SUMMARY RECOMMENDATIONS and SUBCOMMITTEE REPORTS

NEW JERSEY COMMISSION ON
GOVERNMENT COSTS AND TAX POLICY

DECEMBER, 1977

THE REPORT
OF THE
NEW JERSEY
COMMISSION ON GOVERNMENT COSTS AND TAX POLICY

SUBMITTED TO GOVERNOR BRENDAN T. BYRNE

PURSUANT TO EXECUTIVE ORDER NO. 55 OF 1977

This report consists of:

Three parts corresponding to separate subcommittee reports

and

a summary of Commission findings and recommendations

TRENTON, NEW JERSEY

DECEMBER 8, 1977

NEW JERSEY

COMMISSION ON GOVERNMENT COSTS AND TAX POLICY

(appointed by the Governor pursuant to Executive Order No. 55 of 1977)

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PART A - AN ANALYSIS OF THE 1976 INCOME TAX PROGRAM

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PART B - A REVIEW OF THE COMPONENTS OF STATE SPENDING

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SUBCOMMITTEE C - SUBCOMMITTEE ON TAX ALTERNATIVES

PART C - A REVIEW OF ALTERNATIVE REVENUE SOURCES

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Kenneth A. Gibson, Mayor, City of Newark

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December 8, 1977

Governor Brendan T. Byrne
State House
Trenton, New Jersey 08625

Dear Governor Byrne:

Attached herewith is the Report of the Commission on Government Costs and Tax Policy. I especially want to call to your attention the work of the Commission members who, without any compensation whatsoever, gave their time and expertise to assist in this effort. And, let me also report to you on the excellent work done by our small staff including Richard F. Keevey of the Division of Budget and Accounting, Nancy G. Beer of Woodrow Wilson School, and Jo Ann Navickas and Mary Comfort of the Commission staff. In addition--and I say this with personal gratification--we appreciate the excellent assistance provided by the Department of the Treasury, particularly James A. Arnold and his staff of the Research Section of the Division of Taxation.

The Commission reports a summary document which has the general concurrence of the members and three separate Subcommittee reports which are included for informational purposes but not specifically endorsed in detail. I should also mention that not all of the members agreed with every part of the summary, but in the spirit of cooperation we decided to forward it to you and the members of the Legislature with as little delay as possible. Each of the recommendations then has at least the support of the majority of the Commission members.

We began our work almost six months ago during a period of considerable uncertainty about the future of the Tax Program and the exact configuration of next year's budget. Much of that has been shifted away by the election returns. The Commission has been practical, we think, in recognizing that some major issues were settled as they should be by the public. Thus, while the Subcommittees' Reports on "Alternatives to the Current Program" and the "Costs of Government" are valuable documents and the result of much hard work, we recognize that the initial focus of those in government must be on our recommendations for improving the current program.

In this regard, we feel confident that many of our recommendations would make the program more efficient and effective and, in some cases, save money.

Since time is of the essence, we have reported perhaps before completing all of the research and discussion we would have liked. The Commission members are ready to look into any specific areas which you feel require further attention. In any case, on behalf of all of us, we thank you for the opportunity to look at these important questions and wish you good luck in your second administration. Regards.

Sincerely yours,

Richard C. Leone
Chairperson

RCL:cag
Attachment

SUMMARY REPORT AND RECOMMENDATIONS

NEW JERSEY COMMISSION ON GOVERNMENT COSTS AND TAX POLICY

The mid-Seventies found New Jersey in the midst of a governmental crisis of extraordinary proportions. The State's long-recognized need to establish a fair and equitable tax system, fitted to the needs of effective and efficient State and local governments, was being further underscored by: (1) the economically undermining effects of a national recession; and, (2) the events set in motion by the New Jersey Supreme Court decisions in Robinson v. Cahill; i.e., the early 1970's school finance case which challenged the constitutional validity of a system of public school finance in which localities paid approximately 67 percent of public school costs.

The answer to the State's governmental crisis came in the form of the Public School Education Act of 1975 and the passage of the 1976 Tax Reform Program. The former, in particular, provided for a shared-cost plan of State school support which was to raise the State's share of the total funds necessary to pay for the annual costs of education from approximately 29 to 40 percent; the latter program, whose central feature was a gross Income Tax of 2 to 2.5 percent to be imposed on all the State's residents, was to provide the mechanism with which the State was to fund the new financing plan. In addition, various companion legislation were enacted whose purpose it was to generally improve the State's fiscal position by reorienting its tax structure away from its dependence upon nuisance and local property tax revenue sources and by limiting the spending habits of government at all levels.

The following summary report reviews and analyzes certain provisions of the recent governmental reforms. In particular, this report makes recommendations concerning the existing program; concerns itself with an analysis of the major alternatives available to the State to meet its governmental obligations; and, suggests those alternatives the Commission finds most appropriate.

A. ANALYZING THE CURRENT PROGRAM

I. The Commission recommends that a decision regarding the status of the New Jersey Gross Income Tax be made on the highest priority basis. In particular, the Commission recommends that the self-destruct clause of the New Jersey Gross Income Tax be repealed as soon as possible, preferably before the Legislature adjourns in December, 1977.

It is the belief of the Commission that the individual Income Tax is the fairest and best of all alternative revenue sources. The Income Tax has gained approval because of its directness and adaptablility to governmental policy and because it is believed that income is the most appropriate measure of a person's capacity to command economic resources and thus a good indicator of ability to help finance government. Furthermore, the Commission believes that, with time, the Income Tax will be able to correct the inelastic quality of the State's revenue structure. The structure has traditionally caused revenues to lag behind expenditures, touched off recurrent fiscal crises which required imposition of new or increased taxes, and (which have) given the State a reputation for fiscal instability, discouraging economic development.

A swift decision on the status of the tax will enable government decision-makers to plan intelligently for the future, particularly as budgets are now being developed and must be adopted by February and March of 1978. Any substantive changes in the Income Tax can be made at a later date by the new Legislature on a priority basis and should be made only in an atmosphere of more permanent reform.

II. <u>The Commission recommends that no changes in either the Income Tax base or rates be made effective until January 1, 1979</u>.

The Commission believes that, for the purposes of tax continuity, any substantive changes made in the present Income Tax in 1978 should not take effect until January 1, 1979. The Commission believes that this measure will ensure that only one form of the tax will be in effect during any particular tax year and that considerable confusion will be avoided as a result.

III. <u>The Commission recommends the continuation of 40 percent State funding for schools, part of which is to be funded from the Property Tax Relief Fund</u>.

The Commission supports the principle of a broad-based tax to fund a considerable portion of local school budgets and recognizes that the Supreme Court has accepted as facially constitutional the present State assumption of 40 percent of school funding, representing $505 million in fiscal year 1978.

The Commission has not addressed alternatives or modifications to the Thorough and Efficient Law recognizing that detailed evaluative work is already being done in these areas by the Joint Commission on Public Schools, as well as by the Department of Education and special interest groups including the New Jersey Education Association. The Commission, however, has heard testimony concerning the T&E Law. In particular, it has heard arguments regarding certain problems such as increased administrative costs, arising out of the process model of education implied by the law and other problems involving certain inequities and restrictions resulting from the school cap law which would suggest action on these matters on a first priority basis.

IV. <u>The Commission recommends that Homestead Rebates be distributed once a year according to the present formula with review of alternatives to this Program in two years time</u>.

The Commission recommends the continuation of the Rebate Program because of its high visibility and because it has been estimated that a rebate taking the form of a reduction in Income Tax liability would reduce the State's Federal Revenue Sharing dollars by approximately $18 million. The law, however, should be amended so that rebate checks are distributed annually in July in order to save some $400,000 in administrative costs each year and provide a one-time saving of approximately $130 million.

After two years, program alternatives should be reviewed. Alternatives include a circuit-breaker concept which provides property tax relief to those with low incomes. The relief could be credited against one's Income Tax liability or, if the taxpayer has none, the homeowner could receive a cash rebate. Alternatively, the homestead rebate as now calculated could be credited against one's property tax or against one's Income Tax.

Another distribution method saving considerable administative costs would be a flat amount of $187 (the average rebate amount in 1977) to be returned to each homeowner with each qualified senior citizen receiving an additional $50. The funds distributed according to this formula would result in considerable rebate increases to those persons living in the poorer areas while those persons presently most benefited by the law would lose only some $10 to $30 annually. The Commission recommends future priority consideration of the latter, flat rate alternative both to relieve administrative costs and to distribute the funds more according to overall economic need.

V. <u>The Commission recommends the repeal of the Tenant Rebate Law and the continuation of the tenant income tax credit including an amendment allowing renters without an Income Tax liability to carry-over the credit for a period of three years. Alternative programs to assist tenants need further study</u>.

The Commission has heard repeated testimony that compliance with the Tenant Rebate Law; i.e., the law requiring landlords to pass-through dollars realized from property tax reductions, is extremely difficult to monitor. Because it is virtually impossible to discover whether the tenant is receiving the correct amount owed and/or whether rents are simply being raised to account for any pass-through of funds, the concept of the tenant rebate is misleading. Some tenants may be receiving no relief. Further, the law places a large administrative and policing burden on local municipalities.

The Commission has not reviewed all the possible alternatives to the Tenant Rebate Program. Alternatives include a circuit-breaker concept with direct payments to tenants similar to the property tax deduction programs for senior citizens and veterans but the Commission notes that such a concept could require additional State monies.

The present Income Tax Law which allows a tenant a $65 credit on his income tax ($100 if a senior citizen), compares very favorably with other states; however, data from the Division of Taxation shows that some 500,000 renters do not have Income Tax liabilities and, therefore, are not necessarily benefited by the tax credit. The Commisison believes acredit carry-over of three years would benefit a large number of renters who would not be eligible for the credit in any one year. Any additional changes require further study.

VI. The Commission recommends the State assumption of certain court costs, and that the $50 million Revenue Sharing Program be discontinued.

The Commission draws attention to the fact that the court system now is largely under State control. State assumption of certain court costs would centralize funding decisions and insure that court systems are of comparable quality. Further, State assumption of court costs would provide relief to those counties with the largest municipalities which now levy high property taxes for courts as well as other local needs. It is also argued that rising court costs would be better absorbed by the more elastic Income Tax revenue than by traditional property tax revenue.

The Commission has heard testimony and reviewed data which shows that the present distribution of Revenue Sharing funds (all but seven of the State's 567 municipalities were eligible in 1977 under the program) has contributed towards reducing property taxes across the State and, in some cases, has served as a much needed substitute for the $25 million Sales Tax revenue sum which is no longer distributed locally. The Commission, however, believes this money could be spent more effectively if used to assume court costs, noting that levies for county purposes, including the courts, are part of the local property tax burden.

The Commission suggests that court costs, totaling approximately $48 million and covering the costs of county and district courts, the Prosecutors' offices, the surrogate courts, juvenile and domestic courts, jury and commissioner fees, and the law library be paid by the State. Another $35 million would be necessary to assume the costs of probation and the sheriffs' offices or the entire level of court expenditures now supported locally.

VII. The Commission recommends a constitutional amendment repealing the veterans' property tax deductions.

The Commission believes, as did the members of the 1972 Tax Policy Committee, that veterans should not be entitled to special property tax treatment. Since the late 1940's, qualified veterans have received $50 a year, irrespective of need. An annual saving to the Property Tax Relief Fund of $22 million would be realized from the repeal of the veterans' deductions.

VIII. The Commission supports State assumption of the costs of senior citizens' property tax deductions but, as with all senior citizen programs, favors review to reflect need.

The 1972 Tax Policy Committee Report outlined guidelines for a review of the senior citizen property tax reduction program which included a sliding scale of eligibility, a broader definition of income, and the inclusion of renters under the program.

This Commission would like review of the present policy of an annual property tax deduction of $160 for senior citizens with incomes under $5,000. The review should be undertaken within the context of a study of all programs directed towards senior citizen tax relief. (See Recommendation XVIII)

IX. The Commission recommends study of the distribution of Gross Receipts and Franchise Taxes.

Gross Receipts and Franchise Taxes on public utilities are apportioned each year to local taxing districts for local collection. Apportionments are based upon gross receipts and scheduled property valuation reported by utility companies. The receipts accrue directly to those municipalities where the utilities are located and, in some cases, provide substantial municipal revenue, whereas the costs are borne across the State in the payment of utility bills. The 1972 Tax Policy Committee recommended that these utility revenues be capitalized for apportionment of county taxes. This and other utility tax distribution alternatives should be reviewed so that property tax reduction and State aid are more evenly distributed.

X. The Commission supports the repeal of those business taxes which were eliminated as part of the 1976 Income Tax Program and suggests review of additional tax incentive programs, with priority attention to business investment credits.

The Commission believes that significant business investment disincentives have been removed as a result of the repeal of the Retail Gross Receipts Tax, the exemption of new purchases from the Business Personal Property Tax, and the repeal of Sales Taxes on the purchase of production machinery and equipment and on certain business services. The former Retail Gross Receipts Tax has been described as inherently unfair as it had been levied on gross receipts and not net income. The repeal of the Sales Tax and Business Personal Property Tax on new purchases should improve New Jersey's competitive position with neighboring states, in particular encouraging private investment in New Jersey. The repeal of those business taxes is estimated to have provided a saving of $79 million in 1977.

The Income Tax Program also has led to substantial property tax relief for business. In 1977 it is estimated that business realized a $77 million reduction in property taxes as a result of $28 million saving in Statewide property taxes and the $49 million reduction resulting from the school aid rebates.

Recognizing the need to further stimulate business in New Jersey, the Commission has reviewed additional tax incentive programs, giving priority to one involving investment credits for new investments in plants, machinery, and equipment, a proposal which is strongly endorsed by the Governor's 1976 Economic Recovery Commission.

XI. The Commission recommends that the State, County, and Municipal Cap Laws be retained subject to review in the fall of 1978, but that certain amendments to the Cap Laws should be given priority attention. (See Recommendation XII)

The Commission has heard testimony supporting the cap legislation as an important component of the entire Income Tax Program. The budgetary restrictions have offered assurances to taxpayers and businessmen that the spending of any newly raised revenues will be controlled and also that expenditures, in general, will be carefully considered as the caps force public officials to make difficult budgetary choices. Further, data from a sample of municipalities and from the State shows that substantial service cuts have not been necessary in the first year of the law. The Commission, however, has also heard testimony that municipalities have been negatively affected by the cap law and that services might be unnecessarily impaired, particularly in the second year.

The Commission recognizes that local elected officials are responsible to their electorate and that spending decisions are basic to the viability of the local political process. Therefore, the Commission advocates review of the cap laws in another year when the State's tax structure has stabilized and restrictions on spending such as the caps may no longer be needed. In another year the real costs of the State-determined restrictions may be better known. In particular, review is needed of so-called "mandated" costs: pensions, social security, utilities, and insurance. The Commission does not believe mandated costs should be excluded at this time principally because selective exclusions, without proper study, may bias decisions as to cause ineconomies or inefficiencies in government, and because further analysis is necessary to define what a "mandatory" cost is, and at what level such costs become amenable to certain cost-cutting options.

XII. <u>The Commission supports certain amendments to the cap laws and advocates these amendments be given priority attention.</u>

a. The State government should be permitted to exclude appropriations necessary to match Federal programs in the same manner that local governments are permitted to exclude such appropriations so that the State can take advantage of all those conditions leading to quality services for its citizens.

b. All appropriations for capital projects at the State, county, and municipal levels of government should be excluded from the cap so as to encourage annual, pay-as-you-go capital financing rather than the policy of passing-off unnecessary financial burdens to future residents.

c. Municipalities should be able to follow resolution procedures for true emergencies and not have these funds charged against their cap limitation in the following year's budget. Presently, for example, monies needed to correct flood damage can be excluded from the following year's cap only by following ordinance regulations which require at least two weeks for compliance.

d. The cap on the counties and municipalities should be based on the same formula as that of the State, per capita income growth. The result would be to raise the 5 percent growth limitation which the Commission has heard in testimony to be too restrictive, particularly as personal income and costs-of-living are rising at a greater rate.

XIII. <u>The Commission recommends that the Income Tax rate structure not be changed.</u>

Data from the State's Division of Taxation shows that the Income Tax is more progressive than the 2 and 2.5 percent rate structure would suggest, especially when considered in conjunction with the property tax relief programs. Further, until more experience with the tax shows otherwise, the tax appears to be sufficiently elastic to cover the Fund's long-range appropriations, albeit in the short-run some General Fund revenues may be needed.

XIV. The Commission recommends that all exemptions be taken as $20 tax credits.

The Commission supports the recommendation of the State's Division of Taxation that all personal exemptions be taken as $20 tax credits. Such a change could bring in additional revenues of some $6.8 million and would make the tax more progressive, especially if the rates, at some future time, were made steeper.

XV. The Commission recommends the consideration and further detailed study of certain changes related to statutory definitions of gross income subject to the tax. The Commission rejects, however, any piggyback alternative on the Federal Tax System.

The Commission has heard conflicting testimony as to the merits of: (1) adopting the Federal adjusted gross income figure to replace the "New Jersey gross income," and (2) adopting definitions listed under Federal law for each of the State's 14 separate categories of gross income. These types of changes, it is argued, would facilitate the completion of the return for the taxpayer and would reduce State administrative costs since there is no need to write detailed regulations.

Preliminary analysis, as it relates to the adoption of the Federal adjusted gross income figure to replace the New Jersey gross income definition, shows that approximately $18 million would be lost to the State. Some of the principal losses, however, such as the treatment of capital gains and tax exempt bonds, could be overcome by adding back the amount on the State income tax form.

However, the Commission recognizes that the legislative intent was to insure that the New Jersey Income Tax be a gross tax and not subject to the numerous exclusions from and deductions towards the Federal definition of adjusted gross income. Furthermore, since the New Jersey Constitution prohibits "incorporation by reference" the adoption of the Federal tax base might require a constitutional amendment. Even if the change were acceptable legally, New Jersey may not wish to be subject to all tax policy changes occurring in Washington, a condition which would result from adoption of the Federal tax base.

The latter argument applies as well to the piggyback alternative. In accordance with a new Federal law, the Federal government would assume a large portion of the State administrative costs if the State Income Tax would replicate the Federal tax. There is allowance for a few modifications pertaining to such issues as tax-exempt bonds. However, the State would lose all control over one of the State's major sources of revenue as a result of the policy. The Commission rejects the piggyback option.

Accordingly, the Commission urges further study and analysis as to the merits of: (a) adopting the Federal definition of adjusted gross income with certain add backs and (b) for each of the State's 14 separate categories of gross income included under the New Jersey gross income tax, the State adopt those definitions listed under Federal law and regulations for exactly comparable items of gross income subject to (or exempt from) Federal income tax and which are included in the calculation of Federal adjusted gross income increase.

XVI. The Commission recommends priority attention be given to correcting the delays of the State's tax appeals process.

Under present law, a taxpayer can contest decisions made by the State's Division of Taxation by filing written protest and requesting a hearing before the Director of the Division of Taxation. The Income Tax, however, provides for no administrative review of the Director's ruling other than that review presently provided by appeal to the State Division of Tax Appeals where delays, exclusive of Income Tax appeals, have been up to four to five years. The addition of Income Tax appeals to this over-loaded system can be expected to further complicate matters and compound delay. Therefore, the Commission suggests that attention be given to developing a tax court, a policy alternative also recommended by the 1972 Tax Policy Commission.

XVII. The Commission recognizes the detailed review of the Income Tax legislation by both the State's Division of Taxation and the State Bar Association and recommends legislative study of each proposed amendment.

XVIII. The Commission recommends the continuation of the concept of special tax treatment for senior citizens but advocates further study in line with the idea of associating tax advantages more closely with need.

Senior citizens now enjoy considerable preferential tax treatment under the Income Tax. Senior citizens are entitled to exclusions for pension, social security and other retirement income such as interest from savings accounts and bonds or dividends on stock. Additionally, seniors receive $1,000 additional personal exemptions, an additional $35 tax credit if tenants, $160 property tax exemptions, and $50 extra on homestead rebates.

The Commission, in general, is in full support for senior citizen programs, but suggests that the programs be carefully reviewed so as to insure that preferential treatment for seniors, whose incomes are large enough to argue against such treatment, is not placing harsh tax burdens on the younger working population.

XIX. The Commission recommends that in two years the entire Income Tax Program be reviewed again by a non-partisan group, including representatives from the Executive and Legislative Branches and from the private sector.

In two years data will be available to define with clarity the impact of the Tax Program and the Income Tax yields. Decisions can then be made on such issues as new business incentives, alternatives to the present homestead rebate, a revenue sharing program based on municipal need, and a revision of the Income Tax rate structure.

B. GOVERNMENT COSTS: AN ANALYSIS OF THE COMPONENTS OF STATE SPENDING

I. The Commission recognizes that vigorous efforts to reduce State and local government spending are a first consideration in any attempt to achieve fiscal stability; however, the Commission makes no specific recommendations regarding possible reductions in expenditures, recognizing that significant savings can only be accomplished by making large program cuts and that such reductions involve a great deal of value judgment which should only be done in the context of the political process.

The Commission, in an attempt to review New Jersey expenditures, has examined major sections of the Budget, concluding that a comprehensive review of all State operations was not possible within the time frame allotted. The group has focused on five major budget categories, representing 90 percent of all State appropriations. These include:

- State Aid, particularly Education and Public Assistance;
- Physical and Mental Health, particularly the Medicaid Program;
- Educational Activities, particularly the Higher Education System;
- Mandatory Items, specifically Debt Service and Pension Cost; and
- Transportation.

II. The Commission supports the use of State aid to sub-State levels of government as a means of offsetting local property tax revenues. The group suggests, however, that the State maintain some form of policy control so that fiscal liability can remain limited. In particular, the Commission recommends the establishment of a special task force which would examine the various components and respective costs of public elementary and secondary education in the State.

State aid absorbs 55 percent of the State Budget and is provided under a variety of programs. Except for minor areas, the elimination or reduction of State aid would either increase local property taxes or require a reduction in services.

