P U B L I C   H E A R I N G

before

GENERAL ASSEMBLY TASK FORCE ON THE EQUITABLE MANAGEMENT OF REVENUES AND EXPENDITURES

"To take comments from the general public concerning any aspect of State or local finance"

April 11, 1990
City Council Chambers
Newark, New Jersey

MEMBER OF TASK FORCE PRESENT:

Assemblywoman Barbara Faith Kalik, Chairwoman

ALSO PRESENT:

Jay A. Hershberg
Office of Legislative Services
Principal Fiscal Analyst

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Business Roundtable
April 25
Permisar Ken
C/C Bldg.

State of New Jersey

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MEMO

TO: Members of the New Jersey General Assembly's Task Force on the Equitable Management of Revenues and Expenditures

FROM: Assemblywoman Barbara Faith Kalik, Chair

DATE: REVISED 4/2/90

RE: Public Hearing and Roundtable dates

PLEASE BE ADVISED, THERE HAS BEEN A LOCATION CHANGE, AGAIN, FOR THE MAY 1 "ROUNDTABLE."

The Task Force will be conducting an interview on Thursday, April 5 at 10:00a.m., in the State House Annex, room 302 - Task Force members are welcome.

The New Jersey General Assembly's Task Force on the Equitable Management of Revenues and Expenditures will conduct a Public Hearing on Wednesday, April 11 from 9:00am-12:00pm, in the Newark City Council Chambers, 920 Broad Street, Newark.

The "Roundtable", also April 11, will be for municipal/county appointed and elected officials, at 1:30-4:30pm at the Edison School, 5th Avenue and West Street, Union City.

On Thursday, April 19, a "Roundtable" with representatives of various citizen interest groups will be held from 7:00pm-9:00pm at the Gloucester Township Municipal Building, 1241 Chews Landing Road.

The Task Force will be conducting an interview on Monday, April 23 at 10:00a.m., in the State House Annex, the room assignment will follow - Task Force members are welcome.

A "Roundtable" discussion with representatives of New Jersey's Unions will be held on Tuesday, May 1, from 9:30am-12:30pm at the UNION COUNTY ADMINISTRATION BUILDING FREEHOLDER'S BOARD ROOM, ELIZABETHTOWN PLAZA, ELIZABETH.

If you would like to recommend participants for any of the preceding "Roundtables" or public hearings, please contact Nancy A. Keller at (609) 292-7065.

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ASSEMBLYWOMAN BARBARA FAITH KALIK (Chairwoman): Good morning, ladies and gentlemen. I know I am a legislator, but we are not going to start this on legislative time. We are going to do this on normal human beings' time. (laughter) I would just like to take a moment to welcome you to the Newark City Council Chambers. I have been told that I was here once before, but I really don't recall being in this particular room. We may have been here, but we weren't in this room. I just think--

UNIDENTIFIED SPEAKER FROM AUDIENCE: We can't hear you.

ASSEMBLYWOMAN KALIK: You can't hear me? I don't think I have a mike, so-- Okay. Good morning, everybody. (Assemblywoman Kalik speaks up in much louder voice) I just want to say for those who have never been in this building before, nor in these chambers -- I have not been here -- that this is just magnificent. I want to thank the Newark Council for allowing me to use the chambers. We are going to get P.A. mikes now. (pause while mikes are being set up and adjusted)

I guess I surprised everybody by not waiting till legislative time. Good morning, again. Let me just repeat for those who did not hear me: I want to welcome you here in Newark, New Jersey to the public hearing before the General Assembly's Task Force on the Equitable Management of Revenues and Expenditures. I would like to thank the Newark Council for allowing us to use this magnificent chamber. It is the first time I have been here. I just corrected Jay Hershberg, who told me I was here once before. We did do a hearing in Newark once before, but it was at the Essex County Community College. It was not in this magnificent chamber. I certainly would have remembered. This is just beautiful.

I have a list of people who have signed up to testify. If you are here and have not previously told us that you wish to testify, there is a yellow pad up here. Please sign the pad and we will take you in the order in which you sign the pad.

I am not going to hold anyone to any particular time frame, but I would hope that you would be brief. I am not asking you to do it in one or two minutes, but certainly I don't think we need to sit here for a half-an-hour. If, other than your testimony, you would like to make an informal statement, certainly feel free to do that, as well.

Having said all of that, I am going to open the hearing with David Didimamoff, Vice President, New Jersey School Boards Association. I appreciate your being here, and taking the time to present your testimony to us.

D A V I D J. D I D I M A M O F F: Thank you for the opportunity to appear before you today to present the views of the New Jersey School Boards Association on the vital issue of State funding for a thorough and efficient school system. I am David Didimamoff, Vice President for Finance.

Let me say at the beginning that we believe the present system of funding schools is unconstitutional, and that we went before the Supreme Court as an amicus in the <u>Abbott v. Burke</u> case to argue that point. We argued that the existing school funding system cannot provide property-poor districts with sufficient resources to support a thorough and efficient education. Moreover, the State's existing budget review process fails to ensure that every district spends enough to provide a thorough and efficient education. Our third argument was that the present monitoring standards do not measure the goals of a thorough and efficient education as defined by the Legislature and the State Board of Education. Therefore, there is no assurance, at present, that all districts are meeting the constitutional mandate to provide a thorough and efficient system of free public schools.

I would like to lay out for you the basic characteristics of a good school finance system for New Jersey as we see it. They are as follows:

1) Adequacy of State funding: There must be an adequate level of State aid to each district to ensure that even the most property-poor districts have sufficient resources to provide a thorough and efficient education for all their students.

2) Reliability of funding: Districts need to know with some certainty that they will receive the amount they are entitled to under the statutory formulas. The pattern has been a chaotic one, with uncertainty and underfunding in every year but two since the law went into effect in 1975.

3) Less reliance on the local property tax: New Jersey has the third highest property tax rate per capita in the nation. Given the tremendous disparities in taxable property in the various New Jersey municipalities, this overreliance on local property taxes has resulted in extremely high tax rates in our poorest areas. This is grossly unfair, putting the heaviest burden on those least able to bear it.

4) Current year funding: State aid should be provided on a current year basis, rather than as reimbursement a year or two later for the State's share of expenses. The lack of current year funding in the present system is, in many respects, its major flaw. When the State's proper share doesn't come to a district until a year later, the district must finance new programs or additional costs of any kind out of local taxes. For property-poor districts, this is extremely difficult, if not impossible. Even now, salaries, health benefits, and many other costs continue to rise, and districts do not have the level of funding that they need because a portion of the money comes a year later.

5) Sufficient local leeway must be maintained to preserve good education where it exists, and to permit districts to strive for excellence. Local leeway in a foundation program is the amount by which a district can exceed the State-required minimum expenditure per pupil. In a

guaranteed tax base system, which is the type of system that New Jersey has at the present time, the local leeway is found in the budget cap formula and in the cap waiver procedure.

6) The annual growth factor built into the funding system should bear a reasonable relationship to the annual increases in the cost of providing a good education. It should be insulated from annual political decision-making or arbitrary controls.

