrealistic to expect that these needs can be fully met from increased Federal aid. In recent years, the *annual rise* in local property tax revenue has been considerably larger than the total *annual amount* of Federal grants to local governments. Replacement of even one quarter of present local property tax yields would require a threefold increase in Federal grants to local governments.

In other words, in the years immediately ahead the property tax must continue to be

counted on for very large sums. And, however, vigorous the effort may be to tap other revenue sources, it must be accompanied by effective steps to reduce existing defects of the property tax.

There is ample evidence that many property tax ills are not beyond remedy, but arise from faulty laws and administration. The best proof is that some areas have far better property tax administration than the prevailing average.

Public disillusionment with the property tax as it now operates is becoming widespread. This in turn tends to encourage indiscriminate loopholes or exemptions that make this tax even more difficult to administer fairly. Without corrective action to make the property tax worthy of respect, the existing inequities are likely to become worse.

Property tax assessment

As the general property tax system is usually intended to operate, a levy is applied at a uniform rate to official valuations for all items of taxable property within a particular area. It is an *ad valorem* tax—a tax on values. Purely from the standpoint of the intent of this kind of tax (for example, without considering whether the value of property is an equitable basis for taxation), complete equity under the law is achieved only if (1) all property legally taxable is actually listed, and (2) all items are valued on a uniform basis, i.e., either at their actual current worth, or at the same percentage of current worth.

Perfection is unattainable in practice. Not all taxable property is listed, particularly where coverage extends to certain elusive forms of personal property. A greater barrier to perfection is that, for most taxable property, current worth is not determinable with exactness. This is why competent appraisers evaluate the same properties somewhat differently, and why closely comparable houses in a particular neighborhood change hands at different prices. Current worth of most real estate is less subject to question if expressed as falling within a range rather than as a precise point. Thus, a reasonable statement of the goal of equity in property taxation would add the word "substantially" to both objectives—substantially complete listing of taxable property, and substantially uniform assessment.

To note that property evaluation is not a precise science or art does not contradict the need for reform. Actual performance throughout most of the country is far, far below the appropriate goal. Incomplete listing, mainly concerning personal property, is discussed later under "Property Tax Coverage." Nonuniformity of assessment mainly concerns the far larger portion of the property tax base represented by real

estate. The reasons that assessing practices in most parts of the country fall far short of a reasonably attainable standard include the following:

- Excessive decentralization of assessment responsibility;

- Assignment of assessing in most areas to officials who are selected by popular election and for whom there are no prescribed standards of education or training despite their complex duties;

- Limited and understaffed State participation in the process of property tax assessment;

- Absence of the correctives generated by an informed citizenry, due to popular misunderstanding or ignorance about the basic elements of property taxation;

- Clouding of the relation between values and assessments by the common practice of assessing property at minor fractions of current worth;

- A prevailing lack of reliable statistics that would enable interested taxpayers to judge even the approximate fairness of assessed valuations for their property holdings; and

- A widespread lack of convenient, usable machinery for taxpayer appeals against questionable assessments.

Property tax coverage

There are two major problems with property tax coverage. The first arises because the property tax laws of many States apply to some kinds of personal property that, experience shows, cannot be fully located and equitably valued.¹ The results include unjust burdens for conscientious owners of such property and, for assessing officials, either a diversion of attention from more important duties or a "blinking" at widespread tax evasion, which promotes public distrust and cynicism about taxation and government generally.

The second coverage problem relates to property tax exemptions. Complete exemptions apply to ownership (property holdings by governments) and use (noncommercial uses of property held by educational and charitable bodies). Other exemptions are partial, providing a discount against assessments—through homestead exemptions and other devices to provide relief to homeowners, veterans, the elderly, industry, farmers or other owners of urban-fringe land, country clubs, and so forth. Rising property taxation has stimulated a host of recent efforts along these lines. When exemptions

¹As to general property tax coverage of various types of personal property, see U.S. Bureau of the Census, *Assessed Valuations for General Property Taxation* (Preliminary Report No. 4, 1967 Census of Governments).

are enacted, they narrow the property tax base and accelerate the rise in rates.