If significant savings are to be made in the State Aid budget, reductions would have to be made in the four major appropriation areas; i.e., Chapter 212, P.L. 1975 ($960.4 million); Teachers' Pension and Annuity Fund ($250 million); Homestead Rebates ($266 million); and, Aid to Families with Dependent Children and other welfare programs ($240 million).

The Commission believes: that substantial cuts in appropriations to Chapter 212 (T&E Law) are limited by law; that significant changes in the present benefit structure of the Teachers' Pension and Annuity Fund must occur before reductions can be realized; that property tax relief is an essential component of tax structure change and should not be eliminated at this time; and, that significant reductions in the welfare budget necessitate reductions in the number of welfare recipients or the level of grants--reductions which appear either impossible to accomplish or undesirable from a policy standpoint at present.

Although contributions to Chapter 212 are constrained by legal parameters, the Commission notes that no studies have been done which attempt to evaluate and analyze New Jersey's relatively high educational costs. Since New Jersey ranks fourth in the country in terms of expenditures per pupil for elementary and secondary education from all sources, the Commission believes it wise to analyze such costs before any additional aid is supplied.

III. The Commission recommends no expenditure reductions in the Medicaid program either for services to the categorically needy or for those optional services presently provided. In fact, the Commission recommends study of the impact of extending the program to the medically indigent.

Federal law requires that certain basic services be offered in any State Medicaid Program for the categorically needy. Based upon historical trends, such as the rapidly rising costs of health care, and additional information available to the Commission, it seems virtually impossible to reduce or hold constant the growth of the program without extraordinary decisions affecting not only recipients but providers. These efforts would include a reduction in hospital per diem costs and hospital usage; a reduction in nursing home costs and usage; and, a stabilization or possible reduction in the utilization of medicaid services by the eligible population.

Furthermore, far from suggesting an elimination of even those optional services funded by the State, e.g., dental care, prescription drug, etc., the Commission recommends study of the impact of extending the Medicaid Program to the medically indigent as is done in 32 other states. Although this provision would increase costs at the State level, it perhaps would reduce costs at the county level and in major city hospitals, as well as provide assistance to a portion of our population greatly in need of such aid.

IV. The Commission does not recommend any reductions in the State support for Higher Education at present.

The greatest portion of the higher education element of State aid goes toward support of the State's public institutions of higher learning. Since many costs are more or less fixed either by law, by labor contracts, or by the mere existence of education facilities, most expenditure reductions are limited; however, three basic approaches could be used to stabilize and/or reduce the Higher Education Budget in fiscal year 1979. These include: raises in tuitions and fees; reductions in enrollments, staff, programs, and institutional functions; and, the closing and/or consolidating of entire programs and institutions.

The major effects of any of these reductions would be a restriction in enrollment to the system due to higher education costs or a reduction in the quality of services that might send certain students out-of-state or to private colleges. Further obstacles to the attainment of higher education might occur as a result of raised tuition costs at independent colleges should the State reduce its support to these bodies as well.

For these reasons and because the State is already providing a relatively low-level of support to its public colleges and universities when compared to other states (based upon 1977 data, New Jersey ranks 46th in appropriations per capita and 49th in appropriations per $1,000 of personal income), the Commission does not recommend any reductions.

V. <u>The Commission finds little leeway for significant reduction in the area of capital and debt service.</u>

Debt service and capital construction represent a small portion of the Budget, a percentage relationship (almost 7 percent) which is not expected to fluctuate that much during the coming years. Debt service will only increase as bonds authorized by voters are sold, while the majority of the dollars appropriated for capital construction over the past few years has been for the Department of Transportation, and these funds have usually been used to match Federal funds to construct interstate highways and other federally-supported roads.

Debt service is a mandatory item, an item which cannot be delayed, deferred or reduced. Assuming the State wishes to proceed with its Capital Improvement Program , debt service will increase each year for the foreseeable future. Only marginal reductions could hope to be achieved in pay-as-you-go capital construction appropriations, and only at the expense of maintenance costs in the future or expensive borrowing costs.

VI. <u>The Commission findslittle leeway for any significant savings in the Department of Transportation. Instead, evidence suggests that additional dollars may be inevitable should the State choose to maintain its present transportation systems.</u>

Although, in the short-run, capital does not appear to be a limitation in highway construction, analysis suggests that the State is not sufficiently funded for highway maintenance and bridge repair. Since 1954, lane miles have more than doubled, reaching 10,087 in 1976, yet expenditure for maintenance has not kept pace.

While the PATH project (the State's major effort in the area of public transportation) continues to be delayed by various legal rulings, the State must continue to support existing rail and bus passenger services. Transportation subsidies, however, have been one of the most rapidly growing areas in the Budget over the past seven years, and the State may need to appropriate between $17 and $37 million in additional aid in fiscal year 1978 if the program is to be continued in its present form. While the Commission has not examined the problem in sufficient detail to recommend policy options, it seems apparent that the State cannot continue to provide these additional dollars year after year. In lieu of State support, service reductions, elimination of routes, and fare increases appear to be obvious short-range options.

VII. The Commission recommends no reduction in the number of persons employed by the State.

Personnel costs ($726 million in fiscal year 1978) represent 18 percent of the total State Budget but 44 percent of the Budget exclusive of State aid and debt service. Based upon comparative data, however, New Jersey ranks 49th out of 50 in the number of State employees per 10,000 citizens and 38th among the states in the total number of all public employees as a proportion of its population.

It is the Commission's belief that any reductions in the number of personnel would reduce the level of State services now provided. Should any sizable attrition occur, the Commission would advocate elimination of the effected program rather than its operation at a level below that needed to achieve adequate results. The Commission believes that proper analysis should always precede any reductions involving personnel rather than across-the-board reductions or personnel freezes.

The group would not be adverse to a more detailed study of the personnel issue similar to the 1971 Governor's Management Commission Report; however, it does not believe that savings and income would exceed the amounts achieved in 1971.

VIII. The Commission recommends no changes in employee benefits or pensions at this time but does suggest the establishment of a study commission to review and evaluate the State's pension system particularly as to whether to continue to fund two separate retirement systems, i.e., a Pension System and a Social Security System.

Based upon review of comparative data, the Commission has satisfied itself that the benefits received by employees in State government are well within the mainstream of benefits provided to other public employees. The Commission believes, however, that the benefits are generally more liberal than private pesnion plans, specifically in respect to early retirement. Furthermore, the Commission believes that the State's Pension System is actuarially sound. The accrued benefit liability is 76 percent funded for PERS, Teachers', and Police and Firemen, the three major pension plans administered by the State. Based upon comparison with other states, this is an exceptional record and one which adds to the State's financial credit. The Commission does recommend, however, that cost-of-living increases be considered in the annual acturial calculation rather than making annual appropriations.

C. TAX ALTERNATIVES

I. The Commission makes no recommendation as to the best or most appropriate alternative to the individual Income Tax, believing that any suggestion would dilute its recommendation that the New Jersey Gross Income Tax be retained as a permanent element of the State's tax structure.

The Commission has reviewed the majority of potential revenue sources and all tax alternatives which it deems feasible or advisable. Several combinations of tax alternatives have been presented raising between $565 and $939 million.

In general, it would appear that those revenue alternatives which seem to be likely candidates to meet the State's fiscal obligations are of three types. These include:

- Normal growth of existing revenue sources;
- Changes to increase the yield of established revenue sources; and,
- Development of altogether new revenue sources including reinstatement of those taxes repealed by the 1976 Tax Reform Program.

II. The Commission does not believe that any substantial changes in the rate of growth of established revenue sources will occur which are capable of funding all those programs now supported at the State level.

Data suggests that most of the State's anticipated revenues have been growing at a rate less than the rate of growth of personal income. Revenues, other than those from the Income Tax, will increase next year by an estimated $200 million. Theoretically, this growth could be used to replace some portion of the Income Tax; in practice, however, we know that some of this growth must be used for existing programs, specifically for negotiated salaries, pension and other fringe benefits, medicaid increases, etc.

Furthermore, the Commission does not believe that any shift towards greater reliance on local property taxes to fund governmental programs, particularly education, is an advisable alternative. Moreover, such a shift may be constrained by constitutional obligations.

III. The Commission does not recommend, at present, any changes in either the rate or base of established revenue sources.

The Commission believes that any changes in the tax structure should be made with an eye towards reducing the regressivity of the State's tax structure, increasing overall elasticity, and/or improving the State's economic position. Data shows that only a 5 cent increase in the Sales Tax or the inclusion of practically all proposed extensions to the Sales Tax base could yield enough revenue to fund all programs presently supported from the Property Tax Relief Fund. A move in either direction would have serious consequences for the State's economy and/or would considerably increase the tax burden on lower-income families.

Furthermore, most tax rate or fee schedule increases would have a limited effect as these revenue sources are generally a small percentage of total anticipated revenues. In some cases, increases would actually lead to diminishing returns, while other increases, particularly those affecting the business community, might eventually exacerbate the State's fiscal problems by causing industry to move out thus reducing the tax base and increasing transfer payments.

IV. The Commission does not recommend adoption of any of the proposed new revenues such as a Statewide property tax or payroll tax, nor does it recommend the reinstatement of those taxes repealed as part of the 1976 Tax Reform Program.

The Commission believes that the regressivity of the property tax has been well documented and that any movement towards a Statewide property tax is more appropriate to a complete package of tax reform rather than as a replacement for Income Tax revenues. Similarly, the Commission believes that the payroll tax or any other business tax proposals will modify any gains made by recent efforts to improve the State's competitive position for businesses vis-a-vis other states.

V. The Commission recommends a review of several of the State's present taxes with respect to making the taxes more responsive to economic changes.

The Commission recommends that a review be made of several of the State's present taxes, particularly those unit-type taxes whose rates or levels have not been adjusted to compensate for inflation. The State, at some future time, may want to adjust these taxes by incorporating them under the Sales Tax or by using some other mechanism which is responsive to the economic climate.

First National State

First National State Bank of New Jersey
550 Broad Street, Newark, New Jersey 07102
201 565-5795

November 25, 1977

Alexander S Williams
Senior Vice President

Statement of Alexander S. Williams Mayor of Westfield

I am in general agreement with the findings and recommendations of the Commission. I am, however, dissenting on two of the Commission's recommendations.

Elimination of $50 Million State Revenue Sharing to Municipalities

This recommendation is not consistent with one of the goals of the income tax reform program--the provision of property tax relief by means of aid to municipalities. The money is paid to local units out of the Property Tax Relief Fund on a per capita basis. Municipalities with effective tax rates of $1 per $100 true valuation are excluded. These monies are recorded in local budgets as miscellaneous revenues and either reduce or offset property taxes. The $50 million revenue sharing is distributed (except for a very few low tax municipalities) to the great majority of the State's local units, and gives a degree of property tax abatement to a very large portion of the people of the State.

Retention of Present Cap Laws Subject to Review

The laws limiting increases in State and municipal appropriations, and county property taxes, are designed to control the growth of government spending. The laws are politically appealing, but are essentially futile. Although I am in very strong agreement with their objective, I think the laws should be repealed. Here are my reasons:

(1) The cap on appropriations will not work because it is easy to evade. For example: many items presently paid out of current funds can be financed by capital expenditures, and debt payments are outside the cap; personnel costs can be temporarily abated by negotiation of large fringe benefits which would have to be paid in future years. There are many other fiscal gimmicks which can, and undoubtedly will, be used to shelter a larger portion of present spending from the restrictions of the laws.

(2) The 5% limitation on local governments is extremely arbitrary, and does not recognize very real differences between rural, suburban and urban units, between no-growth and high-growth towns, etc. There is no way to cure this deficiency without legislating a complex and impractical formula, or by raising the percentage, which would defeat the purpose.

Statement of Alexander S. Williams
Mayor of Westfield

(3) The cap discriminates against older cities with stagnant or declining tax bases and rising social program costs.

(4) The laws diminish home rule responsibility by restricting the ability of local governments to implement new programs.

The Commission has noted a number of other problems in its subcommittee analysis of the income tax reform program. If the people of New Jersey want to curtail government spending, they are quite capable of doing so by voting for candidates who advocate such action. It seems questionable, in light of the gubernatorial election, that the people of this State favor a reduction in the size of government. If there is a lack of real public support for this objective, arbitrary legislation will not accomplish its purpose over the longer term. It will, however, cause a certain amount of damage in the shorter term.

ASW

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November 28, 1977

Hon. Richard C. Leone, Chairman
Commission on Government Costs
and Tax Policy
2500 Brunswick Pike
Lawrenceville, New Jersey 08634

Dear Sir:

I am joining in the Commission's recommendations because I feel that, when taken in their entirety, the recommendations of the Commission will achieve the desired objectives. During the many months that I have been privileged to serve on this Commission, I have developed a high regard and respect for the complete integrity, industry and sincerity of my fellow Commission members, and I wish to express my respect for and recognition of the considerable expenditures of time and efforts made by the Commission members, and to the few staff personnel made available to us in procuring the necessary data and in drafting the Commission's reports and recommendations. However, I wish to append this statement to the Commission's Report because, although I agree with and support most of the recommendations, there is one serious problem area in which the present tax program falls short and as to which the Report touches all too simplistically, and thus most seriously. In summary, this major problem area concerns a taxpayer's right of appeal of a proposed assessment under the New Jersey Gross Income Tax Act.

Under the Act, a taxpayer's right to contest the imposition of a tax is now beset with time consuming and costly burdens. The Director of the Division of Taxation can assess any tax deficiency, penalties and interest, resulting from an audit or investigation of a taxpayer's Return, and the Director then notifies the taxpayer for payment. Within 30 days of the Director's notification of his findings, a taxpayer can file a written protest with the Director and request a hearing. The written protest appears to be required without regard to the amount involved in dispute. The Director must grant a request for a hearing, at which he can confirm, modify or withdraw his assessment. Penalties for alleged nonpayment are not abated by the filing of a written protest, and procedures by the Director to effectuate tax collection are not barred unless the taxpayer gives adequate security. No data was made available to the Commission concerning the manner in which these procedures for review within the Division of Taxation may be working, although isolated instances reported to me, albeit not random samples, would indicate some difficulties within the Division.

Although, by Chapter 387 of the Laws of 1975, amending Title 54 of the Revised Statutes, the Director of the Division of Taxation was given the authority to enter into closing agreements and compromises with taxpayers, enabling the Director to compromise criminal liabilities and any civil liability arising under State tax laws, if liability or collection is in doubt, indications are that the authority of the Director has been used, if at all, most sparingly. This is regrettable, and seemingly is as bad as the state of affairs which existed prior to March 3, 1976, the effective date of that act, when the Division had no authority to compromise tax claims. One reason for the apparent little use by the Director of his offer in compromise authority is the requirement under the Act that an opinion by the Attorney General of the State of New Jersey on the compromise is required before an offer may be accepted by the Director.

Formal administrative review (except in transfer inheritance tax or State estate tax matters) of the findings of the Director of the Division (or his refusal to modify or withdraw his assessment) is available to a taxpayer only by an appeal to the State Division of Tax Appeals, an agency within the State Treasury Department. It has been ofttimes stated that the Division of Tax Appeals lacks too many of the attributes of a court. The Division of Tax Appeals is subject to pressure from within the Treasury Department as well as receiving external pressures, primarily because the Judges of the Division of Tax Appeals serve on a part time basis and may (and most Judges do) freely engage in the private practice of law, while continuing to use the title of "Judge". An appeal to the Division of Tax Appeals commences by the filing of a petition of appeal as required by the Division's rules, and tax collection or enforcement by the issuance of a certificate of debt by the Director of the Division of Taxation is not barred by the filing of a petition to the Division of Tax Appeals unless that latter Division so orders and adequate security is given.

As indicated above, the Division of Tax Appeals has trial jurisdiction over all tax matters except involving matters of transfer inheritance taxes or New Jersey State estate tax matters. This exception was created many years ago, apparently to allow the "Judges" of the Division of Tax Appeals to handle estate matters in their private law practices. This exception has the natural consequence of having inheritance and State estate tax cases heard initially by the Appellate Division of th Superior Court of New Jersey, which Court is not especially well qualified to deal with cases involving the introduction of factual matters in a particularly technical area. Clearly, the expense, time and risks of such appeals deters most taxpayers.

There is another drawback to this inadequate appeals procedure to the Division of Tax Appeals, and that involves the fact that there is no published body of written decisions and determinations of the Division of Tax Appeals for the guidance of taxpayers and their attorneys. Such written opinions as are made appear to be available to the Division of Taxation and its attorneys, and only a select few outsiders may have access to the Division of Tax Appeal's written determinations. Proceedings in the Division of Tax Appeals are subject to inordinately long delays, principally resulting from the fact that the Division of Tax Appeals operates on a limited part time basis. Available statistics indicate that there are presently upwards of 30,000 cases pending before the Division of Tax Appeals, and, by December 31, 1977, it is expected that an additional 15,000 cases will have been added, some of which will not be reached for hearing before 1982 or 1983. A very insignificantly small number of these involve disputes under the Gross Income Tax Act. It is my view, however, that within the next 2 years the number of appeals under that Income Tax Act, now just a ripple, will become a deluge as taxpayers' experience with the intricacies of the Income Tax Act disclose more areas of questionable interpretation. It is eminently clear that continuing the Division of Tax Appeals as presently constituted with part time Judges will only exacerbate the growth of cases pending before the Division of Tax Appeals, and will further erode the confidence of taxpayers in our judicial system and administration of government. Further, these delays tend to discourage other taxpayers from pursuing their rights of appeal.

Over the years, the Legislature has been urged, by various sources, including at least 2 of its own Commissions, to create a judicial tax court with full time judges. The American Bar Association and the New Jersey State Bar Association likewise have recommended such a tax court, and the State Bar Association has introduced a bill creating a full time tax court. The objective of the creation of such a tax court, with full time judges, precluded from the private practice of law, would be the removal of its deliberations and determinations from the area of "politics" and such a court would have the time, temperament and expertise to afford speedy and relatively inexpensive relief to a multitude of taxpayers, which is patently necessary.

I, therefore, recommend, as a supplement to the Commission's recommendations, (1) that the procedures within the Division of Tax Appeals be simplified so that the Director of the Division of Taxation will be more inclined to utilize his compromise authority, similar to the pattern of the Appellate Division of the Office of the Regional Commissioner of Internal Revenue. It is my further urging that (2) the Legislature create a judicial tax court to review

<u>all</u> tax disputes at the trial level, which tax court would be in the <u>judicial</u> system, with full time, tenured Judges with the requisite training and expertise. It is my further opinion that (3) the Legislature be urged to create a small claims section, within such newly created tax court, to handle, speedily and inexpensively, taxpayers' claims involving disputes under $2,500.

Respectfully submitted,

Morton Deitz
MD:pl

Atlantic Electric
SERVING SOUTHERN NEW JERSEY

Frederick Lange
Senior Vice President

December 2, 1977

STATEMENT OF FREDERICK LANGE

I agree with the findings and recommendations of the Commission. I, however, would like to suggest the following addition to Recommendation C. V. which I believe further underscores its intent.

"This recommendation should apply with particular force to the tax on motor fuel. While the quantity of such fuel used may not, as yet, show a decreasing trend, such a trend will develop as the post 1975 vehicles, which have generally higher "miles-per-gallon" ratings, become a larger percentage of all vehicles used in New Jersey. Replacing the flat tax per gallon with a tax based on sales price will help protect the State's revenue from this source, as increase in prices can be expected to offset decrease in total fuel consumed."

Sincerely,

Fred.

FL:lls

REPORT OF THE SUBCOMMITTEE ON ANALYZING THE CURRENT

PROGRAM SUBMITTED TO THE FULL COMMISSION

AN ANALYSIS OF THE 1976 INCOME TAX PROGRAM

Contents

SUB-COMMITTEE ON ANALYZING THE CURRENT PROGRAM

EXHIBITS

Section I

OVERVIEW OF THE PROGRAM

THE CURRENT PROGRAM IN PERSPECTIVE

On April 3, 1973, the New Jersey Supreme Court in the case of Robinson v. Cahill ruled that the State's existing system of public school finance was unconstitutional as it failed to:

> "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." Const. 1947, Article VIII, Sec. IV

Recognizing that disparities in school expenditures across the State were linked ultimately to disparities in local property taxing power across municipalities, the Court indicated that a financing system would have to be developed that moved away from the State's heavy reliance on the local property tax for school support.

The Legislature's response to the Supreme Court mandate came in the form of the Public School Education Act of 1975 which was enacted as Public Law, Chapter 212 in September of 1975. Chapter 212, or "Thorough and Efficient" as it is more commonly referred to, responded to the Court's mandate by delineating those elements essential to a "thorough and efficient" system of free public schools, by providing a process of educational governance to achieve such a system, and by specifying a plan--to begin July 1, 1976--for the distribution of State financial aid in a manner designed to reduce the educational and fiscal disparities among localities in the State. In particular, Article III of the 1975 Law provided for a shared-cost plan for State school support. The State was to raise its share of the total funds necessary to pay for the annual costs of education in the State from approximately 29 to 40 percent. The new law was designed so that for any chosen level of expenditure per pupil up to the 65th percentile, when all districts were ranked in order of increasing expenditure per pupil, the tax rate would be equivalent for every district. The law did so by ensuring a certain minimum amount of equalized property value behind each pupil and by distributing funds for special services in a manner designed to equalize each district's capacity to provide them. Chapter 212, however, did not delineate the means or mechanism by which the State was to raise the revenues necessary to fund the new financing scheme.

In 1974 Senators Bedell and Russo and Assemblyman Littell each introduced proposals to finance the schools through a Statewide property tax. Later in 1974, Governor Byrne introduced a program for funding the additional aid necessitated by Chapter 212 and for shifting much of the local tax burden to the State through the imposition of a personal income tax. Byrne's original income tax bill passed the General Assembly but failed to pass the Senate.