7) Ensure adequate spending levels: The State must ensure an adequate level of spending in each district through approval of the local budget by the county superintendent of schools. Elimination of the public referendum on the school budget would also be helpful in this regard. School board members, like other elected officials, should have the authority to determine the level of spending that is necessary. Under present statute, the school budget is the only budget that is subject to a vote by the public and it, therefore, has become the focal point for taxpayers' anger about high property taxes. Many school budgets are rejected for this reason alone.

If the school funding system does permit a public vote on the school budget, then an appeal process is an absolute necessity. School districts must be able to appeal to the Commissioner of Education to restore moneys cut from the budget by the municipal governing body, if those moneys are necessary in order to provide a thorough and efficient education. We are in a catch-22 situation. And, of course, this year, with the school election coming on April 24 -- just nine days after "T" Day, April 15, when everybody is up to here (demonstrates) with taxes -- the only way they can say, "No," is to come after the school budget. We are afraid that is going to have a significant impact on us this year.

8) Provide a circuit breaker: Property tax relief targeted to those most in need should be an integral part of

the overall system. Too often, we hear that senior citizens and others on fixed or low incomes are being driven from their homes or into poverty because of escalating property taxes. A circuit breaker would help this segment of the population wherever they may live, by ensuring that they would not have to pay more than a certain percentage of their income in property taxes for the home in which they now live.

9) Additional State aid for students with special needs must be provided: Students who are handicapped and need special education, and those who need remedial programs in the basic skills or vocational education or bilingual education-- These students are all more expensive to educate, and districts need to receive State aid based on the number of these pupils in the district and targeted for their special needs.

10) Municipal overburden must be dealt with: In the urban areas, in particular, there are very heavy municipal costs for protection and welfare that affect the ability of the community to fund schools. Since municipal and county services draw from the same property tax bases as schools, heavy demand in those areas makes it all the more difficult for urban districts to raise taxes locally for schools. It may be that the school funding formula cannot take municipal overburden into account and that the real solution lies in equalized State aid for certain municipal and county programs, or State assumption of the responsibility for those programs.

11) Area cost differences: The system needs to take into account the fact that there are considerable differences in living costs between different regions of the State. Therefore, a uniform spending level throughout the State would not buy the same education everywhere.

12) Transportation and other State-mandated costs should be paid for by the State in their entirety.

Those are a dozen characteristics that we would like to see in the funding system for public schools in this state.

I would like to add, and to emphasize, that whatever changes are made to the current system should be to level up the poorer districts, not to level down those which are already providing an excellent education.

To level up, it will be necessary to increase the overall State contribution to funding public schools. In 1989-90, New Jersey provided about 42% of the total cost of elementary and secondary education. Most other states provide a considerably higher share, averaging about 50% nationwide. The proposed level of State funding for 1990-91 will probably drop the State share to about 39%, That is too low. It does not provide enough to bring the poorer districts up to where they need to be. In addition, of that 39%, roughly 25% -- give or take -- is toward the funding of the State pension system, and that is money that never even gets into the classroom.

In addition to the changes that are needed in the system for funding the operating expenses of schools, the very critical problem of school facilities must be addressed. Old, deteriorated, and outmoded school buildings seriously interfere with the ability to provide children with a good education. It's hard to focus on learning when the rain is falling into buckets inside your classroom or your school has no library.

A very minimal estimate of the cost for necessary renovations and construction throughout this State is $1.3 billion. This need must be addressed through some special provisions that fund those districts with the most severe needs and the least resources. This would be in addition to, and outside of, the regular school building aid formula that provides aid to all equalization aid districts. The Governor's proposal for $600 million to be funded through the Educational Facilities Authority would be a good start.

The reformation of New Jersey's system for funding public schools will not be a simple task. Many factors must be taken into consideration. We have tried to outline for you those that are of the greatest concern to the 611 local school boards that we represent.

I would be happy to answer any questions.

ASSEMBLYWOMAN KALIK: Thank you. I do want to just mention to you that last week we held an education roundtable. Many of the points you are making today were made over and over and over again at that roundtable. I believe that in the Governor's address he mentioned something about current year funding. I don't know that you know that there have been 29 bills for current year funding--

MR. DIDIMAMOFF: At least.

ASSEMBLYWOMAN KALIK: --in the Legislature for the past 12 years. Your testimony is right to the point -- right to the point. It certainly enumerates all we have been hearing over and over and over again. It is my hope that through this particular Task Force we will be able to address at least some of those questions.

MR. DIDIMAMOFF: Well, there is nothing new in anything I have said today. It has been our policy and our posture for a number of years. We have supported this type of approach through the Task Force. We also supported the SLERP Commission, which we participated in. Two of our people were members of that. We feel that the time has come for the State to move into the 20th century and fund education as it should be funded.

ASSEMBLYWOMAN KALIK: Thank you so very much.

MR. DIDIMAMOFF: Thank you.

ASSEMBLYWOMAN KALIK: Next, Mr. Samuel J. Damiano, President, New Jersey Council of Savings Institutions.

SAMUEL J. DAMIANO: Good morning. With me this morning, in the event there should be questions posed to us, are Mr. Mark Koscinski, First Vice President and Comptroller of The Howard Savings Bank, and Ms. Marta A. Ochoa, Senior Finance Officer and Tax Manager, also of The Howard Savings Bank.

ASSEMBLYWOMAN KALIK: Are they interested in making their own presentations?

MR. DAMIANO: No, they are here purely to assist me in responding to any questions.

ASSEMBLYWOMAN KALIK: Okay, thank you.

MR. DAMIANO: The New Jersey Council of Savings Institutions-- Incidentally, I have copies of my statement here.

ASSEMBLYWOMAN KALIK: Would you please provide one for the hearing reporter? (witness complies) Thank you.

MR. DAMIANO: The New Jersey Council of Savings Institutions appreciates the opportunity to comment on the proposal to repeal the savings institutions tax and replace it with the corporate business tax.

The Council is the successor organization to the Savings Banks' Association of New Jersey, an 82-year-old trade association founded by the State Chartered Mutual Savings Banks. Organized as people banks, savings banks were created to encourage thriftness and are known as the original "thrift" industry. True savings banks can be found throughout the New England states, New York, and New Jersey, and are virtually nonexistent in the southern and western parts of our nation.

Since the first charter was granted by the State Legislature 150 years ago, the savings banks of New Jersey have served the people of this State rather well. There has never been a loss suffered by a depositor, and we are considered today among the most prudently managed institutions in the nation.

In its report, the State Local Expenditures and Revenue Policy Commission -- SLERP -- recommended that the savings institutions tax be repealed and replaced with the corporate business tax. The report cautioned, however, that the State of the industry must be considered.

This past decade has been one of tremendous change for our nation's banking system and the savings bank industry in New Jersey as well. Virtual deregulation of the industry, coupled with interstate banking laws, foreign bank entry into our State, increased competition, the end to all interest rate ceilings, mutual institutions converting to stock form, and the savings and loan crisis have all impacted the thrift industry dramatically; this in the wake of an abrupt halt in an economy spurred by housing, which has clearly had its effect on our earning ability.