Recommendation No. 6—Improvement of Property tax

The Commission urges early and widespread action by State and local governments to improve the property tax by—

(a) Limiting its legal coverage to forms of wealth that can be effectively reached and valued through such taxation, minimizing exemptions, and tailoring with great care any property tax relief provisions;

(b) Providing appropriate machinery for assessment work, with responsibility assigned to well-staffed and professionally directed jurisdictions which are large enough to employ modern equipment and techniques;

(c) Moving as fully and rapidly as possible toward full-value assessment of taxable property;

(d) Conducting and publicizing the results of careful studies of assessment ratios, and publishing related data about property taxation on a regular basis; and

(e) Providing effective appeals machinery for taxpayers.

These proposals are not equally applicable everywhere. Some States are far ahead of others in the quality of their property tax systems. But some portions of the foregoing recommendations have an important potential for every State.

We are not proposing any untested novelties of property tax law or practice. Precedents exist for all the types of action we urge. Our proposals generally parallel those which are urged by the Advisory Commission on Intergovernmental Relations, in the most authoritative contemporary work in this field, "The Role of the States in Strengthening the Property Tax." That report has helped to stimulate important statutory and administrative changes in various parts of the country. But accomplishments thus far are only a minor part of what remains to be done. In the 5 years since that Commission report was published, property tax collections in the United States have totaled some \$120 billion, and this total in the next 5 years is likely to go well beyond \$150 billion. The Nation cannot afford continuing serious inequities in the collection of such huge sums for public purposes.

The remaining portion of this chapter considers separate aspects of recommendation 6 in greater detail.

(a) Limiting coverage, exemptions, and tax relief

The Commission recommends that States: (1) revise their laws and constitutional provisions relating to the property tax so as to limit its coverage, at most, to real estate, tangible personal property used for income-producing purposes, and motor vehicles; (2) avoid the enactment of partial exemptions for particular types of private property owners, and wherever possible repeal existing provisions of this nature; and (3) use means other than preferential assessment in efforts to limit the burden of onerous residential property taxes for low-income families, or to limit the inhibiting effect of property taxation upon the sound maintenance or renovation and improvement of residential property.

Basic legal coverage

The first portion of this recommendation is based upon the fact that—

* * * the extent to which some personal property tax laws have become legal fictions is notorious. Evasions and the condoning of evasion are so widespread as to make such laws a tax on integrity * * *. This condition * * * creates for the property tax system an unhealthy disrespect.*

Competent observers differ as to whether income-producing personal property should be legally subject to property taxation. Those in favor point out that such coverage avoids discrimination by the property tax system against those income-producing activities (such as agriculture) which involve a relatively large investment in real estate as compared with equipment and inventories. They also argue that the location and equitable valuation of such property do not involve insuperable difficulties. On the other hand, gross deficiencies exist in the assessment of income-producing personal property. This fact has led a number of States to exclude such property legally from the tax base, and is cited by various competent and disinterested authorities who urge similar action elsewhere. A less sweeping middle road proposed by the Advisory Commission on Intergovernmental Relations calls for complete exemption for business inventories—but not for such other income-producing personal property as business equipment and agricultural livestock.

States differ in their property tax treatment of motor vehicles. Some provide complete exemption, generally with appropriate adjustment of their car license fees. Since this type of property clearly can be listed and reasonably

* Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Washington, D.C., June 1963, p. 8.

valued, it is a feasible candidate for inclusion in the property tax base, although alternative tax forms may be at least as desirable.

Any significant base-narrowing action in line with our recommendation is likely to involve problems of revenue replacement, with differing impact for various areas and individual local governments. Gradual rather than abrupt adjustment is probably indicated, perhaps with some related revenue offset provided through State aid.

In any event, a major consideration in every State as to desirable property tax coverage should be: Can the law be applied with a high degree of effectiveness and equity? Unless official intentions, public attitudes, and the assessment machinery promise an affirmative answer for all major property components legally covered, sound policy requires a narrower tax base for which adequate enforcement can better be assured.