As a result of an educational financing crisis in June-July, 1976, during which the State Supreme Court forced the closing of the State's public schools, an income tax program was passed by the Legislature and became law on July 8, 1976. The central feature of the enacted package was the bill enabling the State to impose a gross income tax of 2 to 2.5 percent on all State residents and those out-of-state residents employed in New Jersey. The 1976 Income Tax Reform Program was intended not only to pay for the additional costs of Chapter 212 but genera to reorient the State's tax structure away from its dependence upon the local property tax by providing some form of property tax relief. The revenues which the newly imposed income tax was anticipated to raise was to be distributed to the citizen in the form of Homestead and Tenant Rebates, aid to municipalities. To ensure the public that the new program was actually a tax replacement program, companion measures imposed spending limitations (caps) upon State, county and municipal budgets (Chapter 212 already had imposed such limits on local school budgets) and provided for citizen ratification of a constitutional amendment designed to dedicate the funds generated by the income tax either to local government or to schools with the specific purpose of offsetting or reducing property taxes. Moreover, the sum raised by the income tax was intended to improve the economic climate of New Jersey by enabling the State to repeal some of its more onerous business taxation laws such as the Gross Receipts Tax and business machinery and equipment sales taxes.

In all, approximately 22 laws were passed which appropriately could be designated as part of the 1976 tax program. (For a complete listing of these bills, see Appendix) Section II of this report concerns itself with an analysis of these laws, examining the reasoning behind them and evaluating their effects. In Section III the Subcommittee reviews policy alternatives and makes recommendations of program continuation and change.

GOALS

The goals of the Income Tax Reform Program are:

1. To comply with the New Jersey Supreme Court by increasing the State's share of funding the schools and by shifting the tax base for school funding from the local property tax to a Statewide tax.

2. To provide property tax relief by providing aid to municipalities and rebates to homeowners and tenants.

3. To control all levels of government spending.

4. To provide economic relief for business in New Jersey through tax repeal and reductions.

5. To replace the local property tax in part with a fair, stable and sufficient State tax system.

REVENUES AND APPROPRIATIONS

The summary table which follows details the revenues and appropriations for the first two years of the program. In Fiscal Year 1978, the year we are now in, the income tax is estimated to yield $792.0 million, part of the increase attributable to rising incomes and part to a full tax year where more incomes are taxed at a 2.5 percent rate than in the previous half year. The appropriations are described below. Estimates of the sufficiency of future revenues to meet the Fund programs are given in Section II under the discussion of the Income Tax.

Revenue	Fiscal Year 1977	Fiscal Year 1978
Yield	$656.1	$792.0
Surplus	-	135.0
Total	$656.1	$926.0

Appropriations		
Schools	$376	$505
Homestead Rebates	130	266
Local Aid		
a. Revenue Sharing	25	50
b. Senior Citizens' & Veterans' Deductions	22	58
c. Business Personal Property Tax Replacement Program	0	18.8
Administration	5	7.1
	$558*	$905.9

*Of the $558 million in appropriations only $521.5 million was expended.

PROGRAM DESCRIPTION

Income Tax

The Income tax, signed into law July 8, 1976, imposes a tax on all income of resident and non-resident individuals, estates and trusts for taxable years ending on or after July 1, 1976 at 2 percent of the first $20,000. Incomes over $20,000 are taxed at $400 plus 2.5 percent of the excess over $20,000. Income is defined as "the New Jersey gross income" from which are subtracted exemptions and deductions. The rate is applied to this figure to reach one's tax liability unless credits are applicable and reduce the liability accordingly.

1. Gross income is defined by 14 income categories including salaries, wages, tips, fees, commissions, bonuses and renumeration for services, net profits from business, net gains from the disposition of property earned in New Jersey, interest, dividends, income derived through estates or trusts.

2. To determine the "New Jersey gross income," there are a list of exclusions, the major ones being Social Security and railroad retirement benefits, life insurance death proceeds, gifts and inheritances, unemployment compensation, interest on tax exempt bonds, annuities, etc. The "New Jersey gross income" is an adjusted gross though not exactly similar to the Federal adjusted gross income.

3. There are six $1,000 exemption categories. Each taxpayer is entitled to a personal exemption of $1,000 for himself, an additional $1,000 for his spouse who does not file separately, and $1,000 for each dependent. There is an additional $1,000 exemption for each child attending a private elementary or secondary school, and an additional $1,000 exemption for each full-time college student under 22 years of age. For taxpayers who are 65 or older or blind or disabled, each receives an additional $1,000 exemption.

4. The law allows for two deductions: for alimony and separate maintenance payments (but not child support payments) and for unreimbursed medical expenses in excess of 2 percent of gross income.

5. To this sum is applied the 2 to 2.5 percent rate.

6. The law offers taxpayers two credits: a credit of $65 is given to a tenant. If the tenant is 65 years or older, blind, permanently or totally disabled, or a senior citizen's surviving spouse who has not remarried, he or she is entitled to an additional $35 credit. A credit is also given for the amount of any income tax imposed by another state or political subdivision of another state.

7. Additional provisions include:

    a. No taxpayer with a "New Jersey gross income" of $3,000 or less is subject to the tax.

    b. The Income Tax self-destructs on June 30, 1978.

    c. A taxpayer may indicate that $1 of his taxes be reserved for the Gubernatorial General Election Fund.

    d. Commuter Taxes. Chapter 65, P.L. 1976 reinstates New Jersey's commuter taxes on out-of-state residents who work in New Jersey. Should the tax liability of the other state exceed the New Jersey tax, the commuter pays the higher amount and the resulting credit may mean that his New Jersey income tax liability is reduced to zero. Non-residents pay whichever is higher, the New Jersey Income Tax or the commuter tax. The commuter tax with Pennsylvania has been repealed, and by agreement with Pennsylvania, residents of each state pay their own state income tax regardless of place of work.

Property Tax Relief Fund

Funds realized from the income tax go to four appropriation categories: schools, homestead rebates, local aid and administration. A related program, the tenant rebate, relies upon pass-through, not appropriated, funds.

1. <u>Schools</u> - T&E Appropriation

The T&E Law required additional funding from State revenues, shifting the tax burden from the local property tax base and providing an equalization formula. Chapter 64, P.L. 1976 appropriated $374 million for educational State aid in the first year. Dollars were apportioned based upon the formula in the law and include aid for current expenses, debt service, transportation and special education. The 1978 appropriation for T&E from the proceeds of the income tax is $505 million and covers the same programs as described above.

Unbudgeted school aid in 1977, approximately $207 million, was returned to property taxpayers in the form of direct payments made on May 1, 1977. Chapter 113, P.L. 1976 and subsequent amendments, Chapter 15, P.L. 1977, governed the one-year distribution of this re-anticipated aid made available to these school districts by the full funding of Chapter 212 and apportioned the aid between property tax relief and education expenditures. In subsequent years no school funds will be rebated and the school boards will have the option within spending limitations to increase appropriations or reduce property taxes.

2. <u>Homestead Rebates</u>

This Program entitles every resident to an annual homestead rebate on the house or condominium he occupies as his principal place of residence.

The amount of the exemption is calculated at $1.50 per $100 to $10,000 of equalized value or 2/3 of equalized value, whichever is less, plus 12.5 percent of municipal equalized tax rate, multiplied by $10,000 of equalized value or 2/3 of equalized value, whichever is less.

An additional $50 is provided to a citizen who is 65 years or older, permanently or totally disabled, etc.

The amount of the homestead exemption shall not exceed 50 percent of the homeowner's property tax bill.

A subsequent law signed on October 3, 1977 extends the homestead rebate to persons living in or resident shareholders of nonprofit residential cooperatives and mutual housing corporations. The first rebate under this extension will be made beginning April 1, 1978, and is estimated to cost approximately $8 million.

By law, payments are made twice a year, April 1 and October 1.

A constitutional amendment was necessary to expand the amount of the homestead rebate for senior citizens, disabled under 65 and surviving spouses 55 or over of senior citizens. This amendment was approved by the voters in November 1976.

3. Tenant Rebates

The purpose of this law is to require landlords to distribute 65 percent of any property tax relief to their tenants. The tenant rebate unlike the homestead rebate requires no allocation of State funds.

In general, .65 is multiplied by the difference between the amount of property taxes paid in any year and the amount of property taxes paid in the base year (1976), plus .65 times any rebate or refund of school taxes pursuant to Chapter 15, P.L. 1977, unbudgeted school aid refunds. The latter part was applicable only in 1977. To determine the rebate or credit for each tenant, the property tax reduction (as determined above) is divided by the total annual rent for all dwelling units on such property. The annual rent of each unit is then multiplied by this percentage to determine the annual amount rebated.

The Act expires on December 31, 1979.

4. Aid to Municipalities

a. Revenue Sharing

$50 million is apportioned annually on a per capita b s to all municipalities with an effective tax rate in excess $1 per $100 true valuation. These State revenue sharing monies are recorded in local budgets as miscellaneous revenues. The introduction of these funds assure property tax offset or reduction.

b. Senior Citizen and Property Tax Deductions

The State has assumed the full cost of senior citizens' and veterans' property tax deductions. Previously the State paid one-half (approximately $14 million) of the senior citizens' deduction. The annual cost to the Income Tax Program of these deductions is approximately $58 million. The senior citizen deduction allows every person over 65 with an income of less than $5,000, a $160 deduction from his property tax. The veteran deduction amounts to $50 annually for every qualified veteran.

c. Guarantee of Former State Aid

Replacement money is provided from the income tax proceeds to guarantee municipalities the level of funding previously realized from three repealed business taxes: the Gross Receipts Tax, the Business Personal Property Tax and the Unincorporated Business Tax.

5. Administration

For Fiscal Year 1977, $5 million was appropriated for the income tax and homestead programs to be administered by the Divisi of Taxation.

Economic Recovery/Business Stimulation

Five different taxes were repealed as the result of laws passed in Fiscal Year 1976 and Fiscal Year 1977. The repealed taxes are:

- The Retail Gross Receipts Tax;
- The Business Personal Property Tax on purchases made as of January 1, 1977;
- The Sales Taxes on business machinery and equipment and personal property delivered out of state;
- Unearned Income Tax; and
- Unincorporated Business Tax.

The first three were repeated strictly to stimulate business and the remaining tw to eliminate double taxation. These repealed taxes, discussed in Section II of this report, would have yielded $105.5 million in Fiscal Year 1978. In addition, the business community has realized significant reductions in property taxes.

Limiting Government Spending

The State Cap Law permits appropriations for a fiscal year to increase by an amount not to exceed the rate of increase in per capita personal income in the State between the second quarter of the two years immediately preceding the year when the budget is to go into effect. There are several exclusions from this expenditure limitation, namely, appropriations supported by Federal aid, and appropriations for debt service and State aid.

The Local Cap Law limits municipalities to a 5 percent increase over prior year appropriations. Municipalities with tax rates of .10 per $100 or less are exempted. Excluded from the 5 percent are: debt service, cash deficits, reserves for uncollected taxes, programs funded wholly or in part by State or Federal funds, funds needed to match State or Federal programs, programs mandated by State or Federal law after the effective date of the law, revenues raised by the sale of municipal assets, new or revised fees, and revenues from increased valuations as a result of new construction. Emergency appropriations, up to 3 percent following ordinance procedures, can also be excluded. Any municipality can exceed its cap limitation if approved by referendum.

County limitations are limited to 5 percent of the prior year tax levy, with certain exemptions, similar to those enumerated above for municipalities, excepting funding for cash deficits.

The Municipal and County Cap Laws shall expire on December 31, 1979. The State Cap Law expires June 30, 1980.

Joint Legislative Commission

The Legislature passed Chapter 77, P.L. 1977, which established a ten-member Joint Legislative Commission on Efficiency and Economy in State government. As of this writing, this Commission has received an appropriation of $100,000 and has hired consultants from the University of Pennsylvania to review operations and programs in the Department of Transportation. No report from this Commission is expected until December 30, 1977.

Constitutional Amendment Dedicating the Income Tax Proceeds

The constitutional amendment passed in November 1976 states that the entire net receipts of any State income tax levied on individual personal incomes should be annually appropriated to counties, municipalities, and school districts exclusively for the purpose of offsetting or reducing property taxes. This amendment assures that income tax monies, net of funds for administration and the Gubernatorial Fund, go to local governments and schools not to the State Treasury.

Section II

ANALYSIS OF THE DATA

SCHOOLS

The greatest portion of the state aid element of New Jersey's Budget (approximately $1.2 billion for FY 1978) goes toward the financing of elementary and secondary school education. Of this, the largest single allocation of money goes toward the financing of Chapter 212; i.e., the Public School Education Act of 1975.

Implementation of Chapter 212 has increased the state aid portion of the financing of public elementary and secondary schools from 29 to 40 percent. In dollar terms, this increase of 11 percentage points translates into a sum of approximately $400 million--the only portion of state aid to education which is funded out of the Property Tax Relief Fund. To the extent that this $400 million increase enables certain local school districts to support greater school expenditures per pupil than would be the case if forced to rely primarily upon the local property tax for their revenues, some portion of the increase in state aid can be thought of as "new" money. In practice, however, much of the $400 million represents a substitution of state aid for local property tax revenue.

As a result of additional state aid, the percentage of school support attributable to revenues from local property taxes has decreased from 69.3 percent in 1974-75 to 58.0 percent in 1977-78. (See Table 1 prepared by the Education Policy Research Institute, Princeton, New Jersey.)

Of the additional aid, 10 percent went to the less wealthy districts of the State, i.e., those with less than $30,000 equalized valuation per pupil. Included among these are four of the State's six major cities. In total this group represents 4 percent of the State's total school districts and 13 percent of its pupils. Sixty-nine percent of the increased aid went to moderate wealth districts with an equalized valuation per pupil of $30,000 to $70,000. They represent approximately 47 percent of the total school districts and 50 percent of the State's total public elementary and secondary school population. Unlike the low wealth districts, a great number of the moderate wealth districts were not eligible for equalization aid under the previous education formula. Chapter 212 thus has substantially benefited moderate wealth districts without reducing aid to poorer ones. (See Table II)

As a result of this apportionment of State school aid under Chapter 212, tax rate disparities among local school districts have decreased. Table III demonstrates that when districts are ranked from high to low by equalized current school tax rate, those districts at the 5th percentile levy a tax rate which is 139 percent of the State average; this represents a drop of 10 percentage points from the rate which they levied in 1975. In contrast, those districts at the 95th percentile presently levy a tax rate at 47 percent of the State average; this is 7 percentage points above their 1975 rate. In particular, moderate wealth communities generally experienced decreases in equalized school tax rates of between 16 percent and 27 percent; low wealth district school tax rates went down an average of 27.7 percent. In contrast, the tax rates of higher wealth districts only decreased 2 percent on average.

To the extent that disparities in school expenditures among districts acr(the State are linked to disparities in local property taxing power across munici- palities, some amelioriation of expenditure disparity would be anticipated by a movement away from reliance on the local property tax for school support. In fact, the distribution of aid under Chapter 212 has some impact on expenditure disparities between the poorest and wealthiest districts in the State. As shown in Table IV, when ranking districts from low to high by current expenditure per pupil, the district at the 5th percentile spent 73 percent of the State average in 1975, while in 1977 spending had risen to 78 percent of the State average. In contrast, the district at the 95 percentile spent 136 percent of the State average in 1975; by 1977 this percentage had decreased to 133 percent of the average.

Table IV does not indicate any substantial movement towards equality of expenditure per pupil although slight improvements had been made. Neither Chapter 212 nor the 1976 Tax Reform Program guarantee equality of school expenditure. They do encourage, however, the condition of similar quality services for similar tax effort. The reason that some school districts, particularly lower-spending districts, have not increased expenditures according to the percentage increases in stat aid, is that many individual school districts have used their discretionary power to reduce local property taxes rather than to increase expenditures. In general, school districts increased their expenditures an average of 7 percent from 1975-77. However, while low wealth districts increased expenditures by only 12.2 percent and extremely wealthy districts (over 130,000 equalized property valuation per pupil) increased expenditures by 17.2 percent, the moderate wealth districts, which did not benefit under the previous education formula, were able to increase expenditures an average of 19.5 percent.

THE HOMESTEAD REBATE

The Homestead Rebate Program is the major mechanism by which Income Tax funds (approximately $266 million in FY 1977) are passed back to taxpayers for the purpose of property tax relief. The rebate formula is intended to address the disparate tax burdens among property taxpayers across the State by providing property tax relief in proportion to the amount of property taxes paid, with some limitatio

The homestead rebate formula, which is recalculated every year, primarily reflects assessed valuation and, secondarily, municipal tax rate. In general, the average homestead in 1976 had an average assessed value of $31,286 with an average property tax of $1,284; regular homeowners had an average assessed value of $32,42 with an average property tax of $1,343, while those entitled to an additional reba i.e., senior citizens, disabled, or surviving spouses, had an average assessed val of $27,385 with an average property tax of $1,082.

The distribution of rebate monies is affected principally by assessed valuati For example, in the town of Hoboken where the effective tax rate is 10.613/$100, a homeowner is entitled to a rebate of $93 if his home has an assessed value of $5,000; he is entitled to a rebate of $283 if his home is assessed at $15,000 or more. The difference between the two rebates is a reflection of the maximum homestead exemption value in the formula; i.e., $10,000 or 2/3 of assessed value whicl ever is less.

As indicated in the table below, the formula results in 94.2 percent of all the State's homeowners receiving a minimum rebate of $150 ($1.50 x 10,000) since their homes are valued at $15,000 or more. The remaining 5.8 percent of homeowners received minimum amounts below $150 since 2/3 of the value of their property led to an exemption value which was less than $10,000.

HOMESTEAD TRUE VALUE DISTRIBUTION

Home True Value	Number	% of Total
$5,000 and less	2,894	.2%
$5,001 - 11,000	35,299	2.5
$11,001 - 15,000	42,843	3.1
Sub-Total	81,036	5.8
$15,001 - 25,000	206,037	14.7
$25,001 - 35,000	339,179	24.2
$35,001 - 45,000	327,556	23.4
$45,001 - 70,000	346,375	24.7
$70,001 - 90,000	64,874	4.6
$90,001 - 140,000	29,768	2.1
$140,001 and over	6,131	.5
TOTAL	1,400,966	100.0%

To the minimum rebate amount is added an amount which is affected principally by municipal tax rates; thus rebate amounts for similarly valued homes in different municipalities often differ because of variations in local tax rates. For example, a homeowner whose home has an assessed value of $15,000 and is located in Hoboken is entitled to a $283 rebate whereas the same homeowner living in Blairstown would have received $219 because his tax rate is only .55/$100.

As indicated in the table below, the average rebate for all rebate claimants was $196; the average regular rebate was $187, while $227 was the average rebate for those entitled to an additional rebate under the law.

FULL YEAR REBATE CLAIMS BY BENEFIT CLASS

	Number Claims	Rebate Amount	Average Rebate
Regular Rebate	1,084,841	$202,901,882	$187
Additional Rebate			
Age 65 plus	287,508	65,101,639	226
Disability	25,869	5,959,921	230
Surviving Spouse	2,748	617,771	225
Total	316,125	$ 71,679,331	$227

TOTAL

This difference of $40 is lower than might be expected since the additional rebate entitlement is actually $50. The $40 figure reflects both the limitation that rebate amounts not exceed 50 percent of property taxes paid after all senior citizens' and veterans' property tax deductions are taken and the fact that many senior citizens live in the State's urban centers where property values tend to be lower.

In fact, the majority of the 5.8 percent of homesteads in the State valued at less than $15,000 are found in the State's urban areas. This means, for example, that while 95 percent of Newark's homesteads obtained less than the maximum rebate, only 1 or 2 percent of homesteads in the rural or suburban municipalities obtained less than the maximum. The following chart illustrates these differences.

PERCENT OF CLAIMANTS AT OR BELOW $15,000 TRUE VALUE
12 SAMPLE MUNICIPALITIES

	% Below $15,000 True Value
Urban	
Camden, Camden	94.7%
Trenton, Mercer	82.7
Jersey City, Hudson	24.5
Newark, Essex	44.3
Suburban	
Cherry Hill, Camden	0.3%
Bloomfield Town, Essex	0.1
Edison Township, Middlesex	0.2
Woodbridge Township, Middlesex	0.3
Rural	
Hopewell Township, Mercer	0.2%
Dover Township, Ocean	1.5
South Brunswick Township, Middlesex	0.3
Chesterfield Township, Burlington	1.7

The administrative costs of the Homestead Rebate Program were $1.7 million at the State level in 1977. In calendar year 1976-1977 local costs of the rebates for homesteads, tenants and unbudgeted school aid were estimated to be $1.50 per each parcel of land taxed. These local costs should be reduced this year by the elimination of the school rebate and the State assumption of filing and check-writing for the homestead rebate. Local responsibility now involves only updating assessment records.

THE TENANT REBATE

The tenant rebate, as mentioned above, involves no income tax appropriation; it is simply a legislative guarantee that should property taxes go down in a municipality, every tenant should receive from his landlord funds which correspond to that property tax deduction. However, unlike the homestead rebate, the tenant receives funds only if local taxes go down and only if local compliance can be assured. And, one might add, only if landlords do not simply raise the rents in non-controlled areas.

Based upon the testimony received by the Subcommittee, it seems clear that the program has contributed to the awareness of laws applying to landlord/tenant relationships. Further, it seems clear that in non-rent controlled areas, some 80 percent of the State, a reduction in a landlord's property tax would not be passed directly through to the tenant in the form of reduced rents. In rent-controlled municipalities, landlords who request rent raises from their local regulatory boards would find these requests denied or tempered should there have been property tax reductions; however, there would be no rent decrease because of a lowering of landlord costs.

Though there are no actual figures as to the sum of monies actually passed on to the tenants in the past year, the Division of Taxation estimates that this pass-through could total approximately $36 million in fiscal year 1977-1978. Since there are over one million tenants in the State, at best the average rebate would be $36 a year. Where a multiple-dwelling has a large number of units and where the overall tax reduction on the building is small, the actual rebate to the individual occupant is quite small, with the minimum rebate of $6.00 per year.