Additionally, increased reserves for anticipated loan losses as a result of investment in the real estate market have directly impacted the industry's bottom line. While savings banks continue to be well managed and well capitalized, we are witnessing an eroding of the confidence level by depositors and stockholders alike, as they question the integrity of the entire banking community.

Forced to meet competition for deposits, thrifts must pay a higher rate for funds at a time when the real estate market offers little opportunity for investment. Increased assessments imposed by the Department of Banking, coupled with premium increases to offset losses to the Federal Deposit Insurance Corporation, do nothing for a thrift's bottom line. Even more threatening today is the prospect of the takeover of those thrifts failing to meet capital guidelines imposed by regulators. The majority of takeovers in New Jersey have been by out-of-state institutions thus far.

The effects of deregulation which began over a decade ago are well remembered by this industry as we watched 25% of New Jersey's State-chartered savings banks virtually merge out of existence.

The SLERP Commission Report, in addressing the savings institutions' tax question, states that today changes in taxes are necessary to ensure that competing firms are treated fairly and uniformly by the State tax system. Our only competition were other thrifts.

There is a perception that savings banks are also competitors of commercial banks. Our analysis of the industry's lending patterns reveals that approximately 5% of savings bank investments are in what could be termed "commercial loans." Interestingly enough, such investments have been in direct response to consumer demand.

I submit that this hardly represents a shift on the part of savings banks from a "people orientation" to a "commercial orientation," nor should it be considered competition in a true sense.

The impact of the SLERP Commission Report would be to triple the taxes of New Jersey's thrifts. We submit that the tripling of taxes, even in good times, could be considered unfair and without foundation. Moreover, and critical to this issue, is the fact that savings banks, on average, already pay a greater percentage of combined taxes than do other banks. We have affixed a chart to our statement to demonstrate that. Needless to say, the tripling of taxes would be devastating to New Jersey's thrift industry. The SLERP Commission could not have reached this conclusion, clearly, with all of the facts at hand.

Today, First Fidelity Bancorp owns a State-chartered savings bank; New Brunswick Savings Bank is now a subsidiary of Constellation Bancorp; and the recent acquisition of the Starpointe Savings Bank has resulted in a new institution, The Dime of New Jersey, operating as a subsidiary of an out-of-state bank. It is fair to assume that additional acquisitions over time will also occur. What was once an entirely mutual industry is now primarily publicly owned with only a few State-chartered mutual savings banks remaining. At the urging of the Department of Banking, the industry is exploring the merits of interstate banking legislation. The Department of Banking has publicly stated that the health of the industry makes savings banks attractive players in the interstate merger arena, thus the future shape for banking in general is virtually difficult to predict.

Today, New Jersey's savings bank industry maintains more than half of its assets in residential mortgages.

Home improvement loans, student loans, automobile loans, and other forms of personal loans make up a major part of the remaining investments.

According to the most recent figures available -- 1988 -- New Jersey savings banks paid annual real estate taxes in excess of $5 million. They generated an annual payroll exceeding $100 million, providing employment for over 5000 people, and resulting in a State gross income tax of well over $1.5 million; this in addition to taxes paid under the savings institutions tax, which does not include fees paid directly to the Department of Banking.

During the same year, according to the Department of Banking, commercial banks had a combined tax liability of about 29.6% of net income, compared to a 37.3% obligation for savings banks.

Using that same source, we find that the average ratio of combined taxes for the years 1986, 1987, 1988, and the first half of 1989 for savings banks was 37.55%, compared to 28.9% for commercial banks.

If the SLERP Commission recommendation was implemented, the savings bank tax liability would be tripled. We believe that would create an even greater disparity between the thrift and commercial bank tax structure.

For a thrift, increased operating costs are really difficult to pass on to the consumer. We are dealing with people, not industry. Thrifts will be forced to discontinue services that are no longer profitable, which directly impact on our customers. One alternative, of course, is to increase fees. Another would be to reduce interest paid on deposits, and still another would be to increase rates charged for loans. These alternatives are not acceptable to the savings bank industry, and we doubt whether they would be acceptable to the people of our State. Therefore, we must oppose the recommendation of the SLERP Commission. In today's environment, such an action could have an adverse effect on the integrity of our industry.

We thank you for the opportunity to comment.

ASSEMBLYWOMAN KALIK: I would like a copy of your statement. You say there is a chart attached to it?

MR. DAMIANO: Yes.

ASSEMBLYWOMAN KALIK: Do you have some figures available as to how much the savings banks paid in 1989 on the tax? (Mr. Damiano's response here indiscernible to transcriber) Do you have any additional copies of this?

MR. DAMIANO: Sure.

ASSEMBLYWOMAN KALIK: Okay. Would you please give one to Nancy, my aide?

MR. DAMIANO: And who else?

ASSEMBLYWOMAN KALIK: Do you want one, Jay?

MR. HERSHBERG: I'll take one.

MR. DAMIANO: They're free.

ASSEMBLYWOMAN KALIK: Is this figure correct? I see that you paid $1.628 million.

MR. DAMIANO: Let's go to the back of that report

ASSEMBLYWOMAN KALIK: Through June 30, 1989--

MR. DAMIANO: Through June 30, 1989.

ASSEMBLYWOMAN KALIK: --$1,628,000?

MR. DAMIANO: The average savings bank paid a combined tax -- that's the State and Federal tax obligation -- of $1,628,000.

ASSEMBLYWOMAN KALIK: The figure I need is, what, in fact, was the thrift savings bank tax, particularly in 1989?

MR. DAMIANO: For the State exclusively?

ASSEMBLYWOMAN KALIK: Excuse me?

MR. DAMIANO: Are you talking about the State exclusively now? See, we are looking at combined taxes.

ASSEMBLYWOMAN KALIK: I know, but I need to know what that tax produced by itself.

MR. DAMIANO: I am not following the question. I'm sorry.

ASSEMBLYWOMAN KALIK: Okay. You're talking about a savings bank tax, right? I need to know what that tax produced in the year 1989, or the year 1988. I don't care what year you give me.

MR. DAMIANO: Okay. The total revenue in '88-- We don't have '89 figures. That is part of my problem.

ASSEMBLYWOMAN KALIK: Okay, go on, the '88 figures.

MR. DAMIANO: Bear with me for one second. I think I have--

ASSEMBLYWOMAN KALIK: If you have it, I would like to know the corresponding figure that would have happened had it been a corporate tax instead of the thrift tax. I need to have some kind of numbers.

MR. DAMIANO: I think I can give you that information.

ASSEMBLYWOMAN KALIK: If you don't have it now, fine. Just get it to the Task Force, hopefully within the next seven or eight days.

MR. DAMIANO: Well, I can tell you this: We asked The Howard Savings Bank to take their tax--

ASSEMBLYWOMAN KALIK: Some of your other people are coming up behind you.

MR. DAMIANO: --and triple it as if it were now a corporate business tax, and tell us what the impact would be to them as an institution. Perhaps they can speak to this.

M A R T A A. O C H O A: Well, I can give you -- with respect to our institution-- I did a calculation--

ASSEMBLYWOMAN KALIK: That's what I need. I need some kind of figures, because you are just talking to me in--

MS. OCHOA: Yeah. I did a calculation for 1988. The difference between what we paid under the savings institutions tax and what we would pay under the corporate business tax was approximately $2,500,000. So, that was a wide difference. We actually paid in 1988 $1.2 million of savings--

ASSEMBLYWOMAN KALIK: What you are saying is, the thrift -- the savings bank tax cost you, in 1988, $2 million.