Assessment exemptions

We emphatically urge that the trend toward riddling of the property tax base by preferential exemptions for particular types of private property owners be stemmed and, where possible, reversed. Provisions of this nature have developed to promote homeownership, to aid veterans and the elderly, or to attract new industry—often socially desirable or accepted objectives. The question here is not with objectives but with the use of these methods. Although they appear to involve no direct public cost, such provisions (1) result in increased expense for taxpayers to whom the burden is shifted, (2) progressively weaken the property tax system; and (3) complicate administration. Like many other legalized tax loopholes, any social benefits they may yield generally are provided at grossly excessive cost, and with that cost substantially lost from public view. Sounder policy would involve open regular subsidies for socially defensible purposes, requiring appropriation and expenditure action.

Partial exemptions differ in their relative effect upon the tax base of various local jurisdictions. It thus would be appropriate (as proposed by the Advisory Commission on Intergovernmental Relations and as actually done in a few States) for local revenue losses resulting from such State-mandated exemptions to be made up by State grants.

We have discussed elsewhere related questions raised by the proposal, now widely heard and in a few instances already enacted, to provide preferential assessment of urban-fringe land which is used for agricultural purposes.

Our specific recommendation relates only to so-called partial exemptions, and does not deal with exemptions commonly extended to prop-

erty owned by governments and by religious, educational, and charitable organizations for noncommercial purposes. Exemptions of this nature are so widely and firmly built into the property tax system that it is unrealistic to anticipate their elimination or drastic curtailment. Moreover, efforts to substitute subsidies for the property tax exemptions of nongovernmental institutions would raise major issues of church-state relations and of potential governmental control over traditionally private (though socially oriented) activities. Nonetheless, these kinds of exemptions also create problems, especially when tax-exempt property comprises a sizable portion of particular taxing jurisdictions. The resulting impairment of the local tax base would not be so troublesome if, as we propose, urban government were less fragmented geographically. Some States ease this problem by providing special grants or payments in lieu of taxes to local jurisdictions where major State-owned installations are located.

Residential property tax relief

In some parts of the country, urban property tax rates are so high that they equal, in effect, an excise tax on housing of 25 percent or more. But because residential property makes up such a large proportion of the total property tax base, the main hope for any material cut in such high rates must rest upon increased use of other revenue sources—a shift which, as already noted, cannot be expected to occur rapidly.

In the meantime, the especially onerous impact of property taxation upon low-income families deserves particular attention and action in high-property-tax States. The problems of the poor and elderly are often cited in behalf of relatively sweeping exemptions which, if adopted, exacerbate the difficulties (as described earlier) due to a whittled-down property tax base.

A better approach already taken in some States focuses more sharply upon the residential tax burdens of low-income families. Wisconsin's property tax relief system for low-income elderly households, set up in 1964, entitles any such household with a family income of under \$3,500 to direct State reimbursement for the portion of its residential property tax that exceeds a specified percentage of the family income. Households that rent also qualify, with 25 percent of annual rent treated as property tax. The reimbursement fractions are graduated inversely with income, so that in 1966 refunds ranged from a major part of the property tax costs for aided families with income under \$1,500 down to less than one-tenth the property taxes of aided households with annual incomes of \$2,000–\$2,500. Minnesota recently enacted similar provisions.

In 1967 Michigan adopted a broader plan, in the form of a credit against its newly enacted (flat-rate) State income tax. Under this plan, homeowners may deduct from their income tax (or claim cash reimbursement of) a percentage of their property tax payments, graduated from 20 percent of the first \$100 of property tax down to 4 percent of property tax in excess of \$10,000. Renters may take similar credits, treating 20 percent of gross rent as property tax.

Oregon offers yet another type of relief tailored to aid poor elderly homeowners. A qualified household wishing to do so may avoid current property tax payment by accepting a lien, running at interest, upon its property. The tax bill is paid by a State fund, which is reimbursed from the taxpayer's estate at his death.

These are examples of less costly and more equitable methods than sweeping homestead exemptions or other disruptive forms of preferential assessment for easing the impact of residential property taxation for needy families. We urge continued imaginative action along these lines, especially by high property tax States.