While benefits are low, the administrative costs appear to be high both at the State and local level. The Division of Local Government Services indicates that in the first six months of operation it has expended some $70,000 in salaries alone on this program. The Division estimates receiving 100 letters a day and 6,000 telephone calls a month. These costs do not reflect compliance, which is a local matter, but mainly the ambiguities of the legislation which have been addressed at the State level.

The operations of the program fall principally on local governments. Local responsibilities include certification, (identification of numbers and location of renters), the determination of rebate amounts by the rent-leveling boards or by tax collectors, and compliance. At this time no estimates can be given of these local costs.

There are two basic constitutional questions regarding tenant rebates that are now being argued by the courts; one, involving tax appeal cases which can take years to settle and, the other involving revaluation as a measure of property tax reduction. Legislative clarifications in regard to both these issues as well as the definition of rented property would significantly reduce the legal questions and greatly improve the administration of the program at the State and local levels.

The Subcommittee does not have evidence of the rate of compliance with this legislation.

AID TO LOCAL GOVERNMENT

Local property tax rates can fluctuate due to any number of reasons not the least of which are fluctuations due to changes in the tax base; however, each municipality's property tax rate is principally a reflection of the monies levied for five major governmental purposes: schools, municipal services, county services, senior citizens' and veterans' property tax reductions, and county libraries. The 1976 Income Tax Program, as a whole, affects all but the latter levy which is a small amount applicable to only 1/3 of all municipalities. The effect of the program on these levies is shown in Table 5 .

In general, the 1976 Income Tax Program has contributed significantly to a reduction of property tax levies of 2.6 percent in the past year. (A breakdown by counties, including direct payments, can be found in Table 6 attached.)

Municipal Purpose Tax and State Revenue Sharing

The $50 million in State Revenue Sharing funds provided out of the Property Tax Relief Fund are divided annually on a per capita basis and distributed to qualified municipalities to be recorded in local budgets as "miscellaneous revenues;" property taxes, a residual levy, are offset or reduced by this amount.

The data on levies for municipal purposes shows that from 1976-77 levies decreased by 6.2 percent or a reduction of $48,378,865. Some of this decrease can be attributed to the $50 million, however, levy reductions also can be attributed to an increase in other revenue sources or a decrease in municipal appropriations. For example, although the annual percentage increase for such levies has averag about 11 percent, between 1972-73 the increase was only .1 percent. This small incre reflects the Federal Revenue Sharing Program introduced at the time. Similarly, the larger percentage decrease from 1976-77 may reflect the infusion of Federal Anti-recession funds, particularly in the poorer areas.

State Assumption of Senior Citizens' and Veterans' Deductions

The municipal levy for senior citizens' and veterans' deductions varies only slightly every year as the $160 and $50 amounts depend upon the numbers of eligible recipients in the municipality. Since 1970 the yearly increase has been approximately 1 percent, and, in 1977, with State assumption of the program, the municipal tax liability was reduced to zero. This resulted in savings to the municipalities of $36,566,753, an amount which is equal to all of the veterans' deductions and one-half of the senior citizens' deductions. The Income Tax proceeds now pay for the entire program ($58 million).

Hold-Harmless, Guarantee of Past State Aid from Business Taxes

The other municipal aid program requiring some funds from Income Tax proceeds is the guarantee of $158 million to municipalities for the 1976 amount received previously from the State out of the revenues from three of the newly repealed business taxes: the Business Personal Property Tax, the Retail Gross Receipts Tax, the Unincorporated Income Tax. Originally, these taxes were part of the Business Personal Property Replacement Program of 1966. This Program sought to compensate municipalities for loss of local property tax revenue resulting from State ass[illegible] of the funds from the Business Personal Property Tax.

The $158 million does not represent new money to the municipalities and would affect property taxes only if it were withdrawn.

Counties

The county tax levies were affected by the Cap legislation as described later in Section II.

RESTRICT GOVERNMENT SPENDING

State Expenditure Law

The State Budget as adopted on July 1, 1977, was approximately $74 million under the cap limitation. The allowable increase for 1977 was 9.55 percent whereas the actual increase was 7 percent. State spending in all categories has increased by an average of 3 percent in the last three years.

One reason for such a large leeway in 1977 was the fact that on June 30, 1977 a supplemental, non-recurring appropriation in the amount of $54.7 million was made from revenue made available from the proceeds of the Commuter Tax revenue for highway and public transportation purposes. Thus, this appropriation was in the base for calculation purposes, but not expressed as a recurring need in the FY 1978 Budget. Without this one-time appropriation, the "cap leeway" was approximately $14 million. Since July 1, 1977 supplemental appropriations chargeable to the cap leeway have been passed in the amount of $9 million.

Some of the major areas where problems have been expressed relative to the State Cap Law include the following:

1. The law preempts State decision-making. The spending ceiling could severely restrict both the Legislature and the Governor in the introduction of worthwhile new programs, or the expansion of existing good programs.

2. The law's spending ceiling could jeopardize the State's ability to make payments for items such as Medicaid where the State has little control over the number of persons qualifying under present State and Federal definitions of eligible persons.

3. The spending ceiling could jeopardize the receipt of Federal funds if the expenditure ceiling would not permit the appropriation of State monies necessary to meet any required matching.

4. The spending cap could lead to fiscal gimmicks whereby devices would be developed to limit the percentage of increases in the appropriation of General State Funds, only to make expenditures in other ways.

5. The spending ceiling makes it difficult for the State to absorb mandated expenditures from other levels of government, e.g., Social Security increases.

6. The law severely restricts the growth in State operations, but places no restrictions on state aid increases. In effect, individual units of local governments could be using expanded state aid monies to develop new programs and provide salary increases at the expense of overall State needs.

7. The law provides for exclusions for principal and interest payments on bonds, but does not provide for any exclusions for other types of capital expenditures. By providing this dichotomy, the legislation tends to encourage long-term financing of all capital projects rather than some pay-as-you-go financing through the Capital section of the Budget.

8. The law suggests that General State Operations are a function of personal income growth, but that state aid and long-term financing are not--this is not logical or consistent. Further, should personal income growth slow down, even if other sources of revenue grow, State operations would be restricted.

The most important advantage to the State Cap Law is that it forces management in State government to continuously review its activities and to select priorities between services to assure that limited increases are applied to the more important activities while lower priority programs are reduced or dropped. Further, the Cap Law restricts the State government from spending simply because funds are available. Surpluses are encouraged for rainy days. And the data shows that thus far a limitation based on personal income growth provides some funding leeway.

County and Municipal Expenditure Law

The county and municipal cap limitations are included in one law; though as described in Section I, county levies and municipal appropriations are restricted. The Subcommittee has heard testimony citing the following problems with the law:

1. The law encourages the issuing of bonds for capital purposes rather than pay-as-you-go capital appropriations. This is caused because principal and interest on debt are excluded from the cap while capital appropriations are not.

2. The area of mandated costs was found to be the area of greatest concern to local officials. Mandated costs in the eyes of local officials include: utility, pension, and insurance. Based upon a sample of 128 municipalities, the cost for pensions increased by an average of 9 percent, and the cost of insurance, an average of 21 percent in excess of 1976 appropriations.

3. The Cap Law requiring the handling of emergencies by ordinance procedures is a constant source of municipal complaint. Municipalities subjected to flood damage, equipment failure or other "true" emergencies necessitating resolution procedures must pay a double penalty--first, the cost of the damage, and then having these funds placed within the cap in the following year's budget.

4. A further criticism is the arbitrariness of the 5 percent figure, a figure below the annual use in the consumer price index for the area in 1977 and well below the average 10 percent rises in municipal appropriations in previous years. The law does attempt to build in flexibility by exclusions and by the add-ons reflecting the value of new construction and newly mandated expenditures for municipalities, but some officials maintain that these are not enough to meet local needs.

5. In a State with a "home rule" tradition, local discretion is severely restricted by State-determined spending limitations.

6. In 1977, 54 municipalities were excluded from the cap because their municipal tax rate was less than 10¢. This number will increase to 108 municipalities in 1978. Some critics say that the 10¢ exclusion is arbitrary as nearly 20 percent of the State will have no appropriation limitation in 1978.

7. The impact of the cap was somewhat mitigated by the new infusion of Counter-cyclical Federal dollars in 1977; these and other Federal dollars are excluded from the municipal cap. The Cap Law encourages a dependency on Federal funds to provide basic municipal services.

8. If binding arbitration under the new State law exceeds 5 percent on police and fire salaries, a municipality may be forced to make undesired cuts in other personnel salaries.

In the first year of the the Cap legislation the evidence from the Division of Local Government Services shows that municipalities both got their budgets in on time and met their limitations without substantial cut-backs. The Subcommittee heard expressed executive satisfaction with the concept of the law as the cap not only forces careful budgetary decision-making, it also plays an important role in limiting the demands for employee salary increases.

Data from the New Jersey Division of Taxation shows that the cap has had some effect on reducing appropriations for counties and municipalities.

1. In terms of total budget growth, the following data reflects appropriations* for municipalities and counties from 1972-1977.

Year	Counties	Municipalities
1977	$1,104,985,009	$2,044.5
1976	1,084,596,675	1,926.0
1975	983,926,927	1,783.0
1974	819,584,254	1,580.0
1973	702,940,209	1,430.7
1972	651,126,910	1,283.3

*The county figures for 1972-1976 reflect expenditures, not appropriations.

During the above time frame, municipal appropriations have increased by 59 percent, or an annual average increase of 12 percent. County expenditures have increased by 69 percent, or an annual average increase of 13 percent.

2. 1977 county appropriations increased only 1.9 percent over 1976 expenditures. Municipal appropriations increased by approximately 6 percent. These percentage increases were the smallest in the last decade, well below the average increase.

3. As stated above, municipal levies rose an average of 9.6 percent between 1970-1976 and 6 percent from 1977-1976, after passage of the Cap Law. County levies rose an average of 11.3 percent between 1970-1976 and 5.7 percent from 1977-1976, when levies were subject to the Cap legislation.

STIMULATE NEW JERSEY'S ECONOMY

The Subcommittee listened to testimony from several organizations pertaining to the impact of the Tax Program. The groups agreed that significant investment disincentives were removed as a result of the repeal of the business taxes. In general, the repealed Retail Gross Receipts Tax was described as inherently unfair as it was levied on only one class of taxpayer--the retail store owner. In addition it was felt that the present system's inclusion of unincorporated business under the Gross Income Tax (which defines tax liability in terms of net profit from business) addresses the basic defect of the repealed Unincorporated Business Tax. That tax, which was measured by gross receipts of unincorporated businesses, was imposed regardless of whether the business was making a profit; in addition, it imposed an excessive burden upon entities whose ratio of net profit to gross receipts was low. Moreover, from an administrative viewpoint, it was a difficult tax to collect.

Most important of the tax repeals in terms of improving New Jersey's competitive position are the exemptions of new purchases from the Business Personal Property Tax and the Sales Tax exemptions for purchases of production machinery and equipment and for services performed on tangible personal property (where such property is shipped out of state for out-of-state use). It is notable that businesses in Pennsylvania, New York, and Delaware are not faced with either a state or local tax on business personal property. Secondly, the latter two taxes are believed to be particularly helpful in getting firms to invest private capital. Of the six surrounding states (Connecticut, Maryland, Massachusetts, New York, Ohio and Pennsylvania) only Connecticut, Ohio, and New York City tax machinery and equipment, while the taxation of services is even less prevalent.

The estimated savings to business from the legislated repeals is shown below:

Retail Gross Receipts Tax Repeal	$ 7.7
Unincorporated Business Tax Repeal	23.0
Sales Tax Exemption--Machinery and Equipment	35.0
Sales Tax Exemption--Services	5.0
Business Personal Property Tax--Exemption	8.0*
	$78.7

*This is a one-year savings. Over a ten-year period of time, it is estimated that the tax will be completely eliminated; thus, reducing the revenue yield from approximately $80 million to zero.

The business community has apparently no united position on the desirability of the newly imposed personal income tax because it has impacted differently according to the size,type, and location of the business. Larger businesses seem to favor the restructuring of the State's tax structure away from the excessive dependence upon the property tax to a personal income tax, which has the potential to adequately meet the State's service needs in a certain and predictable manner. The entire tax program also has led to substantial business property tax relief. This relief includes the 1976-77 unbudgeted school aid rebates of $48.4 million and the 1977 Statewide local property tax reduction of $27.5 million. Furthermore, the expenditure ceilings (caps) have helped to ease uncertainties associated with uncontrolled government expenditures. These programs taken together contributed to the restoration of the State's Triple A bond rating--the only urban State in the Northeast to be so blessed.

It is too early to draw a definite correlation between the 1976 Tax Program and the stimulation of business. Although the State's Economic Policy Council (10th Annual Report) states that it is not unrealistic to claim that the steps taken so far are exerting a favorable influence, the extent of new development and/or expansion of existing facilities in late 1976 or 1977 may not be related to any beneficial effect of the tax program since business decisions generally are made well in advance of the time such projects are approved or begun. Similarly, decisons either to immigrate to or emigrate from a state are made previous to notice of such action. In fact, recent studies of the reasons behind corporate headquarter moves and/or other business relocation, most often cite the personal motives of corporate executives (especially better and faster transportation for key executives) as uppermost; and, the Subcommittee has heard argument that the imposition of the personal income tax will increase the number of corporate moves to Connecticut where no such tax is in effect. It should be noted, however, that Connecticut does not offer a tax haven for either businesses or individuals. Connecticut's 10 percent corporate income tax is considerably higher than New Jersey's. The motor fuels and sales taxes are higher and Connecticut does not exempt clothing or manufacturing from the sales tax base. Although Connecticut does not have a personal income tax (a situation which some would argue will be short-lived since only 8 of the 50 states still do not impose one) it does tax net capital gains at the rate of 7 percent.

SHIFT FROM A RELIANCE ON LOCAL PROPERTY TAXES TO A STATE INCOME TAX

The property tax in recent years has been the major source of complaint about excessive tax burdens. Viewed as a tax on housing services, including education, the property tax (at first sight at least) appears highly regressive. The tax on real estate as a percentage of family income tends to decline sharply when moving up the income scale although recent studies argue that if the comparison between property tax payment and family income were based on a similar relationship over a longer period that the degree of regressivity would be reduced considerably. In any case, the belief that the individual income tax is the fairest and best of all taxes arises from a consideration of several conditions to be discussed below:

1. Is it equitable?

   Generally an equitable tax is defined as one based on ability to pay (progressivity) or one based upon the receipt of public benefits. The "New Jersey Gross Income" is limited by definition as well as by exclusions. There are also exemptions, deductions, and credits and there are two rate structures. These elements taken together determine how progressive the tax is. The data shows that the tax is more progressive than the relatively low and flat rates might suggest and more progressive than the property tax.

For the period July 1, 1976 to December 31, of the same year, 2,351,817 tax returns were filed. Of these returns, 58.8 percent were married (filing either jointly or separately) and 41.2 percent were single. The average gross income per filer for the half year covered was $8,199; the average income of single persons was $4,495, while the average income for married filers was $10,699.

In 1977 a tax liability was reported on 1,827,136 of the returns or 78 percent of those filing. Eighty-four percent of this tax income was represented by salaries. While salaries and wages were the primary source of income for the lower income groups, business income, capital gains and the like represented 43 percent of the gross income of the highest income bracket. (See Table VII) In the 1.8 million taxable returns, $3.2 billion was taken in exemptions and deductions, and $44 million in credits so that the total tax yield for the half year was $259 million. (See Table VIII)

Twenty-two percent of the returns or 520,000 were non-taxable. Because of tenant credits and/or credit for income taxes paid to other states, 65,995 had no New Jersey tax liability. In total, a tenant credit was claimed by 545,424 filers, and a credit for taxes paid to other states was claimed by 219,926 filers. The tenant credit is responsible for eliminating a large percentage of low income persons' liability, whereas the credit for out-of-state taxes tends to benefit middle and upper income persons.

The average income tax payment for the half-year per return was $110. Income groups below $10,000 paid an average of $21, while income groups in excess of $40,000 paid an average of $583; income groups in excess of $200,000 paid an average of $4,600.

Table IX-A provides a summary overview of tax rates, income, and total taxes paid analyzed by income group and illustrates best the progressivity of the tax. The following points can be made about the data:

a. People under $10,000 of "New Jersey gross income" filed 37 percent (the highest percentage) of the returns and paid only 7 percent of the tax; while people over $40,000 filed 4 percent of the returns but paid 23 percent of the tax.

b. The progressivity of the tax is quite good; it ranges from an effective tax rate of .76 for people with a gross income under $10,000 to 1.40 with gross incomes between $20,000-$40,000 to 2.18 with gross income over $200,000; the average being 1.34. The tax, however, is not evenly progressive throughout the income ranges; it appears to be more highly progressive in the middle income range, while somewhat less progressive in the upper income range.

c. 39.85 percent of the income tax paid falls on those with gross incomes between $20,000 and $40,000 a year.

In contrast to the above, the Sears Commission, in 1972, provided data showing the regressivity of the New Jersey state-local tax structure, relying predominantly on the property tax system. Looking just at the effective rates (point (b) above), the lowest income group was taxed at the highest rate, 19.1 percent, and each higher income group at a lower rate until those in the $25,000 and up bracket were taxed at 5.4 percent of their income. As regards point (c) above, in 1972 the highest percentage, 31.6 percent, of all state-local taxes was being paid by those in the $10,000-$15,000 bracket with only 7.5 percent in the $25,000 and over bracket.

2. Is it sufficient and dependable over time?

In the first year, the Income Tax yielded $656.1 million, and expenditures were made totaling $558 million, the result being a surplus of $135 million. In the second year, it was anticipated, in the fiscal year 1978 Budget, that the Income Tax would yield $792 million and that expenditures would total approximately $905 million, yielding a surplus of approximately $20 million at the end of fiscal year 1978. For 1979, it is expected that the Property Tax Relief Fund will have to support an increase in school costs of approximately $90 million. The yield for the first year was substantially below the original estimate, and present data suggests that the 1978 estimate might be short.

However, in recent testimony the State Treasurer said that in the near future the growth in revenue from the Income Tax will exceed the growth in expenditures, and that new programs could be added and/or tax cuts made. This conclusion appears to be valid based upon the data which shows that the Income Tax increases by 13-15 percent per year, while projected expenditures will only grow by the amounts needed for T&E--all other facets of the program are fairly static. Thus, within the next two to three years, the Income Tax will exceed the dollars needed for the expected appropriations.

In the interim, the Treasurer has stated that any revenue shortfalls can be addressed "by holding down spending in other governmental areas" and by "using other revenue sources" to fill in the gap for the immediate future.

The Subcommittee notes that the original tax plan, which was approved by the Legislature, envisioned a one percent increase in the Corporation Tax in the third year of the program. The Treasurer has apparently decided to follow the approach presented to us in his testimony. This approach, based upon current information, will enable the Income Tax to be sufficient over time.

Elasticity is a measure of whether a tax is dependable over time. In 1972, the Sears Commission estimated the elasticity of the State's entire array of non-property revenue sources to be .98 or about the same rate of growth as a personal income; however, it estimated State expenditures at an elasticity of 1.50. The Commission concluded that the fiscal gap resulting from the demand for services and the inability of the tax structure to meet such demands was the major reason behind the State's recurrent budget crisis.

Current estimates of the income tax yield show the elasticity of the tax to be 1.3, lower than the estimates of the original 1.5 Byrne plan (a tax based on New York rates)though the yields from the two taxes are roughly the same. However, with appropriations from the Property Tax Relief Fund to remain fairly static, the elasticity of 1.3 would seem to make the tax, as dedicated, dependable over time.

3. Is it understandable to the taxpayer and easy to administer?

The New Jersey Income Tax Law attemtps to achieve simplicity by being a "gross" tax on 14 categories of income with specific exclusions, exemptions, deductions and credits. The law is neither as simple as one strictly on gross nor as complex as the Federal system. In fact, the brevity of the legislation and its uniqueness have required many interpretations and regulations from the Division of Taxation and have led to conflicting legal opinion.

However, the Subcommittee has heard evidence that the administration is "inexpensive," $5 million on a $800 million collection and low in cents per item handled. Further, an outside contractor's price was three times higher than that of the State. Also, evidence shows that the great majority of the taxpayers had no problems complying with the law (in large measure because 84 percent of the total is represented by salaries and withholding) and the State returned $1.8 million in refunds by June of 1977. One can contrast this to the costly assessment and appeals processes of property tax administration.

4. It is "neutral;" that is, it causes minimum interference with efficient markets?

   The tax would appear to be too small with too few exclusions and deductions and credits to cause New Jersey taxpayers to make basic economic decisions on the basis of this tax. (See the discussion on stimulating the State's economy.) However, should the rates be steeply graded, the costs may be much higher. A property tax, by contrast, is not neutral as decisions to move and to buy housing and where to live can be significantly affected by the property taxes paid.

5. Is it consistent with governmental policy?

   The tenant credit, the senior citizen exclusions, deductions and credit and the exemption for children at private schools and colleges are the most striking examples of policy directives specific to this New Jersey tax. The tenant credit amounted to $17,658,362; the senior citizen credit equaled $1,145,520 and their exemption $124,460,500 (in addition to social security and pension exclusions). Private school and college exemptions totaled $165,960,500. Again in contrast to the property tax, there is flexibility in an income tax system to write policy into the law.

   In conclusion, since the income tax is a replacement tax one must judge it in relation to alternative revenue producing methods. This comparison as well as government cost reduction studies have been made by the other Subcommittees. It is sufficient here to say that this Subcommittee has found the income tax as currently structured better able to meet the above criteria than would a continued reliance on property taxes to meet local needs.