MS. OCHOA: The savings institutions tax, in 1988, that we paid was $1.2 million.

ASSEMBLYWOMAN KALIK: Okay, $1.2 million.

MS. OCHOA: If we had paid under the Corporate Business Tax Act, our liability would have been $3.7 million.

ASSEMBLYWOMAN KALIK: Okay. Now, do commercial banks pay the corporate tax, or the--

MS. OCHOA: The corporate tax. They file their returns under what is called the "Business Financial Corporation Act." They file a form BFC. It's the Corporate Business Tax Act, though. They pay at the 9%, or the 9.375% rate.

ASSEMBLYWOMAN KALIK: Now, you know, I'm following you. You would pay more taxes?

MS. OCHOA: We would pay three times as much under the Corporate Business Tax Act than we do under the present Savings Institution Tax Act.

MR. DAMIANO: I guess the real effect of it is, 3% of income under a savings institutions tax; 9% under a corporate business tax. So the effect would be a tripling of taxes.

ASSEMBLYWOMAN KALIK: Then, let me ask you this question: Why would you want to do that?

MR. DAMIANO: We don't.

MS. OCHOA: We don't want to.

MR. DAMIANO: We opposed the repeal. There is a proposal--

ASSEMBLYWOMAN KALIK: Okay.

MR. DAMIANO: The proposal is to repeal that tax and replace it.

ASSEMBLYWOMAN KALIK: I'm sorry. Both Jay and I are reading, and here you say that you were supporting it. Then, when you went into this line-- That's why we were looking at figures to document what you were saying.

MR. DAMIANO: I rushed through the testimony in the interest of--

ASSEMBLYWOMAN KALIK: That's why I am asking questions? That is exactly why I am asking. All right. I thank you so very much, now that I have it straight in my mind. Thank you so very much.

MR. DAMIANO: Thank you.

ASSEMBLYWOMAN KALIK: The next person to testify will be Mr. Dressel, Assistant Executive Director, New Jersey State League of Municipalities.

WILLIAM G. DRESSEL, JR.: Good morning, Madam Chairwoman and members of the Task Force. I compliment you, Madam Chair, for keeping to the time schedule. In my 16 years of attending public hearings, this is one of the first that started on time. So I compliment you for that.

My name is Bill Dressel, and I am the Assistant Executive Director of the League of Municipalities. For those who don't know the League, it is a statewide, voluntary association of municipal governments in New Jersey. Our membership of 561 of the State's 567 municipalities, is composed of all types, kinds, and classes of local units. We are densely populated cities; we are sprawling townships; we are tiny boroughs. We are even everything in-between. Through the League, over 4000 elected officials communicate their common concerns and problems to those who serve on the State level.

The people who make up this League are public servants, just as you are. They are your peers. They are your partners. They are your colleagues. They operate in a different arena, but their goal is the same as yours. They want to adopt and implement the best possible public policies, which will produce the best possible results for the people whom they represent.

This, as you well know, is never an easy task. But the past 10 years have been particularly troublesome for the people whom I represent. We suffered revenue losses as a result of the AT&T divestiture. Then we were hit with astronomical liability insurance premium increases. Diminishing Federal aid, culminating in the termination of the General Revenue Sharing Program in 1986, further weakened local finances. Next, we were slammed with skyrocketing solid waste disposal charges. And, throughout this period, the State has diverted over $1 billion from statutorily dedicated municipal funding programs.

Individually, any of these revenue losses would have taxed the resourcefulness of a local budget-maker. Cumulatively, they have forced us to practice a balancing act which rivals that of "the Flying Walendas."

We need your assistance, if we are ever to get off this high wire and back on solid fiscal ground.

New Jersey's overreliance on property taxes has been well documented in recent years. A recent report at the Advisory Commission on Intergovernmental Relations ranks us first in average effective property rates at 2.38% of market value. The Public Affairs Research Institute of New Jersey states: "No state in the nation which levies both sales and income taxes relies on property taxes to a greater degree than does New Jersey." And, "In Fiscal Year 1988, New Jersey's per capita property tax burden was extraordinarily high, ranking third among the states at $933. The New Jersey figure was 73% above the U.S. average of $538." Further, the two states that rank above New Jersey in per capita property tax burden --

Alaska and Wyoming -- count, in their property tax category, mineral extraction taxes. Also remember, neither of these states has a personal income tax.

A look at the recent history of property taxation in New Jersey may suggest a solution to this problem. From 1960 through 1972, the per capita property tax levy in New Jersey expressed in constant 1970 dollars went up in every year, but one. From 1973 through 1980, the per capita property tax levy, in 1970 dollars, went down in every year, but one.

Obviously, something happened between 1972 and 1973. That something was Federal general revenue sharing. It was, in our opinion, the greatest thing to happen to New Jersey property taxpayers in 30 years.

Further, the one year that property taxes went up during the heyday of Federal revenue sharing was 1976. And the program that turned back the type of increased property taxes in 1977 was State revenue sharing -- in our opinion, the second greatest thing to happen to New Jersey property taxpayers in the past 30 years.

Obviously, direct assistance from a higher level of government to the municipalities of this State produces property tax relief. Obviously, policies of the State and Federal government that restrict such assistance, or that deny local government funds to which they are entitled, work to worsen our property tax dilemma.

I hope there is universal agreement on these two points, at least. That is: One, we have a serious property tax problem in this State; and two, local government cannot solve this problem on its own. If we agree on these two points, we can then approach the central question of State policy; that is, how can the State produce the revenue that is needed to provide meaningful property tax relief?

Earlier this year, representatives of the three key local government associations -- the Urban Aid Mayors Group, the Conference of Mayors, and the League -- held a series of meetings in order to consider that crucial question. The Mayors Task Force, as it was called, has agreed on the following program:

First, we advocate a change in the income tax basic structure. In this we support the recommendations put forward by the State and Local Expenditure and Revenue Policy Commission -- the SLERP Commission. That is, for households with incomes of $50,000 to $100,000, the tax rate should be 4.0%. And for households with incomes above $100,000, the new rate should be 4.5%. This, SLERP estimated in 1988, would raise $268 million. Further, we support repeal of the Ford Property Tax Deduction, the Homestead Rebate Program, and the Homestead Tenant Program. This, SLERP estimated, would raise an additional $531 million. If this is still not enough money to close the State's deficit and to fund property tax relief expenditures, we support more progressive income tax rates for incomes above $50,000.

Should we support SLERP's sales tax recommendations specifically, the following items should be subject to the tax: 1) admissions charges, 2) disposable paper products, 3) soap products, 4) nonprescription drugs, 5) cable television service, 6) cigarettes, and 7) alcoholic beverages consumed "on premises." These changes would, according to SLERP, generate over $400 million for the State.

Third, we encourage the administration to continue its management audit in an effort to control and/or cut back on State spending. This will assure the public that the revenue raised through increased taxation will be wisely spent.