Another type of residential property tax relief merits careful attention and legislative action, especially in States where rates are relatively high. This would involve a temporary abatement of the tax with regard to all or a considerable part of property owners' expenditures to rehabilitate older housing. Especially where rates are high, the property tax tends to deter socially desirable improvements of this kind; some owners avoid or postpone repairs and alterations which might result in material tax increases. Desirably, any such tax abatement provisions—

(1) Should be limited to relatively old housing, in order to hold the revenue cost within bounds, and to focus upon the most critical component of the housing stock, and to prevent abuses (such as successive-stage enlargement or improvement of relatively new structures in order to obtain the tax benefits);

(2) For similar reasons, should apply for only a limited period (perhaps 3, 5, or 8 years) after any such expenditure is made; and

(3) Should be so designed as not to interfere with sound assessment; whether operating through a tax-credit allowance or a limited-period partial exemption from tax, the arrangement should not reduce incentives for equitable assessment of all properties at a high fraction of their current value, or prevent the measurement of assessment performance.

State legislation might authorize local jurisdictions to grant such tax abatements, but probably a statewide system, in view of the usual layering of local taxing areas, would be preferable. Any kind of property tax relief needs to be carefully designed so that current abuses are not multiplied and so that curtailment of the property tax base is kept within reasonable bounds.

(b) Appropriate machinery for assessment work

The Commission recommends that the States undertake an early and drastic overhauling of their institutional arrangements for property tax assessment. They should provide for (1) assessment directly by a State agency or, with State technical supervision and cost-sharing, by major-county and multicounty jurisdictions with a population of at least several hundred thousand persons; (2) the elimination of popular election as a basis for selecting assessors; (3) establishment and enforcement of appropriate standards of education and technical experience for assessment personnel; and (4) transitional arrangements designed to retain for assessment work experienced and qualified staff presently so engaged.

Prevailing arrangements for property tax assessments are ridiculous. It would be hard to find any other inherited feature of American Government that is more out of line with modern conditions, or that reflects a more fallacious notion of the nature of the task involved.

These arrangements took shape decades ago when America was primarily a rural nation. Taxable wealth—in the form of farm property—might not unreasonably be valued by local amateurs, but such property makes up only a small fraction of today's property tax base. Most of the base consists of urban residential, commercial, and industrial property, with three-fourths of the total value located in metropolitan areas. The diversity of such taxable wealth is so great, and the factors affecting its value are so complex, that the unskilled amateur cannot be expected to assess it fairly.

Important new developments—in mapping, automated data processing, and statistical analysis—provide tools to deal more adequately with many aspects of assessment work. But most of these new tools can only be used economically and effectively, if at all, on a large-scale basis. This is one reason why competent observers universally advocate less decentralized assessment. A report prepared for this Commission by Dick Netzer concluded that adequate assessing for predominant classes of taxable property would require “* * * profes-

sionalization and adoption of truly systematic procedures—indeed, full computerization of the primary assessment process.” Dr. Netzer continued: “These in turn imply large-scale assessment organizations. Except in the very largest States, this may very well imply statewide assessment; it surely is not consistent with assessment districts having populations of very much less than 500,000.”⁹

This is a far cry from existing conditions. Only a comparative handful of assessing jurisdictions are so large, and only Hawaii deals with property assessment entirely through a State agency. Assessment work now is handled mainly by more than 14,000 local assessing jurisdictions, of which over 98 percent have a population of less than 100,000.¹⁰

This situation would be less ridiculous if the task of property valuation involved the *setting of basic public policy*. If that were the case, a degree of inefficiency and inequity might be viewed as the reasonable price of keeping government “close to the people.” But assessment is a technical, not a policymaking, job. Essentially, it calls for a conscientious effort to *carry out* public policy, as expressed by laws which indicate the kinds of property to be assessed and which specify the concept of value to be applied. Within this policy framework, the assessor’s legal responsibility is to do as complete a listing and as uniform a valuation job as possible.

This does not mean that the assessor need not exercise judgment. To be well performed, his task demands not only technical background and skill but a high order of integrity and sound judgment. But his judgment is needed in determining how best to carry out the provisions that govern property assessment rather than, by administrative action, to determine what those provisions should be. His proper and legally intended role is not unlike that of a policeman, who is expected to use sound judgment in handling particular instances of law violation but who has no authority to decide what particular ordinances and laws he will choose to enforce from the standpoint of his idea of sound public policy.