ANALYSIS OF THE IMPACT OF THE TOTAL TAX REFORM PROGRAM

Homeowners

From 1976-77 New Jersey property taxes, defined as a combination of local property taxes and homestead rebates, declined by $566.8 or 16.9 percent. This decline is a reflection of the infusion of State funds from all elements of the Property Tax Relief Fund; however, almost 50 percent or $274 million of the decline is the result of the Homestead Rebate Program.

The estimated average payment under the income tax was about $340, while the average rebate was about $187.

The rise in property tax savings as income rises is slight compared to the rise in income taxes paid, a situation which may mitigate some of the uneven progression of the income tax. Average property tax savings rise from $319 for homeowner annualized incomes under $6,000 to an average of $428 for homeowners with annualized incomes over $100,000, while average income taxes paid range from $0 to $1,630, respectively. In general, homeowners need a gross income of over $25,000 before their New Jersey income taxes exceed their property tax relief. In 1972, homeowners in the $10,000-$15,000 bracket paid the highest taxes; in 1977, the same income group realized an average savings of $152 (Table X).

Senior Citizens

Senior citizens are affected by five income tax-related programs, the principal one being exclusions from the definition of gross income of social security and pensions. Just social security benefits average $6,000 a year for a couple. In addition, under Chapter 273, P.L. 1977 all income (rents, interest, dividends or salary) up to $10,000 for a couple filing a joint return or up to $7,500 for a single person is excluded.

Senior citizens are also entitled to a double exemption, $1,000 for each individual and $1,000 for being over 65, that is a total of $4,000 for a couple. Then too, senior citizens who are tenants receive $100 tax credits, an amount comparable to a $5,000 exemption. Senior citizens who are homeowners get an average of $227 annually as a homestead rebate (an additional $50 for being over 65) and for those incomes under $5,000, $160 annually in property tax deductions. Data from the State's Division of Taxation shows that 90 percent of all senior citizens and disabled homeowners received more in homestead rebates than they paid in income taxes, not counting other property tax reductions. Table XI shows that on the average senior citizens and disabled homeowners realized $117 in property tax savings, after the $160 deduction.

Critics of the special tax treatment for senior citizens compare a possible $15,000 income which is tax free for those over 65, who may have mortgages paid and children educated, to the wage earner making less than $15,000 who pays a State tax and has considerable family expenses.

Tenants

Approximately one-half of the State's tenants or 545,424 persons filed income tax returns. Tenant credits totaled $17.6 million for an average credit of $35.20. Approximately 430 of those tenants filing returns had their tax liability reduced to zero as a result of the tenant credit.

Substantive data is not available on tenant rebates; the program, however, has the potential to distribute about $36 million.

In summary, the 1976 Tax Reform Program has well served its purpose as a mechanism of tax replacement; i.e., the substitution of a broad-based State tax--the income tax--for a substantial portion of the local property tax.

Attention should be given here to the fact that although there has been a significant shift in the tax base, there has not been a dramatic shift in tax dollars to the areas of the State with the lowest ratables.

- The appropriated school funds for 1976-77 went largely to areas of moderate worth or $30,000 to $70,000 equalized valuation per pupil.

- The second largest allocation of funds, the homestead rebates, were distributed to 1.4 million homeowners and, of these, 75.6 percent received between $150 and $199 in rebates with over 50 percent going to the income bracket from $15,000 to $50,000. The homestead rebate formula predominantly reflects valuation. The poorest urban areas did not qualify for the maximum rebate.

- The older cities are made up predominantly of tenants. The tenant rebates are small, while the tenant income tax credit depends upon having an income tax liability.

- As regards the $50 million in revenue sharing, this sum is divided Statewide on a per capita basis, not a need basis. For a great number of municipalities (the poor areas with low ratables which received Federal Antirecession funds in 1976-77) the effect on property tax rates of State revenue sharing funds was probably slight. In contrast, for those communities which normally receive little Federal or State aid according to need formulae, revenue sharing dollars have had a significant impact on local tax rates.

Section III

PROPOSED MODIFICATIONS IN THE CURRENT PROGRAM AND RECOMMENDATIONS

SCHOOLS

Since the Subcommittee has not addressed alternative school funding formulae nor Chapter 212 to any significant degree, recognizing the detailed evaluative work being done in these areas by other groups, we make no substantive recommendations in this area. The Subcommittee recognizes that the State Supreme Court has accepted as facially constitutional the present education-financing law (Chapter 212, P.L. 1975) which has the State assuming 40 percent of the total costs of public elementary and secondary school education. The Subcommittee supports the principle of a broad-based tax to fund a large portion of the local school budget and believes that the presently constituted tax structure in combination with Chapter 212 has made some significant gains towards reducing the wide disparities in financing ability among school districts.

However, the Subcommittee does wish to emphasize that we have heard testimony regarding certain aspects of the new education law which suggests that review of the law be made as soon as possible to eliminate any future problems. In particular, the Subcommittee suggests that consideration be given to modifying the school caps which we have heard are leading to financial problems capable of affecting the quality of education in the State. Furthermore, we suggest that some review of the educational process implied in the law be made so as to answer arguments that the law has inappropriately increased the number of administrative positions necessary to execute it.

REBATES - HOMESTEAD

1. The rebates distributed according to the present formula should continue for two to four years.

The Subcommittee recommends the continuation of the Homestead Rebate Program because of its high visibility and because it insures that approximately $274 million is returned directly to homeowners and condominium owners in a lump sum. This method also insures the maximum return in Federal General Revenue Sharing funds as it does not reduce the tax effort as would such alternatives as credits against an income tax or against property taxes.

2. The law should be amended so that rebates are distributed annually.

The Subcommittee supports the recommendation of the State Treasurer that the rebate payment be combined in a single check mid-way between the present dates. A July payment would delay the April rebate, but would expedite the October payment, and still maintain the adequacy of the State's cash flow. Further, July is a time of year when the Division of Taxation is not under the pressures of other tax administration efforts.

Once a year distribution would result in substantial savings in postage, in the printing of checks, in tracing lost checks, in data processing services and in other administrative details. It is estimated by the Division of Taxation that the savings would amount to $400,000 annually. The change in payment date would also result in a one-time saving to the Fund of approximately $130 million with no adverse effect to the taxpayer, as the taxpayer would still receive h full rebate in calendar year 1978, but the State would not have to make the s payment in fiscal year 1978.

3. After at least two years, the program should be reviewed with consideration being given to three major alternatives. At this time, the Subcommittee favors the third, "flat rate" alternative. The alternatives are presented below.

a. The circuit-breaker provides property tax relief from Statewide sources to those with low incomes, rather than the broad-based relief of the present homestead rebate. Property tax relief would be credited against one's income tax liability, or if one had no liability and one's income in relation to property taxes was lower, the taxpayer would receive a cash rebate.

The advantage of the circuit-breaker is that it ties property tax liability to income. Further, the circuit-breaker requires a minimum of administration. It also offers a way to assist tenants in that tenants would be allowed to count a certain percentage of their rent as property tax.

The following illustrates one example of how a circuit-breaker could work:

The ceiling percentage of income payable in property taxes--after which point the circuit-breaker is activated--is graduated from 5 percent for the lowest income to 10 percent for the highest level, as follows:

Household Gross Income	Circuit-Breaker Activated
Under $5,000	5% of Income
$5,000 - $10,000	6% of Income
$10,000 - $15,000	7% of Income
$15,000 - $20,000	8% of Income
$20,000 - $25,000	9% of Income
$25,000 and over	10% of Income

At $5,000 income, the rule would be "no one would pay more than 5 percent of one's income on property taxes". Thus, no one earning $5,000 would pay more than $250 in property taxes.

The Subcommittee believes that the circuit-breaker concept does not seem timely for two major reasons. One, analysis of the plan described above shows that in 1975 at an expenditure level of $253.7 million and a maximum payment of $500 only 40 percent of homeowners and renters (or 905,000 units) would have received anything. Two, a credit system against the income tax would endanger an estimated $18 million in Federal Revenue Sharing funds.

b. The dollar value of the homestead rebate, as presently calculated, could be reduced from the local tax bill for each home. Administrative cost would be reduced; however, the visibility of the program would be slight, especially as so many homeowners have mortgages, and the impact would be spread out over a long period of time.

c. The present State district system could be retained but the flat amount of $187 could be returned to each homeowner and each qualified senior citizen could receive an additional $50. A flat rate based upon the average now returned under the Homestead Rebate Program would facilitate the administration of the Program by eliminating the annual calculation of each homeowner's entitlement. Further, more funds would be returned to homeowners in older cities where valuations are below $15,000. Some $10 to $30 per person would be lost to homeowners in some municipalities across the State while in the poorer areas some homeowners would receive as much as $150 more in rebates. Senior citizens would be assured of an additional $50 instead of the average $40 rebate under the present system.

REBATES - TENANTS

1. The Subcommittee recommends the immediate repeal of the Tenant Rebate Law, not waiting for it to self-destruct in December 1979.

The Subcommitee's principal objection to the Tenant Rebate Law is its lack of accountability. There appears to be no sure way of monitoring whether the tenant is getting exactly what is his due, especially as the tenant population is highly mobile, or whether landlords pay rebates to tenants but then raise rents. The Subcommittee does not believe it is in the public interest to have a law on the books that cannot be monitored closely to assure compliance. Further, the pass-through of funds to individual tenants is small as the money is divided so broadly, and the amount is dependent upon local property tax reductions and the size of one's building, both of which are unrelated to tenant need.

2. The Subcommittee notes that under the present law a tenant receives a $65 credit on his income tax ($100, if a senior citizen). This amount compares favorably with other states based on data provided by the Advisory Commission on Intergovernmental Relations. California, for example, has a $37 tenant credit as part of its income tax law, and many states have circuit-breakers which apply to both tenants and homeowners.

3. Recognizing that a number of tenants, an estimate of 500,000 has been made by the Division of Taxation, have no income tax liability, the Subcommittee recommends that these renters be permitted to carry over this credit for a period of three years.

4. Should the Legislature not repeal the Tenant Rebate Law and vote to extend it beyond its expiration date, the following legislative changes should be considered in order to facilitate the administration of the law and clarify the ambiguities that have led to several court challenges of the law.

a. One issue that should be clarified by the Legislature is whether property tax reductions are based on taxes actually billed or on whether they are based on the results of taxes appealed following contested assessments.

b. Another issue now in litigation is whether a landlord must pass-through tax reductions that result from revaluations.

c. Other issues requiring clarification include the definition of "qualified real rental property," provisions for changes in property ow- ship, and enforcement at the local level.

d. Consideration should also be given to reimbursing local costs where the burdens of administration and enforcement now lie.

REVENUE SHARING - AID TO MUNICIPALITIES

1. The Subcommittee recommends that the $50 million Revenue Sharing Program be discontinued in favor of State assumption of certain local costs.

The Subcommittee does not believe that the present formula, which so bro distributes the Revenue Sharing monies, either adequately measures the wealth of community (effective tax rates, upon which the law is based, are a function of ra other sources of income, and local or school appropriations) or distributes money the most efficient manner possible. After reviewing the distribution and dollar amounts provided to sample municipalities, the Subcommittee believes that the mon distributed under the present Revenue Sharing formula could be used more effective if targetted towards specific programs (see discussion below on State assumption local costs). The Subcommittee realizes that certain communities, particularly th which do not receive substantial sums from programs such as Urban Aid or State ca gorical and Federal grants, may be affected to some degree by the cessation of th funds. However, as county court costs are calculated as part of the total tax le these communities would receive some property tax relief while certain areas, whe court costs are particularly high, would be significantly benefited by the ne tribution.

STATE ASSUMPTION OF LOCAL COSTS

1. The Subcommittee recommends the repeal of the veterans' property tax ded tions, now supported from the Property Tax Relief Fund.

Since the 1940's, veterans have received property tax deductions amounti to $50 a year, which has meant for some veterans years of compensation irrespecti of need. Other programs from all levels of government address need consideration The Sears Commission recommended in 1972 that veterans' deductions be discontinue A constitutional amendment should be submitted to the voters. If approved, the saving of $22 million could be applied to State assumption of other local program as described below.

2. The Subcommittee agrees that the State should assume the costs of the senior citizens' property tax deductions. The definition of need, however, shoul be reviewed.

In 1972 the Sears Commission recommended changes to the $160 annual dedu tion for seniors with incomes under $5,000. These changes included a sliding sca for eligibility based on income, tax credits or rebates, a broader definition of source of income, and inclusion of renters. The Subcommittee believes that this formula is too complicated but would like a review of the elements suggested in th program as well as of the $5,000 cut off which has not been adjusted to acco for inflation. (See below for a more complete discussion of senior citizen progra

3. The State as a first priority should assume county court costs, equaling approximately $48 million for the first year of the program.

The State should assume most of the court costs, since reforms made a decade ago have resulted in a system now being largely under State control. Both the Cahill and Byrne tax reform plans recommended the above. State budgetary control would centralize funding decisions and enable cost comparisons to be made between local judicial bodies. Further, State assumption of court expenses would spread the costs widely in place of the comparative burdens now placed on those counties containing the largest municipalities and hence the largest court costs. The municipalities in these counties would realize significant decreases in county levies now raised primarily from property taxes.

Based upon 1977 appropriations, State assumption of new court costs would total approximately $48 million including county and district courts, the Prosecutors' offices, the surrogate courts, juvenile and domestic courts, jury and commissioner fees, and the law library. Another $24 million would be needed for probation and $11 million for State assumption of the costs of the sheriffs' offices. This additional $35 million would not be available from only the elimination of the $50 million Revenue Sharing Program.

4. The Subcommittee favors the assumption of welfare costs by the Federal government.

In testimony before the Subcommittee, local government officials have stressed the need to relieve local tax sources of increasing welfare costs. Considering the magnitude of the welfare problem and its national implications, the Subcommittee agrees with these local officials that welfare should be addressed at the national level.

5. The Subcommittee notes that legislation signed by the Governor in October, 1977, with an $8 million appropriation from the State Treasury will provide payments in lieu of taxes to municipal governments. State assumption of these costs were recommended in both the Cahill and Bryne tax reform plans.

6. The Subcommittee recommends that an analysis be made as to the best method of distributing Gross Receipts and Franchise Taxes, which now solely benefits selected municipalities. A broader distribution of these utility taxes together with State assumption of local costs described above would improve the State-local tax structure. The Sears Commission in 1972 recommended that these utility revenues be capitalized for the apportionment of county taxes.

REPEAL OF BUSINESS TAXES

1. The Subcommittee recommends that the five repealed business taxes described in Sections I and II not be reinstated.

The Subcommittee heard testimony from several organizations pertaining to the impact of the Tax Program. The groups agreed that significant investment disincentives were removed, particularly with the exemption of new purchases from the Business Personal Property Tax, and the Sales Tax exemption for purchases of production machinery and equipment.

2. The Subcommittee has reviewed four additional tax incentive programs suggested by leaders of business and State economic advisory groups, and gives priority to the first listed below.

a. Investment credits for new investments in plants, machinery and equipment.

b. Exemption for new purchases from the net worth portion of the Corporation Business Tax.

c. Elimination of the Business Personal Property Tax on personal property acquired prior to 1977.

d. Elimination of Sales Tax on pollution control equipment.

The first proposal has the advantage of stimulating new business development so crucial to New Jersey's well-being. The proposal has the support of a broad segment of the business community as well as the Governor's 1976 Economic Recovery Commission. Though there would be an initial loss of funds, new busines development could potentially return far more funds to the State than the amount initially invested.

RESTRICT GOVERNMENT SPENDING

1. The Subcommittee recommends that the State, county, and municipal cap laws be retained subject to review in the fall of 1978.

As stated in Section II, the cap laws offer assurances to taxpayers as private citizens and as businessmen that government spending will be controlled. Further, government officials have found that the Cap legislation has forced them and their constituents to look hard at public spending and make difficult choices. In addition, the data from the first year shows that substantial service cuts were not necessary in most local governments nor at the State level.

The Subcommittee, however, advocates that there be review of the program after another year's experience. Although certain budgetary adjustments can be made in the first year, thereafter there may be major service delivery problems.

Since the State's tax structure will by then be greatly stabilized, the fear that influxes of new money will cause local budgets to skyrocket may no long justify the kinds of service cuts which may result from the cap. Constituent pressure may be sufficiently effective in controlling government spending.

The Subcommittee recommends the following legislative amendments which should be given priority attention.

a. The State government should be permitted to exclude appropriations necessary to match Federal programs in the same manner that local governmen are permitted to exclude such appropriations so that the State can take advantage of all those conditions leading to quality services for its citizens.

b. All appropriations for capital projects at the State, county, and municipal levels of government should be excluded from the cap so as to encourage annual, pay-as-you-go capital financing rather than the policy of p off unnecessary financial burdens to future residents.

c. Municipalities should be able to follow resolution procedures for true emergencies and not have these funds charged against their cap limitation in the following year's budget. Presently, for example, monies needed to correct flood damage can be excluded fromthe following year's cap only by following ordinance regulations which require at least two weeks for compliance.

d. The cap on counties and municipalities should be based on the same formula as that of the State, per capita income growth. The result would be to raise the 5 percent which the Subcommittee has heard in testimony to be too restrictive, particularly as personal income and costs-of-living are rising at a greater rate.

In general, the Subcommittee does not recommend selective inclusions to or exclusions from the cap since this policy may make the law unwieldy due to its complexity and/or may so bias decisions as to cause ineconomies or inefficiencies in government. In particular, the Subcommittee does not presently recommend excluding what some consider "mandated" costs such as pension, social security, utility, and insurance for the following reasons:

. Further study is necessary to define what a mandatory cost is, and at what level such costs become amenable to certain cost-cutting options.

. Exemptions for retirement plans could encourage liberal fringe benefits in contracts resulting from labor negotiations since salary increases would be limited by the cap but the similarly high costs of fringe benefits would not. Furthermore, such a cost could radically increase in subsequent years with the taxpayer having little or no control over the resulting costs.

. Exempting some additional 10 to 20 percent from local and State budgets might render the spending limitation meaningless.

INCOME TAX

1. The Subcommittee recommends that a decision on the possible termination of the Income Tax should be made on the highest priority basis because local budgets are now being developed and must be adopted by February and March of 1978. Any subsequent reforms should be made in an atmosphere of permanent reform.

2. The Subcommittee recommends that the rate structure not be changed.

Based upon data presented in Section II of this report, it is evident that the Income Tax is more progressive than the 2 and 2.5 percent rate structure would suggest, especially when considered in conjunction with property tax relief programs. Additionally, the Subcommittee notes that at this point in time, one cannot state with precision the Income Tax yields in future years and, therefore, one must rely on the Division of Taxation's estimates that show the tax to be sufficiently elastic to cover the Fund's future appropriations.

3. The Subcommittee supports the recommendations of the Division of Taxation that all exemptions be taken as $20 tax credits.

The Subcommittee recognizes that such a change would bring in more revenues and would render the tax more equitable. Under the present law, many taxpayers receive a greater benefit from the exemption than a $20 credit by reason of the rate structure. Any taxpayer with taxable income in excess of $20,000 has an exemption worth $25 while to those with taxable income less than $20,000 an exemption is worth only $20. It is estimated that $6.8 million would be realized in additional revenue if all the exemptions [illegible]

4. The Subcommittee recommends review of the alternative of adopting Federal definition of adjusted gross income but has found a piggyback on the Federal system to be inconsistent with New Jersey tax policy.

The Subcommittee has heard conflicting testimony as to the merits of adopting the Federal adjusted gross income to replace the "New Jersey gross inco definition. It appears that adoption of the Federal definition would have many advantages.

a. Taxpayers could easily transfer the correct amount owed from their Federal to their State forms.

b. The Division of Taxation would have no need to write detailed regu lations to clarify the New Jersey statute and the costs of auditin would be reduced.

c. Reference for all parties in litigation could be made to the vast body of Federal law, regulations and precedent.

d. Preliminary analysis of the differences in costs made by the Divis of Taxation shows that some $18 million would be lost to the State the principal loss being in the treatment of capital gains, an amo which could be added back on the State Income Tax forms.

The Subcommittee recommends further review, however, because the Legis apparently intended that the New Jersey Income Tax be a gross tax, unlike Federal system. Detailed comparative research of both the Federal and State la and regulations is necessary to determine the exact nature and costs of the inc sistencies. Also, there remains a legal question as to the constitutionality o adopting the Federal adjusted gross income definition because of the State rest tion on "incorporation by reference". Additionally, the Legislature may want t retain the option to make amendments in the definition of the New Jersey gross income and not be subject to program changes in Washington.

The Subcommittee rejects the piggyback alternative, that is, the Federa government would assume all administrative costs, in accordance with new Federa law, and the State Income Tax would mirror the Federal tax with a few modificat pertaining to such issues as tax-exempt bonds. The piggyback offers a savings approximately $5 million including administration and auditing but has all the advantages of adopting the Federal adjusted gross income plus a loss of local trol over one of the State's major programs.

5. The Subcommittee recommends legislative review of the amendments sugg by both the Division of Taxation and the New Jersey State Bar Association. So the more significant amendments are listed below.

a. It would seem advisable to make the New Jersey Income Tax consis with the Federal internal revenue code when appropriate, includi amongst other changes the definition of deductions for medical e penses and for alimony and separate maintenance as well as exclu for certain trusts.

b. The pension sections in the present law appear to be much too co plicated, particularly as amended by Senate Bill No. 3330. Unde the current law, conceivably a person filing a joint return with $20,000 of pension income who meets certain requirements would p no tax at all. It has been suggested that there be a flat exemption amount to be applicable to all which would embrace not only the present concept under the law, to a large extent, but would also simplify reporting and facilitate the determination by a taxpayer as to his liability, if any.

c. The definition of "resident taxpayer" at section 2m.1. should be amended so as to eliminate the entire subparagraph except for the words "1. Who is domiciled in this State."