Fourth, a realistic expenditure should be applied equally to school district, county, and local purposes budgets.

Fifth, the "circuit breaker" concept, outlined by SLERP, should be implemented. This will provide real property tax relief to those who need it the most.

Sixth, we support SLERP's expenditure recommendations, which include: 1) education finance programs; 2) State funding for public assistance, court costs, patients in mental institutions, county prosecutors, and county colleges; 3) a guaranteed municipal tax base program; and 4) full payments in lieu of property taxes.

Finally, we support the Municipal Revitalization Program, formerly the Distressed Cities Program. If basic tax reform, as we have suggested, cannot be achieved in time for the Fiscal Year 1991 budget, the Governor and the Legislature should provide the Municipal Revitalization Program with funds sufficient to meet the current need.

In closing, I want to touch on two things that the State can do to help contain future tax increases:

First, we support a constitutional amendment to require State funding for State mandates. It is a matter of simple fairness that when the Legislature sees the need for a program or service, it should also be required to find, in the State's budget, the funding needed to implement that program or to provide that service.

Second, we support legislation which would require, in binding arbitration -- in fire and police matters -- that the arbitrator give preeminent consideration to a public employer's ability to pay. All too often, independent arbitrators give awards that fail to consider a community's fiscal condition or ability to meet those costs.

That concludes my testimony. I would be happy, now, to try to answer any questions.

I almost forgot, Madam Chair, Mayor Carmen Armenti, who will be presiding today at the Urban Aid Mayors' meeting in Millville, down in Cumberland County, was unable to be here. He asked me to submit to you a letter wherein he proposes that your Task Force should give consideration to taxes other than the property tax. Mayor Armenti makes the point that the moneys that the city has to expend for the administration of the property tax machinery at the local level, and all the legal costs -- that the net dollars that come in are minimal. So I have that letter for your consideration.

ASSEMBLYWOMAN KALIK: Do you just have one copy of that, Bill?

MR. DRESSEL: No, I have several copies. This is your copy.

ASSEMBLYWOMAN KALIK: Okay, because I need to give the hearing reporter a copy.

I would like to ask you just one question: Has the League, in fact, discussed, or ever taken a position on what they can do to regionalize some kinds of municipal services? And, of course, that is not an urban city problem, but it is a suburban and rural city problem. With 561 jurisdictions, each one having its own individual fire company, planning board, zoning board, you know, etc., etc., the costs of municipal services sometimes are over and above what they ought to be, because the State has said to the municipalities, "You do this." Have you ever had a long-term study done on this?

MR. DRESSEL: Madam Chair, since 1974, the League of Municipalities has been advocating joint ventures or--

ASSEMBLYWOMAN KALIK: It's very interesting. You know, that is the first year I was Mayor of Willingboro.

MR. DRESSEL: Yes.

ASSEMBLYWOMAN KALIK: I was advocating this way back in 1974.

MR. DRESSEL: And joint services. I am sure you recall that the Interlocal Services Act, going back to the early '70s, provided seed moneys for municipalities to consider the feasibility of joint ventures. We, year after year, came before your Committee and the Senate Appropriations Committee and wrote letters to the Governor, asking that -- I think it was $500,000 in the heyday of, you know, the Local Services

Act-- We continually asked for additional moneys for that program.

It was interesting that during the cross-acceptance process of the very controversial Development/Redevelopment Plan that the communities and the counties recently underwent, that a number of the reports, particularly in North Jersey, in Bergen County, outlined the need for additional joint ventures. We are seeing more and more that the boundaries are breaking down; that local governments are becoming more aware of their neighbors; and that they are more open to discussing joint ventures in the emergency services area, in health care delivery, and things of that nature.

So, yes, the League of Municipalities supports the concept, and will work very hard for additional moneys for joint ventures and other public services.

ASSEMBLYWOMAN KALIK: I am going beyond that now, okay? It is 16 years past 1974, and, you're right, the problems are greater, and I think municipalities are beginning to recognize the fact that giving up a little control is preferable to not providing the service, and they can't provide the service.

I am talking about a system of incentives -- financial incentives -- to municipalities, not necessarily to start a program, but to, in fact, continue to get financial incentives to go into joint programs-- If a program in one municipality costs $2 million and a program in another municipality costs $2 million, and they can combine them and it costs $2 million, and they can each save a million dollars, I would hate to see that million dollars taken away from each municipality, because I would rather have that million dollars used for something else. That is the kind of program I would like to see developed.

I don't know, other than to reach out to you and to your people and say, "Put something like that forward. Let's put it on the table and see what we can do with it."

MR. DRESSEL: I would be very happy to participate with you and your staff in working on something along those lines. I think if we can come up with another way of providing a service to our taxpayers that is cost-effective and is beneficial through joint ventures, or through the plan that you outline, we would welcome it.

ASSEMBLYWOMAN KALIK: Well, if you do come up with something, by all means get it to the Task Force. But even beyond that, I personally have always been interested in that, so if you want to just send it on to me-- Okay?

MR. DRESSEL: I will be in touch with you.

ASSEMBLYWOMAN KALIK: Thanks, Bill.

MR. DRESSEL: Thank you, Madam Chair.

ASSEMBLYWOMAN KALIK: The next person to testify will be Mr. Richard Duprey, Director of Government Relations, Commerce and Industry Association of New Jersey.

RICHARD L. DUPREY: Good morning, Madam Chair. How are you today? I appreciate the opportunity to present this statement on behalf of the membership of the Commerce and Industry Association. We are a 2000-member organization representing firms in Bergen, Essex, Morris, Passaic, Hudson, and Union Counties. Unlike our colleagues, the Business and Industry Association and the State Chamber of Commerce, both of whom served on the SLERP Task Force, we have some concerns about that report. It is my purpose here today to relate those concerns to you.

It is understood that with the current budget crisis that the State is facing, not only this year, but next year as well, there are problems facing the State that are in many ways unique. The proposal submitted by Governor Florio has in many ways sought to address those problems, and, in the process, implements many of the recommendations of the so-called SLERP Report. Thus, it is important that we address both issues.

First, while property tax relief is the ostensible purpose of the recommendations, as well as the Governor's budget, the reforms spoken of are not really addressed until the Fiscal Year 1992 budget. In 1990-1991, we are just trying to balance the budget here. So our concern is, if we are to meet the recommendations of the SLERP Report, or the SLERP Commission, we are going to have to see even greater tax increases in the future to meet our property tax relief obligation.

The problems facing New Jersey are not of the taxpayers' making. Indeed, while projected tax collections are down, actual collections have never been higher. The taxpayers are already paying their fair share. What has happened is that the State has been living well beyond its means. State government spending has more than doubled over the past decade, outstripping the growth in inflation, population, or our means to pay for it. This is nothing new to anyone, really.

Thus, if we are going to be balancing the budgets and providing relief, it cannot be done on the backs of the taxpayers. The business community is concerned that that is what is going to happen.

We are concerned that there is no mechanism in the recommendations -- or, we have not heard of any -- that would mandate that local property taxes come down as the State taxes increase to provide this relief. Our concern is that now that the municipalities would have these funds freed up for them, they would either expand existing programs or create new ones. We would like to see some sort of mechanism mandated in the law that would require local property taxes to come down, as the State taxes increased.