Two main factors have contributed to misunderstanding of the proper legal role of assessors, and have permitted or encouraged their exercise of policymaking power. One is the persistence in some States of provisions which call for assessment and taxation of various types of personal property that cannot be located

and properly valued without grossly excessive effort, if at all. As noted above, such provisions understandably result in varying degrees of exemption through action by assessors. The other and more important factor involves the role that is widely assumed by (or sometimes thrust upon) local assessors to determine a “reasonable” or “feasible” fraction of full value at which property should be officially assessed for tax purposes.

Historically, when many States added a State property tax levy to local levies, and were often poorly equipped to measure and adjust for differences in local assessment levels, there was some logical local incentive for competitive undervaluation. Even today in some States the assessment level may, through statutory limitations that refer to assessed valuations, directly affect the taxing or debt-incurring powers of local governments. Under such circumstances, the assessor’s policy as to assessment level is a major budgetary action that is more properly handled by local governing bodies.

Many States have sought to eliminate or reduce the effects of differing local assessment levels: by dropping State property tax levies, providing equalization machinery, and adjusting tax and debt limitations and State-aid formulas to take account of differences in level ascertained through assessment-ratio studies. With sufficiently effective efforts of this nature, the official level of assessment loses much significance, except in two ways: (1) by the effect that the *height of the average level* may have upon the *uniformity of assessment level* for individual properties and (2) by its possible indirect effects upon the budgetary policies of local taxing jurisdictions. The first of these points is more fully discussed later. The second may be briefly explained here.

For the property owner who faces a tax bill equal to some fraction of the current value of his property—say 2 percent—it should not matter whether the amount due has been figured at a high rate against a low assessment level (say an 8-percent rate against 25 percent of full value) or directly (a 2-percent rate on full value). A switch from one basis of billing to the other should not really disturb him, as long as the sum he is expected to pay is not increased. The same might be said for all taxpayers in a particular jurisdiction: if valuations and official levy rates change in mutually offsetting fashion, nobody would experience any change in his tax bill or his relative share of the area’s total tax.

But the situation is muddled in the public mind because the same officials do not set assessments and levy official tax rates, and because of a difference in timing for these steps. Assessors

⁹ Dick Netzer, *Impact of the Property Tax: Effect on Housing, Urban Land Use, Local Government Finance* (The National Commission on Urban Problems, Research Report No. 1), p. 60, 1963.

¹⁰ U.S. Bureau of the Census, *Primary Assessing Areas for Local Property Taxation*.

determine assessments, elective local governing bodies levy the rates. These governing officials are understandably happy if the assessment base grows as rapidly as their needs for property tax revenue; this permits them to "hold the line" on the official tax rates. Even if the total assessment increase results from an upward adjustment of earlier valuations (rather than only from new improvements) so that individual tax billings are increased, the tax levying bodies may avoid some of the criticism that would result from an equivalent tax *rate* increase. The assessor, similarly, has an interest in letting any blame for higher bills appear to result from tax levying rather than from assessing action. Thus local assessors—most of them popularly elected—have found it difficult to move traditionally low levels of assessment up nearer to full market value. Given the political realities, in fact, it is rather remarkable that assessed valuations in most parts of the country have apparently kept pace—although at a fractional level—with the rapid rise in market value of taxable realty during the past decade.

As a net result, the exercise by assessors of policy decisions on the fractional level of valuations probably does influence the spending and taxing decisions of local governing bodies, even when the latter are not closely bound by tax and debt limitations. In short, the public's limited understanding of the real nature of the property tax results in a split in budgetary responsibility and contributes further to the buckpassing previously discussed in connection with the layering and multiplicity of local governments.

We urge a clarification of the basic policy-making role of local governing bodies, as distinct from the ministerial task of the assessor. Technical skill, rather than political popularity, should be the prime requisite for assessors. The States need to move as vigorously as possible to eliminate inherited provisions for election of assessors, and to provide instead for their appointment in accordance with State-set qualification standards. Action in this direction should include transitional provisions designed to attract and keep competent assessors who have previously been chosen through popular election.

(c) Moving toward full value assessment

The Commission urges that the States reaffirm the principle of "full value assessment" which in a majority of instances is expressed, directly or implicitly, in their present constitutions and property tax laws, and that they take steps to assure the most rapid possible progress toward substantial compliance with this principle in official valuations for property taxation. We also strongly

urge that the States retain and apply, without impairment, the long-established and generally accepted legal principle that property subject to general property taxation should be assessed as uniformly as possible in relation to its market value, irrespective of the income status of particular property owners and of the past or present income yield of particular pieces or types of property.