All domiciliaries should be subject to tax on all their earnings irrespective of where earned. They receive a tax credit for taxes paid another state. This would prevent a domiciliary from escaping taxation if he works in a state which has no income tax and would also prevent a person in the military from escaping taxes by designating another state as his domicile.

d. Amend 54A:7-4 so as to provide for the filing of quarterly returns by employers whose withholding is less than $200 per month and withholding for each of the two immediately preceding quarters did not exceed $600. This would substitute for those taxpayers who are presently required to report withholdings on a monthly basis.

e. A proration provision is needed for non-residents in regard to minimum income requirements, medical and alimony deductions and retirement and pension income exclusions.

CONSTITUTIONAL DEDICATION

1. The Subcommittee recommends that the constitutional dedication be retained.

The Subcommittee has reviewed data prepared by the New Jersey Taxpayers Association which would suggest that dedicated funds are not desirable from a budgeting and accounting point of view. The Subcommittee, in principle, agrees with this argument; however, the Subcommittee feels that the dedication feature has clarified the status of the Income Tax as a substitution tax rather than a new tax.

SENIOR CITIZENS

1. The Subcommittee recommends the continuation of the five programs described in Section II giving special tax treatment to senior citizens but believes that a greater effort must be made to tie these advantages more closely to need rather than simply by age.

As detailed in Section II, senior citizens now enjoy considerable preferential treatment under the Income Tax as well as certain tenant and homeowner benefits. Such treatment may place unduly harsh tax burdens on the younger working population and may favor unjustifiably those senior citizens whose incomes are great enough to argue against such treatment.

SUMMARY OF SUGGESTED CHANGES--ANNUAL SAVINGS

New Programs	Savings
State assumption of certain court costs ($48 million)	Veterans' Deductions ($22 million
	Revenue Sharing ($50 million
	Credits, not exemptions ($6.8 million

If the above program is agreed upon, the extra savings could be used in the following ways:

1. Investment credits for new investments in plants, machinery and equipment.

2. State assumption of remaining court costs.

3. State assumption of certain welfare costs.

REVIEW COMMITTEE

In two years time the entire Income Tax Program should again be reviewed by a non-partisan group including representatives from the Executive and Legislative Branches and from the private sector. In particular, as a result of better knowledge of the Income Tax yields, decisions can be made on new business incentives, a circuit-breaker or another need option for the homestead rebates, a revenue sharing program based on municipal need, and a revision of the Income Tax rate structure.

Table I

Total Expenditures and Percentage of Expenditures Raised from State Aid and Local Property Taxes, 1974-75 to 1977-78[a]

(in millions of dollars)

School Year	Total Expenditures	Total State Aid	Total Local Property Taxes	% of Expenditures From State Aid	% of Expenditures From Local Property Taxe
1974-75	2,313	606	1,604	26.2%	69.3%
1975-76	2,492	538	1,827	21.6%	73.3%
1976-77	2,609	838	1,663	32.1%	63.7%
1977-78	2,842	922	1,649	32.4%	58.0%

[a]Does not include county vocational schools

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey. September 1977.

Table II

Distribution of State Aid to Education, by District Wealth, 1975-1977[a]

Equalized Valuation Per Pupil, 1975	Number of Districts	Total State Aid Per Pupil 1977	Percentage Change 1975-1977	$ Amount of Change, 1975-1977
< 30,000	23[b]	$ 1,202	25.1%	$ 39,861,000
30,000 - 49,999	99	948	70.8%	108,005,000
50,000 - 69,999	171	644	183.7%	155,250,300
70,000 - 89,999	134	369	88.3%	55,225,600
90,000 - 109,999	64	307	62.4%	13,083,200
110,000 - 129,999	29	323	58.3%	7,786,200
130,000 and over	55	321	48.6%	4,681,800
State Average or Total:		658	75%	$383,944,000

[a] Does not include county vocational schools.

[b] These 23 districts educate 13% of public school pupils.

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey. September 1977.

Table III

Equalized Current School Tax Rate
5th and 95th Percentiles Compared to State Average

	1975	1977(est)[a]
5th percentile	2.613	2.172
95th percentile	0.703	0.739
State Average	1.75	1.56
Ratio of 5th percentile To Average	1.49:1	1.39:1
Ratio of 95th percentile To Average	0.402:1	0.474:1

[a]calculated using 1976 valuations

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey. September 1977.

Table IV

Current Expenditures Per Pupil
5th and 95th Percentiles Compared to State Average

	1975	1976	1977(est)[a]
5th percentile	$1171	$1308	$1481
95th percentile	$2185	$2348	$2537
State Average	$1693	$1747	$1910
Ratio of 5th percentile To Average	0.73:1	0.[illegible]5:1	0.78:1
Ratio of 95th percentile To Average	1.3[illegible]	1.[illegible]4:1	1.33:1

[a] calculated using 1976 enrollments

Source: New Jersey State Department of Education data compiled and analyzed by the Education Policy Research Institute, Educational Testing Service Princeton, New Jersey. September 1977

TABLE V

LOCAL PROPERTY TAX LEVIES IN NEW JERSEY, 1967-1977

Year	School	Municipal	County	Veterans & Sr. Citizens	Total
	$	$	$	$	$
1967	742,918,942	404,736,992	263,265,360	33,729,794	1,444,651,088
1968	839,145,343	372,714,208	307,389,161	33,771,834	1,553,020,546
1969	956,672,342	384,583,403	335,411,230	33,864,716	1,710,531,691
1970	1,111,248,145	453,837,828	368,679,057	33,853,040	1,967,618,070
1971	1,288,150,618	465,713,295	434,410,915	33,981,319	2,222,256,147
1972	1,404,171,924	525,351,851	477,209,731	34,839,440	2,441,572,946
1973	1,518,783,129	526,003,821	504,843,592	35,260,847	2,584,891,389
1974	1,589,947,109	583,719,724	552,202,467	35,686,746	2,761,556,046
1975	1,692,772,040	670,606,611	621,465,318	36,205,891	3,021,049,860
1976	1,825,927,728	783,479,526	699,572,710	36,566,753	3,345,546,717
1977	1,782,383,844	735,100,661	739,589,162	-0-	3,257,073,667
Increase 1967-68					
Amt.	96,226,401	-32,022,786	44,123,801	42,040	108,369,456
%	13.0%	-7.9%	16.8%	.1%	7.5%
Increase 1968-69					
Amt.	117,526,999	11,869,195	28,022,069	92,882	157,511,145
%	14.0%	3.2%	9.1%	.3%	10.1%
Increase 1969-70					
Amt.	154,575,803	69,254,425	33,267,827	-11,676	257,086,379
%	16.2%	18.0%	9.9%	--	15.0%
Increase 1970-71					
Amt.	176,902,473	11,875,467	65,731,858	128,279	254,638,077
%	15.9%	2.6%	17.8%	.4%	12.9%
Increase 1971-72					
Amt.	116,021,306	59,638,556	42,798,816	858,121	219,316,799
%	9.0%	12.8%	9.9%	2.5%	9.9%
Increase 1972-73					
Amt.	114,611,205	651,970	27,633,861	421,407	143,318,443
%	8.2%	.1%	5.8%	1.2%	5.9%
Increase 1973-74					
Amt.	71,163,980	57,715,903	47,358,875	425,899	176,664,657
%	4.7%	11.0%	9.4%	1.2%	6.8%
Increase 1974-75					
Amt.	102,824,931	86,886,887	69,262,851	519,145	259,493,814
%	6.5%	14.9%	12.5%	1.5%	9.4%
Increase 1975-76					
Amt.	133,155,688	112,872,915	78,107,392	360,863	324,496,858
%	7.9%	16.8%	12.6%	1.0%	10.7%
Increase 1976-77					
Amt.	-43,543,884	-48,378,865	40,016,452	-36,566,753	-88,473,050
%	-2.4%	-6.2%	5.7%	-	-2.6%
Increase 1967-77					
Amt.	1,039,464,901	330,363,669	476,323,802	-33,729,794	1,812,422,578
%	139.9%	81.6%	180.9%	-	125.4%

Source: Abstract of Ratables

TABLE VI

IMPACT OF TAX REFORM PROGRAM ON 1977 PROPERTY TAXES BY COUNTY

Counties	PROPERTY TAX 1976	PROPERTY TAX 1977	PROPERTY TAX Change	PROPERTY TAX % Change	DIRECT PAYMENTS Homestead Rebate Preliminary 1977 Full Amount[1]	DIRECT PAYMENTS Unbudgeted School Aid Paid in 1977[2]	TOTAL PROPERTY TAX CHANGE Amount	TOTAL PROPERTY TAX CHANGE %
Atlantic	$ 85,412,204	$ 83,616,867	-$ 1,795,337	- 2.1%	$ 7,251,546	$ 5,963,772	-$ 15,010,655	-17.6%
Bergen	458,501,409	459,054,633	+ 553,224	+ 0.1	36,459,611	29,339,559	- 65,245,946	-14.2
Burlington	118,017,421	110,307,641	- 7,709,780	- 6.5	13,438,017	9,803,511	- 30,951,308	-26.2
Camden	192,121,240	182,311,470	- 9,809,770	- 5.1	19,026,103	15,973,675	- 44,809,548	-23.3
Cape May	47,920,813	46,362,175	- 1,558,638	- 3.3	3,449,290	2,753,357	- 7,761,285	-16.2
Cumberland	38,668,424	38,352,780	- 315,644	- 0.8	4,451,910	1,151,360	- 5,918,914	-15.3
Essex	440,073,114	422,524,271	- 17,548,843	- 4.0	23,570,059	12,436,458	- 53,553,360	-12.2
Gloucester	64,170,888	60,515,724	- 3,655,164	- 5.7	7,534,800	8,687,954	- 19,877,918	-[illegible].0
Hudson	220,445,010	220,334,805	- 110,205	- 0.1	10,545,913	1,959,259	- 12,615,377	- 5.7
Hunterdon	39,751,799	36,819,040	- 2,932,759	- 7.4	3,469,325	5,003,613	- 11,405,697	-28.7
Mercer	129,527,887	129,148,093	- 379,794	- 0.3	11,810,053	5,744,124	- 17,933,971	-13.8
Middlesex	279,632,912	273,394,712	- 6,238,200	- 2.2	23,119,668	15,462,082	- 44,819,950	-16.0
Monmouth	228,854,259	216,252,647	- 12,601,612	- 5.5	20,204,951	20,050,065	- 52,856,628	-23.1
Morris	230,836,027	224,361,316	- 6,474,711	- 2.8	16,970,216	21,855,856	- 45,300,783	-19.6
Ocean	127,413,151	130,340,308	+ 2,927,157	+ 2.3	14,849,764	4,350,312	- 16,272,919	-12.8
Passaic	178,061,321	171,130,617	- 6,930,704	- 3.9	14,717,008	11,419,159	- 33,066,871	-18.6
Salem	20,849,341	19,170,362	- 1,678,979	- 8.0	2,404,454	2,589,294	- 6,672,727	-32.0
Somerset	109,225,465	107,808,604	- 1,416,861	- 1.3	8,481,356	6,827,718	- 16,725,935	-15.3
Sussex	53,800,933	53,086,924	- 714,009	- 1.3	4,861,623	6,254,814	- 11,830,446	-22.0
Union	252,063,754	245,376,600	- 6,687,154	- 2.7	20,926,271	16,929,644	- 44,543,069	-17.7
Warren	30,199,346	26,806,727	- 3,392,619	-11.2	3,264,707	3,003,834	- 9,661,160	-32.0
TOTAL	$3,345,546,718	$3,257,076,316	-$88,470,402	- 2.6%	$270,806,645	$207,559,420	-$566,836;467	-16.9%

1. Homestead check register as of 17 June 1977 was doubled to obtain these amounts. Additional check processing and adjustments will change these amounts slightly. NOTE: The doubling of the check register as of 9/8/77 would increase the amount to $274.6 million and, thus, the total tax reduction to approximately $570 million.
2. Unbudgeted School Aid paid to property owners in 1977 amounted to $207,559,420, another $991,448 in Unbudgeted School Aid is being held by 34 municipalities to be used as a property tax levy reduction in the 1977 Budget because its effect on the 1976 tax rate would have been less than $0.04 per $100 of assessed value. Total Unbudgeted School Aid amounts to $208,550,868.

TABLE VII

GROSS INCOME BY TYPE

(Amounts in Millions)

	Gross Income		Salaries		Interest		Dividends		Other Income	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Under $1,000	$ 65.7	100%	$ 58.2	88.58%	$ 5.0	7.64%	$ .8	1.29%	$ 1.6	2.49%
$1,000 - 2,000	254.3	100	217.6	85.57	20.1	7.92	4.5	1.77	12.1	4.74
$2,000 - 3,000	443.4	100	373.1	84.15	32.9	7.42	9.5	2.13	27.9	6.30
$3,000 - 4,000	722.3	100	590.3	81.73	56.7	7.85	19.7	2.73	55.5	7.69
$4,000 - 5,000	927.6	100	793.9	85.58	53.1	5.73	20.0	2.16	60.6	6.53
$5,000 - 10,000	6,054.4	100	5,430.0	89.69	225.8	3.73	89.0	1.47	309.6	5.11
$10,000 - 20,000	7,338.8	100	6,565.3	89.46	239.9	3.27	128.9	1.76	404.6	5.51
$20,000 - 50,000	2,459.2	100	1,778.0	72.30	117.4	4.77	123.1	5.01	440.7	17.92
$50,000 - 100,000	547.7	100	310.5	56.69	30.0	5.48	51.0	9.31	156.2	28.52
$100,000 and over	*471.7*	*100%*	*167.7*	*35.55*	*23.8*	*5.05*	*75.5*	*16.01*	*204.7*	*43.39*

Source: Division of Taxation,
Department of Treasury

TABLE VIII

NEW JERSEY GROSS INCOME TAX RETURNS
SUMMARY

	Taxable Returns		Non-Taxable Returns		Total All Returns		% of Tax. Gross Income	% of Non-Taxable Gross Income	% of Total Gross Income
	Number	Amount	Number	Amount	Number	Amount			
Salaries	1,705,529	$15,168,191,523	467,164	$1,113,453,256	2,172,693	$16,281,644,779	84.30	86.44%	84.44%
Interest	1,148,069	726,606,854	186,054	78,133,098	1,334,123	804,739,952	4.04	6.06	4.17
Dividends	410,180	497,394,432	47,388	24,561,023	457,568	521,955,452	2.76	1.91	2.71
Other	344,109	1,601,553,797	51,217	72,011,904	395,326	1,673,565,701	8.90	5.59	8.68
Gross Income	1,827,136	$17,993,746,606	520,284	$1,288,159,278	2,347,420	$19,281,905,884	100.00%	100.00%	100.00%
Exemptions & Deductions									9.51
Regular	1,827,136	$1,509,723,000	524,683	$324,654,500	2,351,819	$ 1,834,377,500	8.39	25.20	0.65
Aged	125,973	82,738,500	63,162	41,723,500	189,135	124,462,000	0.46	3.24	0.05
Blind or Disabled	14,464	7,489,000	5,815	3,010,000	20,279	10,499,000	0.04	0.24	5.47
Dependent Children	878,168	937,048,000	105,498	116,971,500	983,666	1,054,019,500	5.21	9.08	0.43
Others	107,470	71,902,500	13,283	10,706,500	120,753	82,609,000	0.40	0.83	0.46
Private School	99,199	81,640,500	8,067	7,660,500	107,266	89,301,000	0.45	0.59	0.40
College	117,318	72,638,500	6,465	4,021,000	123,783	76,659,500	0.40	0.31	2.19
Medical	669,529	363,612,215	78,391	58,413,287	747,920	422,025,502	2.02	4.53	0.19
Alimony	14,718	31,356,214	2,639	5,439,261	17,357	36,795,475	0.18	0.42	
									19.35
TOTAL		$3,158,148,429		$572,600,048		$ 3,730,748,477	17.55	44.45	
									80.98
Taxable Income	1,827,136	$14,835,598,177	424,584	$780,575,083	2,251,720	$15,616,168,760	82.45	60.60	1.61
Tax Before Credits	1,827,136	302,902,200	66,302	7,670,046	1,893,438	310,572,336	1.68	0.60	0.09
Tenant Credit	460,920	14,794,742	84,506	2,843,685	545,426	17,638,427	0.08	0.22	0.20
Other Credits	170,985	29,372,206	48,941	10,542,540	219,926	39,914,746	0.16	0.82	
									1.34
Tax After Credits	1,812,382	$ 258,700,203	361	$ 167	1,812,743	$ 258,700,370	1.44	0	

1 Differences between numberof taxable returns (1,827,136) and returns showing tax after credits (1,812,382) represents those returns with liability less than rounded tolerance.

2 Unaudited returns include variations subject to later correction.

Source: Division of Taxation, Department of Treasury

TABLE IX

TAX RETURNS, INCOME, AND TAX [illegible] CREDITS ANALYSIS BY INCOME GROUP
(Amounts in Mi[illegible]ons of Dollars)

Gross Income	(1) Number Returns	(2) Gross Income	(3) Tax after Credits	(4) Returns % of Total	(5) Gross Inc. % Tot. Inc.	(6) Tax as % Total Tax	(7) Tax as % of Gross Income	(8 Ave Tax Pa
Under $5,000	868,685	$ 2,413.2	$ 18.4	37.01%	12.52%	7.11%	.76%	$ 21.[illegible]
$5,000 - $10,000	825,588	6,054.3	78.6	35.17	31.40	30.38	1.29	95.[illegible]
$10,000 - $20,000	552,797	7,338.7	103.1	23.55	38.06	39.85	1.40	186.[illegible]
$20,000 - $50,000	89,802	2,459.3	37.9	3.83	12.76	14.65	1.54	422.0
$50,000 - $100,000	8,348	547.8	10.5	.35	2.85	4.06	1.92	1,257.0
$100,000 or more	2,193	468.4	10.2	.09	2.43	3.94	2.18	4,600.0
TOTAL	2,347,413	$ 19,281.7	$ 258.7	100.00%	100.00%	100.00%	1.34%	$ 110.0

(1) Gross Income--Income groupings based on 1976 returns, which is a half-year.

(2) Number Returns--Includes resident full half year returns filed. Excluded are non-residents filing either the Pennsylvania or New York Commuter Tax and non-residents from states other than New York or Pennsylvania who were required to file. Also excluded were part-year taxpayers who resided in New Jersey less than the six months covered by the return.

(3) Tax After Credits--Tax liability after allowance for the various exemptions, deductions and credits for renters and persons paying taxes to other states.

(4) Returns % of Total--Returns filed by persons in the income group as a percentage of all returns filed.

(5) Gross Income % Total Income--Total gross income of persons in the income group as a percentage of Total Gross Income reported by all filers.

(6) Tax as a % of Total Tax--Total tax after credits of persons in the income group as a percentage of total tax after credits of all taxpayers.

(7) Tax as % of Gross Income--Tax after credits of persons in the income group as a percentage of Total Gross Income of that income group. This could be referred to as the effective tax rate for each income group.

(8) Average Tax Payment--Column 3 divided by Column 1. Average income tax payment within the grouping.

Source: Division of Taxation, Department of Treasury

TABLE IX-A

TAX RETURNS, INCOME, AND TAX AFTER CREDITS ANALYSIS BY INCOME GROUP
(Amounts in Millions of Dollars)

Gross Income	(1) Number Returns	(2) Gross Income	(3) Tax after Credits	(4) Returns % of Total	(5) Gross Inc. % of Tot.	(6) Tax as % Total Tax	(7) Tax as % of Gross Income	(8) Average Tax Payment
Under $2,000	110,399	$ 65.7	$ 0.0	4.70%	0.34%	0.00%	0.00%	0.00
$2,000 - $4,000	169,022	254.4	0.1	7.20	1.32	0.04	0.04	0.59
4,000 - 6,000	176,692	443.5	0.2	7.53	2.30	0.08	0.05	1.13
6,000 - 8,000	206,148	722.2	7.5	8.78	3.75	2.90	1.04	36.38
8,000 - 10,000	206,426	927.5	10.6	8.79	4.81	4.10	1.14	51.35
10,000 - 12,000	190,387	1,053.9	12.8	8.11	5.47	4.95	1.21	67.23
12,000 - 14,000	175,277	1,141.8	14.4	7.47	5.92	5.57	1.26	82.16
14,000 - 16,000	166,494	1,246.1	16.2	7.09	6.46	6.26	1.30	97.30
16,000 - 18,000	154,511	1,305.5	17.4	6.58	6.77	6.73	1.33	112.61
18,000 - 20,000	138,921	1,307.3	17.8	5.92	6.79	6.88	1.36	128.13
20,000 - 22,000	116,957	1,230.1	17.1	4.98	6.38	6.61	1.39	146.21
22,000 - 24,000	98,573	1,130.2	16.0	4.20	5.86	6.18	1.42	162.32
24,000 - 26,000	81,591	1,019.3	14.5	3.48	5.29	5.60	1.42	177.72
26,000 - 28,000	65,803	886.5	12.6	2.80	4.60	4.87	1.42	191.48
28,000 - 30,000	52,567	760.8	10.6	2.24	3.95	4.17	1.42	205.45
30,000 - 40,000	137,217	2,207.5	32.0	5.85	11.97	12.37	1.39	233.21
40,000 - 50,000	44,204	979.1	14.2	1.88	5.08	5.48	1.45	321.24
50,000 - 60,000	9,929	541.9	8.3	0.85	2.81	3.21	1.53	835.94
60,000 - 100,000	25,669	938.3	15.5	1.09	4.87	5.99	1.65	603.84
100,000 - 200,000	8,348	547.8	10.5	0.36	2.85	4.05	1.92	1,257.79
200,000 - 400,000	1,663	219.9	4.6	0.07	1.14	1.78	2.09	2,766.09
400,000 - 1,000,000	405	114.6	2.5	0.02	0.59	0.97	2.18	6,172.84
1,000,000 - 2,000,000	94	55.0	1.2	0.01	0.28	0.46	2.18	12,765.96
$2,000,000 or more	31	78.9	1.9	0.00	0.40	0.23	2.41	61,290.32
TOTALS	2,347,420	$19,281.9	$258.7	100.00%	100.00%	100.00%	1.34%	110.21

Note: Table IX-A is based upon data in Table IX for which income figures have been annualized.