Third is the time honored tradition of home rule, which we feel would be seriously impacted if the State assumed control of the costs and much of the control of these programs, particularly with education. We believe that local communities have the pulse of the communities much better, rather than the people in Trenton. We feel that the loss of control would translate into a loss of self determination.

Lastly, the reputation of New Jersey as an attractive place to do business: Tax increases in the amounts proposed right now, by themselves, are not going to drive businesses out of the State. However, coupled with the labor shortage, unaffordable housing, the tax increases, and everything else, there is a great possibility that businesses will be leaving the State. New York is a perfect example of what happened when business felt it was no longer profitable to be there anymore, and they came to the suburbs of New Jersey, Connecticut, Pennsylvania, and New Hampshire. We would certainly not want to see that happen here in New Jersey.

Thus, rather than seeking to expand or impose new taxes, the Commerce and Industry Association would like to see tax cuts wherever possible, well before any talk of increasing taxes is a concern.

I appreciate the opportunity to present these concerns to you.

ASSEMBLYWOMAN KALIK: I certainly thank you. I would like to ask you a question.

MR. DUPREY: Sure.

ASSEMBLYWOMAN KALIK: Knowing what the present property tax problem is throughout the State -- and I think it needs to be repeated often enough-- Of course, we all know that we are in crisis, not only in our urban cities, but in our suburban areas and our rural areas as well. From what I understand, businesses are now facing for the first time property taxes that are higher than their corporate taxes. So there is this urgency. If, in fact, we would continue that route, isn't that as bad, or worse, than a realistic increase in, let's say, the income tax, on a progressive level, or the sales tax?

MR. DUPREY: Obviously, the business community is interested in seeing their taxes lowered, even at the local property tax level, which is why if these reforms are instituted, we would want to mandate that the local property taxes would come down, so that a benefit would be realized.

ASSEMBLYWOMAN KALIK: Nobody wants to pay more in taxes. I certainly don't want to pay more in taxes. In fact, I am probably going to go into a tax (indiscernible) myself. But nobody wants to pay more for a product at the store either. And yet, costs do increase and we do have to pay more for those products.

I have to tell you, I don't go into a supermarket very often anymore. I had to go in last week. My kids came to visit me and I was forced to go into a supermarket. I paid $50 for two bags of what I call "junk food." I used to feed my family for 50 bucks. I mean, I bought potato chips and soda, you know, that kind of junk. I was just floored. I probably have not been in a supermarket for over a year, so I was just floored. Nobody wants to do that.

MR. DUPREY: We just feel it is more of a problem created by the Legislature having spent greater sums of money over the past decade, rather than the taxpayers not paying their fair share over that time period as well.

ASSEMBLYWOMAN KALIK: I could not argue with that assumption. I could not argue with that. Nonetheless, we know we are in a continuous upward spiral, whether we like it or not. I just wanted to clear with you that the property tax problem, right now, is the greatest of all the problems.

MR. DUPREY: Thank you.

ASSEMBLYWOMAN KALIK: If you have a copy of that-- Do you have an extra copy of your statement?

MR. DUPREY: Yes, I do. Do you want it?

ASSEMBLYWOMAN KALIK: Yes, thank you.

The next person to testify will be Mr. Walter Lack, taxpayer from Montclair, and a former member of the Montclair Board of Education.

W A L T E R   L A C K: Good morning, Assemblywoman Kalik and members of the Task Force. I didn't come down here actually to speak. I came down here to hear what was being said, at the suggestion of Dr. Mary Lee Fitzgerald, who is the Superintendent of Schools in Montclair. Now that I am here, I have jotted down a few remarks. If you wish to have a copy of this, I will be happy to turn the original over to your people. If they will Xerox it for you and send it back to me, I would appreciate it. Is that a satsifactory arrangement?

ASSEMBLYWOMAN KALIK: We can do that. I don't know that the clerk over there can do it, but if you bring it up here, someone will do it and get it over to you. Okay?

MR. LACK: Bring it up there? Okay.

As I said, I have actually been a student of Montclair taxes for close to 30 years, both on the municipal level and the school level, as I served on the Board of Education from 1978 to 1984. I have maintained my contacts with the budgets, both municipal and school, since I left the Board of Education.

Ten years ago, Federal and State aid represented one-third of Montclair's school revenue. Now it is one-fifth. Montclair is the only school system in the State that is classified as an urban school district, and at the same time a minimum aid district. Almost 10% of the people in Montclair are below the poverty line.

ASSEMBLYWOMAN KALIK: How many?

MR. LACK: Ten percent; almost 10%. The educational needs of our children run the whole gamut of any major city. We must respond to children from deprived homes and from very affluent homes. I might say -- although it is not in my statement -- that we also obviously have to deal with a broad range of abilities. We are not, for example, a community like

Ridgewood, which is a middle-class community. That is my opinion. They do not have to deal with that broad range that we have to deal with.

ASSEMBLYWOMAN KALIK: What is the population of Montclair?

MR. LACK: It is 38,000 people based on the 1980 census.

Over 12% of our budget is for special education -- $5,046,000. Our special education aid from the State will be $1,798,000 in 1990-91. I might say we are-- If we compare -- this is also not in the statement -- the State aid that Montclair is getting this year, or for 1990-91, it is $73,000 less in total than we are getting in the current school year.

The State ordered us to desegregate our schools in 1975. In 1981, the Federal government stopped providing funds to desegregated school districts. The State has not made any provision in its State aid system to make up for this loss. Again I will interpolate here. We used to get categorial aid from the Federal government. What the Federal government did was-- They turned around, took the money, and said: "We'll give you, the State, the money. You spread it around as you see fit among the various school districts." And they did, on the basis of the children in the various school districts, which had no relationship to whatever program you were running or what your needs might be. Therefore, in essence, the whole thing went out the window.

Now, as I said, the State aid system has no provision to make up for this loss of Federal aid, and it should. Montclair is well-known nationwide for its magnet schools which allow parents a choice of schools. This is expensive. The State aid formula should take into account the added costs related to that.

Montclair is almost entirely residential. Without industry, and with not much commercial property, the burden falls on the homeowners, and 28% are 55 years of age or older.

A lot of people of moderate income have highly assessed homes. You should search for a better basis for allocating State aid. Millburn's equalized school tax rate is one-half of Montclair's, even though they spend more per pupil than Montclair does.

I am not pleading poverty. I am searching for equity. Thank you.

ASSEMBLYWOMAN KALIK: Thank you. I think that is the very purpose of this Task Force. I think we all recognize the fact that in 1975 or '76 when the income tax bill was originally passed and we went into a thorough and efficient education, that the goal was, at that time, to, in fact, have equity in school funding. I think in 1990 we have come to the realization that it has not occurred and, in fact, there is inequity.