The first portion of this recommendation concerns the prevailing practice of "fractional assessment." In all but a handful of States, taxable property is typically assessed at less than half its current market value, and the national average level of assessment is less than one-third of full value. Fractional assessment contributes, as noted earlier, to the undesirable split of local budgetary policy between assessors and responsible tax-levying bodies; it contributes to the uncertainty and onerous effects of State-prescribed limitations on local indebtedness and property tax rates; and above all it increases the likelihood of gross discrimination of assessment among various classes and among individual pieces of taxable property.

The argument for the closest possible approach to full-value assessment does *not* rest upon the premise that this would increase the total base for property taxation (which it would not directly do). But there is ample evidence in careful State studies and in Census of Government surveys that fractional assessment, by muddying the water and misleading the tax-paying public, greatly increases the likelihood of excessive variations in assessment level for individual properties.

The reason is evident when one considers the attitude of a property owner under rather typical circumstances. With a home he considers worth about \$20,000, he may think he is getting a break to find it officially assessed at only \$7,500. If he is well versed enough to have heard that assessments in his area are claimed to be at around 40 percent of full value, he still feels that he is doing all right, for this would suggest an official estimate of sales value for his house of less than \$19,000. But if the general average level actually is only 32 percent, his assessment is really out of line upward (taking the owner's estimate of market value as sound) by more than one-sixth. The effect is the same—if there were an effort at full-value assessment—as though this particular house were being officially valued at \$23,437.

It may be argued, of course, that the inequity in this case results mainly from misrepresentation of the prevailing level of valuation, and that the results sought with full-value assess-

ment could be served as well by giving wide publicity to the fraction that actually is being applied. Some States have taken useful steps in this direction, and all should do so, as we recommend below. However, the argument can be turned around to ask: What is gained by the extra complication of using a publicized fraction, rather than dealing in terms of current market value, which has more direct meaning for ordinary property owners? Only two answers have any real underlying logic: (1) Since valuation cannot be absolutely precise, and many owners' ideas of value may be somewhat exaggerated, direct use of market value assessment might stimulate an unmanageable flood of taxpayer appeals; and (2) fractional assessments are so ingrained in property owners' attitudes and local taxing arrangements that an abrupt shift to full value would be politically impossible as well as financially disruptive.

The first point suggests an answer along the lines of recent California legislation, by which taxpayers who wish to appeal a particular assessment must be prepared to demonstrate that it exceeds *by more than some legally specified fraction* the assessment level that is officially stated for the particular area.

The second point also deserves careful State provisions to enlist public understanding and support for any significant shift toward full-value assessment as well as related adjustments of laws and practices which have been based upon prevailing fractional assessment. A minimum start in this direction would involve reporting to each property owner not only the assessed value but also the assessor's estimate of the full value of his property. This is already done in some areas. An important related step would express the actual *tax* in relation to full value as well as in relation to the fractional assessed value. In California (which now requires counties to aim at an assessment level between 20 and 25 percent, to announce the local official ratio, and to achieve a 25-percent average by 1971-72) the following plan has been described as a means for transition to 100-percent assessment:

The first step was to be the attainment of a 25-percent ratio * * * so that the numerous statutory changes in tax-rate limits, debt limits, and the like, that would have to be made would operate with substantial uniformity throughout the State * * *.

Then there was to be set out on the tax bill the full value as well as the assessed value at this 25-percent level. The tax rate was to be expressed both as a rate per hundred dollars of assessed value and as a rate per thousand dollars of full value. This arrangement was to last for a period of 4 years so that people would become accustomed to this new statement of a tax rate * * *.