(1) Gross Income--Income groupings based on 1976 returns. Income was annualized by doubling the income report for the half year.

Source: Division of Taxation
Department of Treasury

Overall Tax Effect On Full Year Income Tax/Property Tax Relief Program on Homeowners (3)

Estimated Full Year Gross Income	Number	--Property Tax Savings (2)-- Amount	Average	-Full Year Income Tax- Amount	Average	-----Overall Change------ Amount	Average
Under $3,000	20,598	$ 6,563,571	$319	$ -0-	$ -0-	$ - 6,563,571	$ - 319
$3,000 - 4,999	28,724	9,174,191	319	592,296	21	- 8,581,895	- 299
$5,000 - 6,999	38,923	12,387,381	318	2,008,927	52	- 10,378,454	- 267
$7,000 - 9,999	73,248	23,212,081	317	6,887,817	94	- 16,324,264	- 223
$10,000 - 14,999	163,761	51,664,484	315	26,810,641	164	- 24,853,843	- 152
$15,000 - 24,999	391,164	129,374,352	331	107,229,377	274	- 22,144,975	- 57
$25,000 - 49,999	263,538	97,868,701	371	131,099,453	497	+ 33,230,752	+ 126
$50,000 or more	45,305	19,400,640	428	73,856,452	1,630	+ 54,455,812	+ 1,202
TOTALS	(1) 1,025,261	$349,645,401	$341	$348,484,963	$ 340	$ - 1,160,438	$ - 1

(1) Excludes Gross Income for 336,137 unmatched returns, the majority of which filed no income tax return and 39,568 matched but unallocable because they were part-year resident, married filing separately and other matches excluded because of editing of raw data. Total No Gross Income and unallocable 375,705 plus 1,025,261 sample matched equals 1,400,966 homestead rebate claims.

(2) Property Tax Savings is the sum of the difference between the homestead's 1976 and 1977 property tax, its homestead rebate including the additional $50 rebate where applicable, and its unbudgeted school aid refund if paid. For those municipalities that were revalued or reassessed in 1977 an adjusted 1977 tax rate was used to compensate for change in their new assessed value and to determine their 1977 property tax.

(3) 1976 Social Security Number matched to New Jersey Income Tax Returns and Homestead Rebate Claims.

Revised November 1, 1977.

Source: Division of Taxation,
Department of Treasury

STATE SUMMARY

Overall Tax Effect On Full Year Income Tax/Property Tax Relief Program on Homeowners With Additional Rebates[3]

Estimated Full Year Gross Income	Number	--Property Tax Savings[2] Amount	Average	-Full Year Income Tax- Amount	Average	-----Overall Change----- Amount	Average
Under $3,000	10,217	$ 3,375,798	$330	$ -0-	$ -0-	$- 3,375,798	$ - 330
$ 3,000 - 4,999	14,172	4,737,209	334	232,559	16	- 4,504,650	- 318
$ 5,000 - 6,999	16,175	5,500,129	340	751,727	46	- 4,748,402	- 294
$ 7,000 - 9,999	21,225	7,426,597	350	1,883,834	89	- 5,542,763	- 261
$10,000 - 14,999	22,948	8,245,795	367	3,672,189	164	- 4,573,606	- 203
$15,000 - 24,999	21,274	7,843,502	369	5,943,629	280	- 1,899,873	- 89
$25,000 - 49,999	11,364	4,471,164	393	6,602,715	581	+ 2,131,551	+ 188
$50,000 or more	4,586	2,015,606	440	10,273,020	2,240	+ 8,257,414	+1,800
TOTAL	121,961[1]	$43,615,800	$358	$29,359,673	$ 241	$-14,256,127	$ - 117

(1) Excludes Gross Income for 194,164 claimants, the majority of whom filed no income tax return. Total Claimants is 316,125 and include 287,508 age 65 and over, 25,869 disabled and 2,748 surviving spouses.
(2) Property Tax Savings is the sum of the difference between the homestead's 1976 and 1977 property tax, its homestead rebate including the additional $50 rebate, and its unbudgeted school aid refund if paid. For those municipalities that were revalued or reassessed in 1977 an adjusted 1977 tax rate was used to compensate for change in their new assessed value and to determine their 1977 property tax.
(3) 1976 Social Security Number matched to New Jersey Income Tax Returns and Homestead Rebate Claims.

Source: Division of Taxation,
Department of Treasury

COMPONENTS OF THE TAX PROGRAM

Income Tax

Imposes graduated gross income tax	C.47, P.L. 1976
Income Tax "self-destructs" June 30, 1978	C.86, P.L. 1976
Permits $1,000 higher education deduction	C.84, P.L. 1976
Reinstates commuter taxes	C.65, P.L. 1976
Non-residents to pay higher of New Jersey Income Tax or Commuter Tax	C.66, P.L. 1976
Excludes from gross income annuities received under annuity, endowment or life insurance contracts	C.40, P.L. 1977
Repeals Commuter Tax with Pennsylvania	C.126, P.L. 1976

Tax Relief Measures

Rebate to homeowners	C.72, P.L. 1976 C.17, P.L. 1977
Rebate to co-op and mutual owners	C.241, P.L. 1977 C.242, P.L. 1977
State revenue sharing with municipalities and assumption of total cost of veterans' and senior citizens' deductions	C.73, P.L. 1976
Requires property taxes to be rebated to certain tenants	C.63, P.L. 1976 C.81, P.L. 1977
Allocation of unbudgeted school aid for property tax relief in 1976-77 school year	C.113, P.L. 1976 C.15, P.L. 1977 C.130, P.L. 1977
Supplemental appropriations from Income Tax to finance school aid and other programs	C.64, P.L. 1976

Fiscal Accountability, Spending (Tax) Limits

Limits annual increases in municipal appropriations and county tax levies until December 31, 1979 (caps)	C.68, P.L. 1976 C.10, P.L. 1977
Limits annual increase in certain State appropriations to growth of per capita personal income	C.67, P.L. 1976 C. 22, P.L. 1977

Creates ten-member Joint Legislative Commission on Efficiency and Economy in State Government	C.77, P.L. 1977

Constitutional Amendments

Dedicates Income Tax revenue to education and property tax relief or offset	Art. VIII, Sec. 1, par. 7
Expands homestead tax exemptions for senior citizens, disabled under 65, and surviving spouses, 55 or over, of senior citizens	Art. VIII, Sec. 1, par. 5

Economic Recovery

Exempts purchase of business machinery and equipment from Sales Tax (effective January 1, 1978)	C.18, P.L. 1977
Exempts services on personal property delivered out of State from Sales Tax	C.54, P.L. 1977
Exempts business machinery and equipment acquired for manufacturing after January 1, 1977 from business personal property tax	C.4, P.L. 1977
Maintains 1976 level of business personal property tax replacement for municipalities ($157 million in 4 payments)	C.3, P.L. 1977 C.82, P.L. 1976
Repeals gross receipts tax on unincorporated business, effective January 1, 1977	C.80, P.L. 1976
Repeals gross receipts tax on retail stores, effective January 1, 1977	C.81, P.L. 1976

REPORT OF THE SUBCOMMITTEE ON GOVERNMENT COSTS SUBMITTED TO THE FULL COMMISSION

A REVIEW OF THE COMPONENTS OF STATE SPENDING

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SUB-COMMITTEE ON GOVERNMENT COSTS

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OF STATE SPENDING AND SOME CONCLUSIONS

Introduction

An alternative to the Income Tax for the support of the educational financing formula encompassed in Chapter 212, P.L. 1975, and the general property tax relief and business tax relief provided by the Tax Program of 1976, is reductions in other sections of the Budget.

The Commission, functioning through its Subcommittee on Government Costs, examined the major sections of the Budget, reviewed pertinent material, and listened to testimony provided by various members of the Executive Departments.

The following sections address the findings and conclusions of the Subcommittee relative to the question: "Can revenues be made available from the elimination or reduction of present State programs?"

Scope of Study

The first section of the Report reviews New Jersey expenditures and other key statistical data, vis-à-vis other states in the country. The review of this data was made so that the Subcommittee would have some reference point for comparative purposes.

The second section of the Report examines existing State expenditures. The Subcommittee concluded that a comprehensive review of all State operations was not possible within the time frame allotted. The Subcommittee, however, recognized that five major categories of the Budget represent 90% of all State appropriations. Based upon these percentages, the Subcommittee focused on the following items:

- State Aid, particularly Education and Public Assistance
- Physical and Mental Health, particularly the Medicaid Program
- Educational Activities, particularly the Higher Education System
- Mandatory Items, specifically Debt Service and Pension Cost
- Transportation

Within all of these categories are dollars appropriated for salaries. In FY 1978 the appropriation for salaries is $726 million or 18% of the total Budget and 44% of the Budget, exclusive of State Aid and Debt Service. The question of personnel costs and related fringe benefits was also reviewed and considered.

The third section examines local government expenditures and the impact that the State Budget might have on the level of service and cost thereof.

The FY 1978 Budget In Perspective

The New Jersey State Budget for FY 1978 increased by 16.4% over 1977. Exclusive of the Property Tax Relief Fund, the General State Fund on a comparative basis increased by 5.8% over 1977 levels. The 62% increase between FY 1978 and FY 1977 in the Property Tax Relief Fund is due to the fact that FY 1977 appropriations reflected only a half year's funding for the Homestead Rebate Program and the Revenue Sharing Program, and did not reflect any loss of revenue due to the repeal of certain business taxes.

A summary of appropriations from 1970 to 1977 and distribution by major budget category are reflected in Exhibits I and II.

For ease of comparison and in order to view the programs of State government in a more systematic manner, Exhibit III reflects the major components of State spending for FY 1976, 1977, and 1978.

SECTION I

NEW JERSEY STATE GOVERNMENT IN PERSPECTIVE

As a prelude to any review of the State's expenditures and the programs administered by the State, the Subcommittee reviewed certain base-line data. Basically, this data consisted of comparative statistics. The purpose of this review was to obtain some basic reference point so as to be able to make some judgments as to where New Jersey stands relative to other states in certain basic areas. Data sources usually reflect research conducted by the Advisory Commission on Intergovernmental Relations, the National Tax Institute, Federal Departments, and other similar sources. For the most part, the most recent comparative data for all the states was 1976. Although such a base year does not include the Income Tax, we are satisfied that the relative relationships among the states, when all levels of government are considered, are valid.

The following represent some of the highlights of relevant comparative data:

Overall Data

. The population in New Jersey grew from 7,168,000 in 1970 to 7,336,000 in July, 1977, an increase of less than 3%. The growth since 1973 has been virtually none. The average increase for the country as a whole was approximately 6%.

. On a per capita income basis, New Jersey ranks second in 1976. Our per capita personal income is $7,381, the national average is $6,399. New Jersey has, however, been declining in this area. The 1976 ranking represents a 9.1% growth over the previous year. Nationally, per capita income advanced at a 9.3% rate.

State Data

. In terms of per capita State tax collections by state, New Jersey ranks 45th among 50, or $312 per person. The national average in 1976 was $417.

. In terms of per capita total State expenditures in 1976, New Jersey ranks 41st out of 50. New Jersey expended $614.7 per person for all functions, the national average was $718.3.

State and Local Data

. When total State and local tax collectionsare considered in 1976 on both a per capita basis and on a basis of $1,000 of personal income, the following comparisons exist: New Jersey ranks 26th in tax collections per $1,000 of personal income ($118.2--the national average is $124.7), and ranks 11th in per capita tax collections ($792--the national average is $730).

. When all levels of government are included, on both a per capita basis and on a basis of personal income, the following comparisons exist for 1976: New Jersey ranks 20th in total expenditures per capita (New Jersey expended $1,199 per person, the national average was $1,190), but only 43rd in total expenditures per $1,000 of personal income (New Jersey expended $178.95 per $1,000 of personal income, the national average was $203.25).

Others

. In terms of expenditures per pupil for elementary and secondary education from all sources, New Jersey ranks fourth in the country. New Jersey expended $1,892; the national average is $1,388.

. In terms of expenditures for higher education, New Jersey ranks 46th on a per capita basis and 49th per $1,000 of personal income.

. In 1975, New Jersey was the second leading State in dollars raised from property taxes as a percent of State-local general revenue.

The above data indicates that in many categories of expenditures and taxes New Jersey is below the national average and, in fact, is at the bottom end of the scale. In some areas, such as property taxes and total dollars expended on elementary education, New Jersey is one of the leading spenders.

Based upon our research, we feel confident in concluding that New Jersey is a low to moderate spending State and, in fact, as expenditures and revenues relate to personal income, New Jersey is one of the lowest in the country.

SECTION II

STATE AID

Background

For fiscal year 1978, the Budget provides $2.2 billion in State Aid to counties, municipalities, and school districts. The following table shows the growth of State Aid during the past decade:

(Millions of Dollars)

Year	$ Appro.	% Change
1970	$ 809	-
1971	882	9%
1972	978	11%
1973	1,071	10%
1974	1,188	11%
1975	1,403	18%
1976	1,362	(3%)
1977	1,887	37%
1978	2,219	17%

In terms of percentage increases or decreases the last four years have shown the widest variation. Fiscal year 1975 reflects additional school aid provided under the Bateman-Tanzman Law; fiscal year 1976 reflects the year when the State was in a major budget crisis and significant reductions were made, including the elimination of the $25 million Sales Tax distribution to municipalities. Fiscal year 1977 and fiscal year 1978 reflect the impact of proceeds from the Income Tax.

Findings

1. Exhibits IV, V, and VI provide summary data concerning the appropriations made for State Aid for 1977 and 1978; the level of government receiving 1978 appropriations; and a brief summary of each State Aid program.

2. State Aid absorbs 55% of the State Budget, and is provided under a variety of programs, and administered by ten different Departments. For fiscal year 1978, 57% of all State Aid appropriations ($1.26 million) is for education; 13% ($296 million) is for Human Services' programs of which the largest amount is for income maintenance; and 23% or $527 million is appropriated to the Department of Treasury, including all appropriations from the Income Tax, except education.

3. In terms of level of government receiving State Aid, the following represents the distribution of 1978 State Aid:

. School Districts	$1,266	57%
. Municipalities*	634	29%
. Counties	316	14%
. Non-Profit	2	-
	$2,218	100%

*Including Property Tax Rebates

4. The four largest single programs are the appropriations made to the Department of Education for Chapter 212, P.L. 1975 (T&E Law) ($960.4 million); the Teachers' Pension Fund ($250 million); the Property Tax Rebates ($266 million); and Aid to Families of Dependent Children and other Welfare programs ($240 million). These four programs represent 79% of all State Aid dollars.

5. In addition to the above four major programs, the other major appropriations, representing another 6% of the State Aid Budget, include:

County College Aid	$ 49.8 million
Mental Health Aid	27.8 million
Municipal (Urban) Aid	38.9 million
Child Care Services	26.5 million
	$142.8 million

6. In regards to the appropriation for T&E, the following points can be made:

   a. If no changes are made in the T&E formula, one can assume that the appropriation for T&E will increase each year, since, under the present formula, the State is sharing in the increases in the net current expense budgets of the school districts.

   b. The school Cap Law may restrict some growth in school budgets, but probably not to the extent that school district budgets will grow by less than 5 to 8 percent.

   c. The Cap, however, does not apply to all sections of the school budget. It only applies to the unfunded portion of the current expense budget. It does not apply, for example, to capital, debt service, transportation, special education, teacher pension, school lunch, etc.

7. In regards to the appropriation in the State Aid Budget for the various Welfare programs, the following points can be made:

   a. The major sections of the Welfare program are:

. Aid to Families of Dependent Children (including regular, unemployment, and insufficient employment of fathers)	$183 million
. Supplemental Security Income (aged, blind and disabled)	17 million
. General Assistance	41 million
	$241 million

b. Exhibit VII identifies the relative share of public assistance costs by the various governmental units. For the largest segments of the AFDC Program the State pays 37½%, the counties 12½%, and the Federal government 50%. For the SSI, in fiscal year 1978, the State pays 14%, the counties 5%, and the Federal government 81%. For the General Assistance Program, the State pays 75% and the municipality pays 25%.

c. Exhibit VIII identifies the ten states with the largest AFDC caseloads and ranks them according to total value of combined benefits per capita personal income and number of families in the AFDC Program. New Jersey ranks first in per capita income, but sixth in income support.

d. Exhibit IX compares the need standards of the ten states with the largest AFDC caseloads to the Bureau of Labor Statistics poverty level and indicates the percentage of the poverty level paid by each state. New Jersey ranks sixth, paying 68% of the BLS poverty level.

e. The number of welfare recipients and cases continues to increase, but at a slower rate.

f. Welfare grant levels have not been raised since fiscal year 1975.

g. New Jersey has been very effective in lowering its case error rate and its payment error rate. For the quarter ending 12/1974, the error rate was 8.2%; for the quarter ending 12/1976, it was 5.4%.

h. New Jersey compares very favorably with states which comprise the top ten in terms of AFDC caseloads. New Jersey has the third lowest case error rate and the second lowest payment error rate.

<u>Some Conclusions</u>

1. Except for minor areas, the elimination or reduction of State Aid would either increase local property taxes, or require a reduction in services. The Property Tax Rebate Program ($274 million) is, however, a direct payment to homeowners and not technically a direct reduction in local property tax.

2. If significant savings are to be made in the State Aid Budget, reductions will have to be made in the four major areas; that is, T&E, Teachers' Pension, Homestead Rebates, and Welfare.

3. The person who benefits most from the Homestead Rebate Program is the person with little or no income tax liability and a high property tax. It seems clear that if there is no income tax, there will be no funds for a Homestead Rebate Program, even though the need may still be there.

4. As noted above, appropriations for T&E will continue to rise each year. For fiscal year 1978, the appropriation was $960 million. The Department of Education estimates the amount to be $1,044 billion in fiscal year 1979 and $1,205 billion in fiscal year 1981. These estimates are based upon the present law and the present formula application. Any reduction in State Aid would reduce the State's support below the present 40% level.

5. During the past two fiscal years, appropriations for the Teachers' Pension Fund have increased by an average of 12% each year. For fiscal year 1978 the State Aid appropriation was $250 million. The Department of Education estimates this amount to increase to $280 million in fiscal year 1979 and $353 million by fiscal year 1981. If reductions are to be made in this area, significant changes in the present benefit structure will have to be made. (See discussion on Pension, page 25.)

6. The only way to insure a moderate growth in the Welfare budget is to continue the policy of no grant increases to recipients of public assistance. This may prove difficult since the last increase was granted July, 1974. A 5% increa for example, would cost approximately $10 million (net State cost).

7. Continued reduction in error rates would achieve some economies, but since New Jersey is below the national average, significant changes cannot realistically be expected.

8. Significant reductions can only be achieved by reducing the number of welfare recipients or by reducing the level of grants. To achieve the first would assume that a significant number of people now receiving grants can be employed. Our review indicates that such a sizable reduction is not possible. To achieve the second would mean that all welfare recipients would have the purchasing power of their income reduced.

9. An increase in the Federal share of these programs, for example, from 50% to 75%, would save significant dollars. This requires Congressional and Presidental action.

MEDICAID

A. Background

Medicaid is financed jointly with State and Federal funds, with the current Federal contribution to the cost of the Program ranging from 50 percent to 78 percent. It is basically administered by each State within certain broad Federal requirements and guidelines. In New Jersey the Department of Human Services is the single State agency responsible for the Program's administration, with day-to-day operations conducted by the Division of Medical Assistance and Health Services (DMAHS). Because of New Jersey's comparatively high per capita income, the Federal government contributes the minimum 50 percent for the costs of most of the State Program's services. Certain administrative and programmatic costs, however, are Federally-funded at higher percentages--generally 75 and 90 percent.

Medicaid is designed to provide medical assistance to those groups or categories of people who are eligible to receive cash payments under one of the existing welfare programs (categorically needy) established under the Social Security Act; that is, Title IV, the program of Aid to Families with Dependent Children (AFDC) or Title XX , the Supplemental Security Income (SSI) program for the aged, blind and disabled. In general, receipt of a welfare payment under these programs means automatic eligibility for Medicaid. The New Jersey Program also services foster children under the jurisdiction of the Division of Youth and Family Services (DYFS) as well as children in private adoption agencies; individuals over 65 who meet the income criteria for the State's Medical Assistance for the Aged (MAA) program; and, Cuban and Vietnamese refugees, for whom the State receives 100 percent Federal reimbursement.

B. Findings

1. New Jersey's Program is provided only to those persons who are "categorically" needy. New Jersey does not have a Medically Indigent Program--32 other states have a Medicaid Program which serves the categorically needy as well as the medically needy. If New Jersey served the medically needy it is estimated that it would cost an additional $18-$60 million in State funds.

2. Exhibit X indicates the medicaid population by the category of individuals served for the years 1977-1978 and 1979. Table XI indicates and compares the eligible medicaid population with the medicaid cost of each category of aid. It can be determined that although the largest category of eligibility is AFDC (70%), the largest category of expenditure is the aged, blind and disabled (60%).

3. Exhibit XII compares the cost of the Medicaid Program by service category for 1977, 1978, and 1979. In each of these years, nursing home costs and inpatient hospital costs generate the largest portion of medicaid expenditures.

4. The Federal Law requires that certain basic services must be offered in any State Medicaid Program for the Categorically Needy. In addition to the Federally mandated services, the New Jersey Medicaid Program offers its clients certain optional services. The following is a list of these mandated and optional services: (the cost for these services in FY 1978 is $271 million State dollars)

Mandated	Optional
. Inpatient Hospital	. Medicare "B" Premium Payments
. Outpatient Hospital	. Intermediate Level Nursing Care
. Skilled Nursing Home	. Dental
. Physician Services	. Chiropractic
. Home Health Care	. Optometric
. Transportation	. Podiatric
. Laboratory and X-ray	. Mental Health
	. Prescription Drugs
	. Eyeglasses, hearing aids, etc.