I just have to say, you talk about your magnet schools, and I think they are wonderful, and I think it is marvelous, but we are sitting in the City of Newark. Not only don't they have magnet schools, but they don't have roofs on their schools. So, you know, we really have to deal with the problems that are. I would love to see magnet schools in Newark paid for with State aid, as well as in Montclair, and as well as in my home community of Willingboro -- wouldn't that be wonderful? -- so that children could be educated the way I would like to see my kids educated. I am New York City born and bred. I was allowed to choose the high school of my choice, depending upon what I wanted to do. There was a high school of science, a high school of industrial arts, a high school of drama, a high school of bands, a high school of music, and we could go anyplace we wanted, and it was wonderful. Wouldn't it be wonderful if we all could do that in New Jersey?

You know, I think that is a goal we ought to keep in mind, but I don't think we ought to fund Montclair's schools if we are not putting roofs on schools in Newark.

MR. LACK: May I make a few observations? (no response) I have been very troubled by several things. What I am mentioning may be totally impractical, but based upon my years of observation of this whole situation, while I subscribe to many of the views that were set forth in the SLERP Commission Report, and what has been said by the people who have spoken before me, who are much more skilled in this area than I-- Nevertheless, there are two things that are very distressing:

First of all, the argument that we have been told, at least by our business administrator in the school system, which has been used in this whole game of, how much State aid will you get? -- guess it in November, and you will find out in March -- is a bunch of nonsense. Governor Kean, in all his years, funded the formula fully only once, and that was in the year he was running for reelection.

I think now I have posed the question, isn't what is happening here with Governor Florio and what happened with Governor Kean -- so I am not pursuing this on the basis of Democrat versus Republican; I am pursuing it on what is occurring-- I said, "This seems to be unconstitutional. It seems to me totally--"

When I posed that question, he said, "Well, we have been told that the Attorney General told Governor Kean that there is a constitutional mandate that you must have a balanced budget." That takes precedence over a law passed by the Legislature, and signed, I might say, by the Governor, which calls for providing aid according to a formula. The Constitution takes precedence. Therefore, in order to have a balanced budget, it is permissible to ignore a law.

I think it is hokum. I think that a law is a law and has as much force as any provision of the Constitution. Who said that Governor Kean or, for that matter, Governor Florio, couldn't have simply fully funded the aid formula and cut their expenses elsewhere, in order to make sure they had a balanced budget? So that type of argument falls.

The other point which may, perhaps, present some distress to you as legislators, but nevertheless I think is critical to set forth-- I have had in my mind for many years the idea that we should have a constitutional limitation on the level of real estate taxation in this State. The reason I say that is what you may not like, but I think it is realistic. I think the income tax is a much better way of funding education than the property tax. I think it is better related to ability to pay. But what I am fearful of is allowing our income tax to go up sharply without a constitutional limitation on the property tax, because my experience has been that if you give governing bodies money to spend, they will spend it. And I would not like to see the income tax rise and the property tax also rise.

Now that is what, in fact, is-- I am not an elected official of the Township of Montclair, but I would say to you that as a resident of Montclair what I see happening in Montclair is that we will see just that. We will see our income taxes go up. We will see our property taxes not go down. The aid will be shifted to the large urban districts, which are in desperate need of adequate aid. The question then is: What have we really done for the people of limited means, senior citizens who are retired who may be living in a house that is worth $300,000 or $400,000, but, so what? Their taxes are huge; their income is limited. Again, I am not saying to you that I expect you to feel sorry for most of the people in Montclair. But I would say that if we could have assurance that our property tax couldn't go above a certain level, then we would -- or at least I would feel happier about the income tax. But without any assurance that there is a limit on real property taxation, I am concerned as to how high the income tax will go.

You know, I do not know what the future holds. You have a very difficult task. I know the New Jersey School Boards, around 1983, struggled with the whole question of the State aid formula for a very, very long time, and really came up with something. But it was a struggle, and it never got-- I don't think it ever got to the Legislature. So I assume you will be getting input from them, as well.

Thank you for your time. I appreciate the opportunity to have testified.

ASSEMBLYWOMAN KALIK: Thank you so much. Is there anyone else in the audience who wishes to testify? (no response) Seeing none, I am going to just conclude by saying that this Task Force, for whatever reason, has solicited a marvelous, considered, thoughtful response. There has been no bashing. There has been no screaming. There has been no accusing and I, for one, as the Chair, am very grateful.

The testimony that has come in has been certainly provoking in its appeal, but it also has been very common in its theme. I think that when the final report of the Task Force comes out, you will see that borne out in the final recommendations.

Thank you all very much for being here, and for taking the time to testify.

(HEARING CONCLUDED)

APPENDIX

AVERAGE TAX COMPARISON (COMBINED)
SAVINGS BANKS - COMMERCIAL BANKS

YEAR	SAVINGS BANKS	COMMERCIAL BANKS
1985	$3,121,000	$ 714,000
1986	$3,794,000	$1,045,000
1987	$5,062,000	$1,549,000
1988	$3,381,000	$1,429,000
1989 (thru 6/30/89)	$1,628,000	$ 743,000

XI

2/1/90 - Source: New Jersey Department of Banking

OFFICE OF THE MAYOR

CITY OF TRENTON, NEW JERSEY 08608

Carmen Armenti
MAYOR

April 10, 1990

Honorable Barbara Kalik
Chairwoman, General Assembly Task Force
on Equitable Management of Revenues
and Expenditures
Park Plaza Mall
Route 130
Edgewater Park, New Jersey 08010

Re: Cost Efficiency Study for Property Tax

Dear Assemblywoman Kalik:

With the advent of fresh (and welcome) action toward the adoption of property tax-reduction measures, a basic economic questions was presented to me recently which deserves further research for the benefit of all: what is the true cost to the public of raising $1.00 of property tax compared to the true cost of raising $1.00 of sales, income or other nonproperty taxes?

To consider the costs of assessing and reassessing some 30,000 properties in Trenton; keeping up with the day to day changes (following up on building permits and fire-damage); maintaining the records for exemptions and abatements and administering the collecton and enforcement procedures is to scratch the surface of our property tax machinery. To go further into the costs of individual assessment appeals and revaluations procedures ($1.3 million for Trenton currently) and the implicit costs for legal and appraisal services only takes you to the threshold of the State-administered Division of Taxation and the County Boards of Taxation.

2X

Even if some of the extensive SLERP recommendations are adopted, and even if the cumbersome and expensive homestead rebate system is eliminated (just consider the costs of mailing back and forth the application forms, the approvals and the checks!) there are many cost-intensive items that will have to be paid for by taxpayers in order to operate a property tax system. It would appear on the surface (or slightly beneath it) that the property tax is not the most efficient or cost-effective system of raising money. I am not sure that any study has been done to date which compares the true net yield to the public of that form of taxation verses the other kinds of taxation with built-in infrastructures which seem (on their surfaces) to be less complicated such as the income tax and sales tax.

The question of the comparative cost effectiveness takes on greater importance as we consider reducing the actual yield from the property tax. If the average taxpayer is expected to pay fewer dollars through his real estate property tax and a greater amount through the other taxes, it would seem that whatever cost inefficiencies are presently associated with the property tax will be aggravated. The yield will be lower without commensurate reduction in the administrative costs.

If, to your knowledge, this kind of analysis has already been performed, we would appreciate learning the results. If it has not been undertaken, we would appreciate your efforts in this direction.