After the 4-year transition period, during which there would be ample opportunity to locate all statutory provisions that needed to be conformed, the 25-per-

cent assessment level and the rate per hundred dollars would be abandoned, and the full value would become the assessed value to which a rate per thousand dollars would be applied. * * * This is a device that can be implemented to achieve a 100-percent assessment level with not only full protection of the taxpayer, but greater protection of the taxpayer than he now has.¹¹

The second portion of recommendation 6(c) refers to the basis of valuation that should be used for property taxation. By definition and long-standing American tradition, such a tax is and should be based upon value. As used by economists and the courts, value means what a property will sell for in an informed and open market. Value is not unrelated to a property's income yield, but it is *prospective* income rather than past or current yield that matters. And prospective income can take either of two forms—a recurrent rental return, or an increase in the market value of the property itself. If all this were not the case, urban vacant lots would be worth nothing to their owners, for in their existing form they yield no current income but involve only a recurrent cost in the form of property tax. However, like common stock shares of companies that have paid no recent dividends but still are bought and sold in the stock market, urban vacant lots *do* have a value, based upon expectations of their future worth for income-yielding purposes, as discounted back to the present time.

All this seems clear and widely acceptable with regard to urban vacant lots; it is seldom urged that such property should be exempted from property taxation because it is not providing a current income. In contrast, however, there is considerable public sympathy for farmers in urban-fringe areas who face rising property tax costs as their land increases in value, and sympathy also for owners of single-family houses on land which is rapidly converting to more intensive urban use and thereby rising in its legally taxable value. These attitudes have stimulated various types of proposed "tax relief" measures, particularly to require that property being used for agricultural purposes be assessed only in terms of its value as so used, rather than according to its market value.

We consider such discriminatory provisions undesirable, and inconsistent with effective administration of the property tax on an equitable basis. They constitute an effort to use the taxing power to bias and delay the effect of normal market forces in determining the economically best use of land. Like other broad types of exemptions or sweeping forms of property-tax relief, preferential assessment of agricultural

¹¹ Remarks by Ronald B. Welch, in Tax Institute of America, *The Property Tax: Problems and Potentials* (1967), pp. 126-137.

fringe land not only complicates the difficult problem of fair valuation: it actually involves a potentially costly and hard-to-measure subsidy at the expense of the rest of the property-owning public. And this subsidy is especially generous to those property owners whose holdings are most rapidly rising in value, as a result of population growth, urban expansion, and community-provided facilities.

If it is true, as some advocates of such legislation argue, that city dwellers stand to benefit by the preservation of nearby open or green spaces; the size and placement of such areas should be directly determined by public action, rather than at the whim of individual property owners receiving preferential tax treatment. Furthermore, the fact that a particular owner wishes to use property in a manner which yields little or no current cash return does not justify special treatment or tax abatement. The same is true for all owners of urban-vacant lots.

Some proponents of this and other kinds of property tax relief argue that value-based taxation is inherently unjust and confiscatory, and that it should be replaced as fully and rapidly as possible by taxation upon personal incomes. We share their implicit view that property taxation has inherent defects which make it undesirable as a predominant tax form, as indicated by our explicit recommendation for de-emphasis of property taxation in State and local government financing. However, action in this direction needs to be broad and fundamental rather than highly selective and preferential in its form. Furthermore, although personal income is widely regarded as the potentially fairest base for taxation, major difficulties arise in reaching and measuring it on an equitable basis. In fact, one of the most serious (and largely unsolved) problems of personal income taxation involves its faulty coverage of income which takes the form of increased value of property holdings rather than a current money flow. Since the property tax, properly designed and administered, does reach such taxpaying capacity, it may be regarded as a useful and desirable part of a revenue structure which also relies extensively upon personal income taxation.

(d) Conduct and publish studies of assessment ratios

We urge that (1) the States regularly carry out careful scientific studies of the relationship of assessed valuations to market value of taxable property; (2) that findings from such studies, in the form of averages and measures of dispersion for various assessing jurisdictions, be published with background information about the methods used in their

development; (3) that the States also regularly develop and publish other information concerning property taxation, including data concerning tax levies and rates for particular local areas; (4) that Congress amend section 701 of the Housing Act of 1951 so as specifically to authorize Federal aid under that section for the financing of State studies of property tax assessment ratios; and (5) that the U.S. Bureau of the Census maintain, strengthen, and improve its assembly of data regarding taxable property values and property tax rates, in connection with the periodic Census of Governments.