Sincerely,

CARMEN J. ARMENTI
MAYOR

CJA:vlp

Commerce and Industry Association of New Jersey
15 East Midland Avenue • P.O. Box 768 • Paramus, New Jersey 07653-0768
• (201) 261-4600 •

**STATEMENT OF RICHARD L. DUPREY,
DIRECTOR OF GOVERNMENT RELATIONS,
FOR THE COMMERCE & INDUSTRY ASSOCIATION OF NEW JERSEY
ON THE RECOMMENDATIONS OF THE STATE & LOCAL
EXPENDITURE & REVENUE POLICY REPORT,
BEFORE THE NEW JERSEY GENERAL ASSEMBLY TASK FORCE
ON THE EQUITABLE MANAGEMENT OF REVENUE AND EXPENDITURES**

WEDNESDAY, APRIL 11, 1990

Mr. Chairman and members of the Task Force, I appreciate the opportunity to present this statement on behalf of the 2,000 members of the Commerce & Industry Association of New Jersey which represents firms in Bergen, Essex, Hudson, Morris, Passaic, and Union counties. I am here today to express the concerns of our membership on the State & Local Expenditure & Revenue Policy Commission Report.

It is understood that the budget crisis which faces the state for the current, as well as the next fiscal year, poses problems which in many ways are unique. The budget proposal which has been submitted by Governor Florio seeks to address many of them, and in the process, implements many of the recommendations of the so-called SLERP Report. Thus it is important that both issues be addressed.

First, while property tax relief is the ostensible purpose of the recommendations as well as the Governor's budget, the reforms spoken of are not really addressed until the Fiscal Year 1992 budget. What we are seeing is the machinery being put into place. More exact, what we are seeing recommended is the largest tax increase in the history of the state. Relief, we are promised, is somewhere down the road.

The problems facing New Jersey are not one of the taxpayers' making. Indeed, while <u>projected</u> tax collections are down, <u>actual</u> collections have never been higher. The taxpayers are already paying their fair share. What has happened is that the state has been living well beyond its means. State government spending has more than doubled over the past decade, outstripping the growth in inflation, population or our means to pay for it.

The problem has been the proclivity of our elected officials to approve ever greater amounts of spending. Balancing any deficits brought about by such spending sprees should not be done on the backs of the taxpayers. The budget recommendations of the Governor seek to balance the budgets of FY 1990 and 1991. Thus, FY 1992 will need even greater tax increases of the sort recommended by the SLERP Commission to achieve the promised results.

Second, concerning the SLERP recommendations in particular, the Association is perhaps one of the few business organizations that fully opposes the tax increases suggested and it is concerned that there is no mechanism mandated to lower local property taxes as state taxes increase. Commerce and Industry is worried that municipalities would use these newly "freed up" funds to expand existing programs or plow the money into new ones. Taxpayers would only be faced with rising tax bills and no relief.

Third, the time-honored tradition of "home rule" would be seriously impacted if the state assumed the costs, and presumably much of the control, of locally provided services such as education, welfare and the courts. While the SLERP Commission stated it wished to "enhance" home rule, the loss of control would translate into a loss of local self-determination.

Rather than seeking to expand or impose new taxes, or take on new or existing programs from the local level, the state should instead investigate ways in which it can reduce expenditures. The Governor is to be commended for his step in that direction. It is understood that his budget proposal recommends an actual decline in state spending for the first time in history. Unfortunately, it does not go far enough.

If we desire to keep New Jersey a healthy, economic competitor with its neighbors, than certainly raising taxes is not the answer. We should look more closely at the recommendations of the SLERP Commission before we seek to implement them.

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Position Statement
of the SLERP Task Force
of the Commerce & Industry Association of New Jersey
on
The State & Local Expenditure & Revenue Policy Commission Report

Chairman
Jim Beattie
Beattie Padovano, Esq.

INTRODUCTION

In July, 1988, the State and Local Expenditure and Revenue Policy Commission, more commonly known as the SLERP Commission, issued a report which examined the way taxes are collected in New Jersey. Recently, with the state facing a deep and troubling fiscal crisis, the Report has been mentioned as a possible blueprint for a new state tax policy. As many of the recommendations amount to an unprecedented reform and restructuring of New Jersey's 200-year old tax system, the Commerce & Industry Association of New Jersey, the state's largest regional business organization representing approximately 1,850 firms, formed a task force to examine the SLERP Report.

BACKGROUND

The SLERP Commission believed that New Jersey's heavy reliance upon services provided by municipalities and funded through local property taxes resulted in an inequitable distribution of the tax burden. It recommended the state assume the cost and control of education, welfare and the county court systems to achieve a balance based upon one's ability to pay. The Commission reasoned that as income, sales, and various business-related taxes increased to pay for the services, local property taxes would fall. While property tax relief is a laudable goal, the Commerce & Industry Association's SLERP Task Force has enumerated a number of concerns which arise from its examination of the SLERP Commission Report.

TASK FORCE CONCERNS

First, the state's current and chronic fiscal crisis has caused Governor Florio to submit a budget which puts into place many of the more controversial aspects of the Commission's suggestions: $1.4 billion in increased or expanded state taxes. However, their purpose is not property tax relief; rather it is to close an approximate *$2 billion combined deficit* in the Fiscal Year (FY) 1990 and 1991 budgets. Property tax relief will not be addressed until FY 1992. To realize the SLERP Commission's recommendations to their fullest will require an even greater tax burden being added.

Second, according to the Commission's recommendations, as state taxes increase at the same rate as local taxes decrease, there would supposedly be no net increase in the tax burden. However, there is no mechanism present to ensure that it would happen. There is nothing to prevent local governments from expanding existing programs or plowing the money into new ones. Taxpayers would merely be faced with rising tax bills and little or no tax relief.

Third, with the state assuming the costs (and presumably much of the control) for programs currently provided at the local level, such as education, the time-honored tradition of "home rule" would be seriously impacted. The Commission reportedly seeks to "enhance" home rule, but this loss of control translates into a loss of local self-determination.

The Task Force believes that the interests of Trenton and those of local governments would not always coincide. Local officials are closer to the pulse of their communities, and likewise, the communities have greater control over their local officials. In particular, educational decisions would more closely mirror community standards when administered at the local level instead of when receiving direction from Trenton.

Fourth, and last, is the reputation of New Jersey as an attractive place to do business. Higher taxes, restrictions upon growth and development, more stringently enforced environmental laws, traffic congestion, a lack of affordable housing, and an acute labor shortage are causing businesses to leave the state. Unfortunately, this will continue into the future unless these matters are addressed in a reasonable and responsible fashion.

CONCLUSIONS

The business community finds all of these issues of great and urgent concern. One need only look towards New York several years ago when business began fleeing the City to the more hospitable suburbs of New Jersey to see what will be the outcome of such policies.

Thus, the SLERP Task Force of the Commerce & Industry Association of New Jersey believes the Commission's report may be a useful tool for conceptual discussion, but it leaves many fundamental questions unanswered regarding the practicality of its implementation. We recommend that before taking upon any more responsibilities than it can afford, the government should look into spending programs that are redundant, wasteful or unnecessary. The health of the economy of the State of New Jersey is too important for it to be ignored.

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