The first three of these specific proposals contemplate an extension and improvement of activities now being carried on in a considerable number of States. As has been indicated above, many of the faults of the property tax as it now operates can be traced to inadequate public knowledge and understanding. The most important single tool for improvement is "full disclosure"—including public availability of data regarding levels and variations of property assessments. Various States already conduct well-planned and careful assessment ratio studies, but in some instances the findings are only used "administratively"—for example, as a basis for State equalization actions and to advise and assist local assessors. There are understandable reasons why a State property tax agency may be reluctant, without specific legal mandate, to publicize such findings: not only because it must maintain effective working relations with local assessors, who commonly are elective officials, but also because of a fear that taxpayers—or even the courts—may attach more precision to the data than is entirely justified. The latter problem is especially likely to arise where local assessing areas are so small that they have only a few property transfers to indicate the prevailing level of assessment. Even aside from this, the responsible agency may face a difficult task in providing a meaningful and accurate description of the nature of its findings, and of the technical limitations which apply.

Nevertheless, as the experience of some States clearly shows, "full disclosure" is a desirable policy, which is likely to operate in the public interest, especially by enabling the individual taxpayer to compare assessments for his own holdings with an objectively measured "average" for his community, and to observe how his area compares with others in the measured degree of assessment uniformity. There should be explicit legal requirement for the publication of ratio-study findings.

Numerous States also assemble and issue data on local government finances, often including figures on assessed valuations, as well as on

property tax levies and rates. With some notable exceptions, these publications leave a great deal to be desired from the standpoint of public information. Many of them have been unchanged in substance for decades; many are extremely detailed and dull, lacking in clear definitions of technical terminology, tardy in issuance, and otherwise faulty. We urge widespread and vigorous efforts to improve and modernize such State reports, to make them more useful for public information concerning property taxation and local government finances.

The Federal Government should encourage and supplement such desirable State efforts, in particular by providing the relatively modest sums needed to extend and strengthen regular State studies on assessment levels, and by continuing and improving related Federal statistical efforts through the periodic Census of Governments. This latter undertaking has already been extremely valuable, not only by providing benchmark data on taxable property values and property tax rates but also in demonstrating effective sampling and survey techniques which can also be applied in more frequent and detailed State surveys regarding property tax assessments.

(e) Machinery for taxpayer appeals

We recommend that those States which have not done so undertake an intensive review of their existing machinery for assessment reviews and appeal, and that they move promptly to provide adequate remedies so that taxpayers can obtain, without undue delay or expense, the protection to which they are entitled under the uniformity provision of State laws and the equal protection clause of the 14th amendment. Such legislation should specifically provide that the taxpayer may use as evidence in appeals the findings of State studies of assessment ratios on the issue of whether his assessment is inequitable.

This recommendation is intended to supplement and support our proposal for a "full disclosure" policy with regard to property tax assessments. It rests squarely on the proposition that greater equity in property valuation will be most widely and rapidly achieved by enlisting

the self-interest of individual taxpayers. In many States, existing provisions for review and appeal of assessments are highly deficient, and in some instances they involve improper exercise of an appellate role by agencies or officials that participated in the original setting of assessments. Given the broad sweep of the property tax, and the difficult problems of valuation it involves, some mistakes are inevitable, even with a competent and well-intentioned assessment staff. Official efforts at equal treatment need to be backed up by the "automatic policing" that can result from taxpayer access to an effective mechanism for assessment appeals.

We urge widespread attention to modernized provisions for tax review and appeal which have been established in some States, and to proposed legislation on this subject which has been drafted by the Advisory Commission on Intergovernmental Relations.

Property tax collection

One unfortunate aspect of property taxation involves the *manner* of its collection; nearly everywhere in the form of semiannual installments. For many taxpayers, these periodic charges undoubtedly represent by far the largest bills they must meet each year. The blow is generally spread for those who are buying property on an amortized-mortgage basis, by addition to their monthly installments. However, for the large and (happily) growing number of other property-owning taxpayers, there is rarely any alternative to lump periodic payments. This seems not only undesirable but unnecessary in a society which collects other major taxes mainly on a "flow" basis (including withholding of most income tax amounts, even though such liabilities are also set annually), and which in the field of private consumption has widely applied workable means of installment payment for large purchases—perhaps even to the point of excess.

Collection on a more frequent basis would, for many property owners, greatly reduce the inconvenience and pain of the property tax. We urge responsible State and local officials to accept the challenge and to devise acceptable procedures to deal with the problem.