5. The State's Medicaid Program also funds a demonstration project for a prepaid health care delivery system in Newark. No funds were appropriated in FY 1978 as carry-over funds were available from prior years. On an annual basis this project would cost approximately $8 million (net State)

6. The State also funded a Pharmaceutical Assistance Program for the aged which has income eligibility standards higher than those for the general medicaid population. This Program costs $4 million in FY 1978.

Some Conclusions

(1) The Medicaid Program is one of the fastest growing items in the State Budget. In FY 1973 the State appropriated $143 million; in FY 1978 the appropriation is $285 million, a 100% increase in 5 years.

(2) The cost of Medicaid is a function of: (a) the growth in eligibles as reflected primarily in Welfare roles and SSI recipients; (b) a greater utilization of services; and (c) rapid increase in the cost of health care.

(3) Based upon historical trends, and information available to the Subcommittee, it seems virtually impossible that the Medicaid Program can be reduced, or for that matter held to low growth, without significant and extraordinary decisions affecting not only the recipients but also the providers. These efforts would include a reduction in hospital per diem costs and hospital usage; reduction in nursing home costs and usage; and, a stabilization or possible reduction in the utilization of medicaid services by the eligible population.

(4) During FY 1976, certain reductions and cutbacks were made in the optional service category of the Medicaid Program. These reductions amounted to approximately $20 million. All of the reductions were ultimately restored.

(5) If optional services were not funded by the State, the State Budget could be reduced by between \$33 and \$100 million. These reductions would eliminate such services as intermediate level nursing care, dental aid, eyeglasses, prescription drugs, etc. The Subcommittee does not endorse any reductions in these optional services.

(6) The State should study the impact of extending the Medicaid Program to the medically indigent. This would obviously add a cost to the State Budget, but would perhaps lessen costs on county governments and major city hospitals, as well as provide assistance to a needy segment of our population.

HIGHER EDUCATION

A. Background

The Department of Higher Education is responsible for coordinating the State's Higher Education System. As part of its overall function, the Department reviews and approves new programs at the various institutions. It is also responsible for development of a combined budget request for the public higher education system. The system includes Rutgers, the State University, the College of Medicine and Dentistry of New Jersey (CMDNJ), the New Jersey Institute of Technology (NJIT), nine State colleges, eighteen county colleges, and twenty-seven independent colleges and universities.

The Operating Budget for Higher Education in FY 1978 is $328.2 million, an increase of $20.6 million from FY 1977 levels. This was the largest total increase appropriated to any Department in FY 1978, and on a percentage basis it represents an increase of approximately 7%. The State Aid section of the Budget was increased from $37.7 million to $49.8 million--an increase of $12.0 million. All of the State Aid money goes to support the county colleges in the State. The increase is largely a result of increasing the State support from $600 per FTE*to $700 per FTE. Capital Construction support was increased from $250,000 to $5,000,000. These dollars were largely for renovation and deferred maintenance at Rutgers and the various State colleges.

Listed below is a program summary by major cost category of the FY 1977 and FY 1978 Budgets for the Higher Education System.

	FY 78	FY 77
I. Support to Teaching Institutions		
. Rutgers University	87.1	81.2
. State Colleges	127.5	114.1
. N. J. Institute of Technology	12.4	11.0
. County Colleges	51.9	37.8
. Aid to Independent Colleges	7.9	6.0
. Aid to Professional Nursing Schools	1.5	1.5
. Aid to Dental School at Fairleigh Dickinson	2.3	1.9
. Aid for Veterinary Medicine	.7	.3
. Capital Construction	5.0	.2
Sub-Total	296.3	254.0
II. College of Medicine and Dentistry	45.6	45.4
III. Student Aid		
. Scholarship Aid	14.2	16.2
. Educational Opportunity Fund	16.3	15.9
. Student Aid Administration	1.8	1.7
Sub-Total	32.2	34.3

*FTE means full-time equivalent student.

IV. Other

. Administration	1.6	1.6
. Agricultural Experiment Station	7.7	7.7
. Others	.5	.5
Sub-Total	9.8	9.8
Total	384.0	343.5

Listed below is a summary of the budgeted enrollments (full-time equated students) for FY 1977 and FY 1978.

SUMMARY OF BUDGETED ENROLLMENTS

FULL-TIME EQUATED STUDENTS

	FY 1977 Budgeted FTE	FY 1978 Approp. Act
Rutgers University	38,181	38,259
State Colleges	59,074	58,030
New Jersey Institute of Technology	4,100	4,332
College of Medicine & Dentistry of New Jersey	2,122	2,310
County Community Colleges	56,462	68,500
Total	159,939	171,431

B. Findings

(1) Funded enrollments, except for the county colleges, has remained basically constant between FY 1977 and FY 1978.

(2) Funded enrollments at the county colleges will increase by over 12,000 to 68,500 FTE in FY 1978. These additional enrollments are reflected in the State Budget by a $12 million increase in State Aid to County Colleges.

(3) During FY 1976 and FY 1977, the State's support for the Higher Education System had been reduced from previous years. In addition, during FY 1977, a tuition increase amounting to $5 per in-State undergraduate credit hour at the State colleges, $175 per in-State undergraduate FTE at Rutgers and NJIT, and $1,250 per in-State student at CMDNJ (or $20 million system-wide) was instituted.

(4) 77% of the Higher Education Budget is for support to teaching institutions in the State. Another 11% is for the College of Medicine and Dentistry.

(5) The majority of the money appropriated for State colleges, Rutgers and NJIT is determined by applying formula funding techniques. The student faculty ratio is one of the most important ingredients of the formula. This ratio plus other factors, such as average faculty salary, yields the dollars needed to support the colleges.

(6) The dollars appropriated for Higher Education are the result of the answers to these basic questions:

- Who pays? State revenue vs. tuition.
- Quality of Education--Faculty/Student Ratio
- How many students do we educate?

(7) During the past eight years the data suggests that general services income, that is, tuition, fees, etc., has not kept pace with salary costs and total costs, and thus, State-support has increased significantly. This is particularly true at the State colleges, and to a lesser degree at Rutgers.

(8) Compared to other states, New Jersey does not provide a high support for its public colleges and universities. Based upon 1977 data, the following conclusions can be made:

- New Jersey is 46th in appropriations per capita.
- New Jersey is 49th in appropriations per $1,000 of personal income.
- New Jersey is 45th in percent increase in appropriations from 1974 to 1977.

(9) Listed below is the average annual resident tuition and fees for full-time undergraduates in public four-year colleges for twenty states.

STATES	1976-77	1975-76	1974-75
Pennsylvania	$ 912	$ 832	$ 829
New York (CUNY)	900	250	250
New York (SUNY)	900	812	796
NEW JERSEY	850	667	667
Ohio	D.N.A.	720	700
Indiana	728	D.N.A.	D.N.A.
Wisconsin	709	644	644
Maryland	700	D.N.A.	D.N.A.
Oregon	672	600	563
Florida	668	581	578
Michigan	654	611	552
Massachusetts	629	451	386
Connecticut	592	571	555
Illinois	D.N.A.	625	625
Minnesota	563	542	542
Colorado	535	D.N.A.	D.N.A.
Washington	507	D.N.A.	D.N.A.
Kansas	D.N.A.	491	487
Tennessee	449	348	348
Texas	337	278	278
California	193	186	171

C. Some Conclusions

(1) Many costs are more or less fixed costs, either by law (e.g. tenured faculty), by labor contracts, or by the mere existence of a campus (fuel, utilities). In extreme situations, "fixed" costs can be reduced by extreme actions. Some costs, however, are variable in the sense that they can be reduced or deferred by reducing programs or enrollments.

(2) There are three basic approaches that could be used to stabilize and/or reduce the Higher Education Budget in FY 1979:

- Raise tuition and fees.
- Reduce enrollments, staff, programs, and institutional functions.
- Close and/or consolidate entire programs and institutions.

(3) If budgetary reductions and/or expansions were to be financed by tuition increases, the following two examples give some impact implications:

- If $13 million in revenue were to be raised by tuition, it would result in a $76.00 tuition increase per FTE.

- A $53 million increase would cost $311 per FTE.

(4) If budgetary reductions had to be achieved by means other than tuition increases, or in addition to tuition, the following represents some alternatives:

- Reduce enrollments at all public institutions by 10% and reduce funding of all State-supported programs at independent institutions by 10%. $23 million

- Reduce net State appropriations for salaries at senior institutions by 3%. $ 6 million

- Eliminate a capital support for maintenance. $ 5 million
- Raise tuition by $76 per FTE. $13 million

The major effects at this level of reduction ($47 million) would be to restrict enrollment to the system, both by cutting enrollments and by increasing tuition. Staff lay-offs and reductions in support services would also occur. For example, a 10% reduction in funded enrollments would mean the loss of 600 full-time funded faculty positions. Most independent institutions would also have to raise tuition to offset reductions in State support.

(5) The Subcommittee has noticed that support for public higher education in New Jersey is one of the lowest in the country on both a per capita basis and an income basis. Based upon this comparative data, it could at least be concluded that New Jersey does not overexpend in this area. However, higher education is one of the largest components of the Budget, and if any kind of substantial reduction must be made in General State Operations, it will have to come, at least partially, from the Higher Education System, either in terms of tuition increases, program cuts or a combination.

CAPITAL AND DEBT SERVICE

Background

The primary method for State financing of capital projects is through the sale of general obligation bonds of the State of New Jersey. These bonds are backed by the full faith and credit of the State. State tax revenues are pledged to meet the principal and interest payments required to fully pay the debt. No debt can be issued by the State without approval by a majority of the legally qualified voters. As of June 30, 1977, New Jersey voters have authorized $2.239 billion in debt. Of that amount, $1.537 billion remains outstanding, and $433 million is not yet issued. The following table shows the authorized and outstanding debt of the State:

	Act of	Type	Authorized(1)	Unissued	Retired	Outstanding
State Transportation	1968	Serial (to 2003)	$ 640,000,000	$ 48,000,000	$ 56,050,000	$ 535,950,000
Highway Improvement and Grade Crossing Elimination	1930	Serial (to 1990)	58,000,000	—	52,145,000	5,855,000
Public Building Construction	1968	Serial (to 2003)	337,500,000	—	35,800,000	301,700,000
Institution Construction	1960	Serial (to 1992)	40,000,000	—	22,100,000	17,900,000
Institution Construction	1964	Serial (to 1989)	50,000,000	—	13,800,000	36,200,000
Water Development	1958	Serial (to 1988)	45,850,000	—	22,850,000	23,000,000
Water Conservation	1969	Serial (to 2002)	271,000,000	50,000,000	13,805,000	207,195,000
Higher Education Construction	1964	Serial (to 1989)	40,100,000	—	9,200,000	30,900,000
Higher Education Construction	1971	Serial (to 2003)	155,000,000	—	5,400,000	149,600,000
Recreation and Conservation Land Acquisition	1961	Serial (to 1992)	60,000,000	—	32,200,000	27,800,000
Recreation and Conservation Land Acquisition	1971	Serial (to 2002)	80,000,000	—	2,400,000	77,600,000
Recreation and Conservation Land Acquisition and Development	1974	Serial (to 2002)	200,000,000	135,000,000	1,000,000	64,000,000
Housing Assistance	1968	Serial (to 1997)	12,500,000	—	1,500,000	11,000,000
State Facilities for Handicapped	1973	Serial (to 1991)	25,000,000	14,500,000	500,000	10,000,000
Clean Waters	1976	Serial (to 2002)	120,000,000	94,000,000	—	26,000,000
Institutions Construction	1976	Serial (to 2002)	80,000,000	74,000,000	—	6,000,000
State Mortgage Assistance	1976	Serial (to 2002)	25,000,000	18,000,000	—	7,000,000
Total Bonded Debt			$2,239,950,000	$433,500,000	$268,750,000	$1,537,700,000

In addition to issuing bonds, capital construction can also be accomplished by appropriating current revenue on a pay-as-you-go basis.

The following table lists the amount of dollars appropriated for capital construction (pay-as-you-go) and debt service during the past decade: (in millions of dollars)

Year	Pay-As-You-Go Capital Approp.	Debt Service
1970	44.5	28.2
1971	53.1	39.1
1972	37.1	61.2
1973	57.5	78.8
1974	85.3	90.8
1975	86.8	99.4
1976	35.0	112.2
1977	93.0*	122.5
1978	47.0	127.9

*Includes $54 million appropriated June 30, 1977 from proceeds of the Commuter Tax.

Findings

1. Capital construction and debt service combined has never represented more than 7% of the State Budget. In FY 1978, it represented 4.2% of all appropriations.

2. The majority of the dollars appropriated for capital construction over the past few years has been for the Department of Transportation. These funds have usually been used to match Federal funds to construct the interstate highways and other federally-supported roads. In FY 1978, for example, $40 million of the $47 million was for the Department of Transportation.

3. Debt service has increased steadily over the past few years as bonds authorized by the voters for various projects have been sold. Debt service payments for existing bonds will increase to $145 million in FY 1979. As an additional $433 million in bonds is issued, this amount will increase.

4. New Jersey has the highest credit rating that can be given.

Some Conclusions

1. Debt service and capital construction represent a small portion of the Budget, a percentage relationship which is not expected to fluctuate that much during the coming years.

2. There is very little room for significant reduction in this area. Debt service is a mandatory item, an item which cannot be delayed, deferred or reduced. Assuming the State wishes to proceed with its Capital Improvement Program, the debt service will increase each year for the foreseeable future. Only marginal reductions could hope to be achieved in pay-as-you-go capital construction appropriations, and only at the expense of maintenance costs in the future or expensive borrowing costs.

TRANSPORTATION

A. Background

The Department of Transportation is responsible for overseeing the operation and maintenance of the State's transportation system--its railroads, buses, highways and airports. Maintenance and preservation of the existing transportation system, with a special emphasis on the problems of safety, is the Department's first priority. The second priority is to improve and upgrade the system through the resurfacing of old roads and addition of lanes on existing highways, through the reconditioning of mass transit vehicles and the purchase of new vehicles and improving levels of service. The third priority of the Transporation Department is to provide the necessary additions to the transportation system to accommodate the predicted and reasonable growth in the State's transportation needs.

The Department of Transportation's Operating Budget for FY 1978 is $136.3 million, an increase of $1.7 million from 1977 levels. State Aid appropriations were $11.7 million, a decrease of $1.6 million from 1977 levels. Capital Construction dollars were $40.2 million, a decrease of $46 million from 1977 levels. (The Capital Construction comparison is not a valid one, since $54 million of the $86.7 million represents a supplemental appropriation passed 6/30/77 and funded from the Commuter Tax.)

The major cost components of the Transportation Budget are as follows:

	FY 78	FY 77
State Highway Maintenance	59.8	58.3
Railroad and Bus Operations	67.6	67.1
Department Management and Support	7.0	6.9
Planning and Research	1.6	1.8
State Aid for Highways	11.7	13.3
Capital Construction	40.2	86.7
Total	187.9	234.1

B. Findings

(1) In 1954, the New Jersey Transportation System consisted of 4,845 lane miles. In 1956, Federal legislation created the currently existing highway trust fund enabling construction of the interstate system as well as providing a source of funding for primary and urban systems.

Through the Federal Aid Program, the 1968 Bond Issue, and regular State appropriations, lane miles have more than doubled, reaching 10,087 in 1976.

(2) The Department estimates that there is a backlog of maintenance resurfacing ($94 million) and bridge rehabilitation ($70 million) of $164 million.

(3) A comparison of maintenance costs for surrounding states by linear mile basis shows the following:

State	Linear Maintenance Cost/Mile** of Roadway	*Traffic Density	Equivalent Expenditure
New Jersey	$12,053	15.79	$12,053
New York	4,652	3.77	19,538
Pennsylvania	5,284	1.31	63,408
Maryland	5,756	4.61	19,570
Delaware	1,299	0.80	25,590
Virginia	1,490	0.65	36,207
Rhode Island	5,865	4.28	21,700
Connecticut	7,576	4.69	25,758
Massachusetts	9,780	8.19	18,582
	Average Equivalent Expenditure For Above States	=	$26,934

*Density = Million vehicles/Mile / Year
**Four lane miles = one linear mile
Source Document - "Federal Highway Administration Highway Statistics" (1976)

(4) Aside from the completion of the interstate system, future highway and road construction has the following priorities, according to the Department of Transportation:

- Rehabilitation and upgrading of the existing State primary system.

- Improvement and revitalization of inner city road networks.

(5) The Department of Transportation has approximately $448 million in Federal construction dollars which have been allocated to the State but which have not yet been expended. The majority of this allocation ($190 million) is in the interstate system. For the most part, delays have occurred because of the need for detailed environmental impact studies, citizen objections, and court action. State matching dollars have been appropriated in the annual Budget and are available as carry forward appropriations. During the past two fiscal years, dollar for dollar matching appropriations have not been made to the extent that as of FY 1978, the State is approximately one-full year behind (estimated $40 million) the matching of Federal construction dollars. Given the fact that Federal dollars have not been utilized within the year they have been apportioned to the State, this reduction in State matching dollars has not affected the construction program. Theoretically, at some point in time, when the Federal dollars are utilized up to their maximum, additional State matching appropriations will have to be made.

(6) The PATH Project has been in a "no-go" situation for the past year, more recently because of the Supreme Court ruling concerning the use of Port Authority funding. The total estimated cost for this Project is $347 million. Funding sources include $157 million from UMTA, $120 million from the New York and New Jersey Port Authority, $54 million from Federal highway funds, and $16 million of State dollars. This is the State's major effort in the area of public transportation. The major effort in the past few years has been the purchase of buses and railroad cars.

(7) During FY 1977, existing rail and bus passenger services will provide in excess of 190,000,000 passenger trips Statewide.

(8) Transportation subsidies has been one of the most rapidly growing areas in the Budget over the past seven years. In FY 1973, the appropriation was $15 million--for FY 1978, the appropriation is $67 million.

(9) Based upon data provided by the Department of Transportation, projected costs for FY 1979 and subsequent years will continue to increase. The Subsidy program for FY 1978 had the benefit of a $14.4 million carry forward from FY 1977. This carry forward is not expected to be available for FY 1979. Additionally, Section 17, Emergency Operating Assistance Funds, will not be available beyond October, 1978, unless the program is continued by new legislation. These two factors in themselves will lead to a shortfall of over $17 million. It is also noted that current rail labor agreements expire on December 31, 1977, and wage agreements could push costs even higher. Projections provided by the Department of Transportation are summarized in Exhibit XIII.

(10) State Aid appropriations for local highway construction have been reduced during the past few years.

C. Some Conclusions

(1) In terms of budgetary impact, the Bus and Rail Subsidy Program presents the most formidable problem. Based upon data provided by the Department of Transportation, the State may need to appropriate between $17 million and $37 million in additional State dollars if the program is continued in its present form; i.e., providing the same level of service at the same fare rate. (The last fare increase was January, 1976.)

(2) If the Department of Transportation's estimates are correct, the State will be appropriating $100 million in FY 1979 and $129 million in FY 1980 to support this program. While the Commission has not examined the problem in sufficient depth to recommend policy options, it seems apparent that the State cannot continue to provide these additional dollars year after year. In lieu of State support, service reductions, elimination of routes, and fare increases appear to be obvious short-range options. The decision in this program does not appear to be how to reduce appropriations, but rather how to curtail future growth.

(3) Statistical analysis and various reports by the Federal Highway Administration as well as observation would suggest that the State is not sufficiently funded for highway maintenance and bridge repair. If resources remain limited, a decision may soon have to be made between highway maintenance or highway construction.

(4) At least in the short-run (one or two years), capital does not appear to be a limitation in highway construction. Rather, Federal funds in excess of $400 million are available provided certain obstacles can be overcome.

(5) It is hoped that the dilemma over the "PATH Extension" can soon be solved. Based upon our limited review of the question, the Subcommittee can take no position relative to this issue. Needless to say, delays in either option for any reason delay construction, delay service improvements and tie-up Federal and State resources.

(6) The Subcommittee sees little room for any significant savings in the Transportation Department, unless one would suggest the elimination of the entire Subsidy program. Instead, various evidence suggests that additional dollars might be inevitable if New Jersey is to maintain its present transportation systems.

PERSONNEL

Background

Exclusive of State Aid and Debt Service, the largest cost center within the major programs of State government is personnel.

Personnel costs are translated into budgeted dollars in several categories; namely:

- basic salaries of employees
- annual salary increases (across-the-board raises)
- merit increments
- new employees
- pension allocations
- health benefits
- social security
- miscellaneous expenses, e.g., clothing allowances, etc.
- reclassifications and salary adjustments

A separate section of this report discusses the employee benefit portion of the equation, namely, pension, social security, and fringe benefits. This section discusses dollars appropriated for employee salaries, including increments and across-the-board raises and number of employees.

Findings

1. The following represents the amounts of State dollars appropriated for personnel costs in FY 1975 through FY 1978: (millions)

FY 1975	FY 1976	FY 1977	FY 1978	Average Percentage Increase 1975-78
$557	$592	$654	$726	10%

2. During the past three years, the average increase per year for salaries is 10%.

3. The $726 million in FY 1978 represents 18% of the total State Budget, but 44% of the Budget, exclusive of State Aid and Debt Service.

4. In terms of people on the payroll, the following data was supplied by the Department of Civil Service:

	Nov. 1973	Nov. 1975	Nov. 1976
State Funded	44,224	44,797	46,000
Federal Funded	10,918	13,588	13,800
Total	55,142	58,385	59,800

The increase between November 1973 and November 1976 of State supported positions is 1,776, or an average of approximately 590 per year. These numbers represent all State employees actually on the payroll as of the dates indicated and exclude personnel at Rutgers University and the College of Medicine and Dentistry. In addition, Federal funds supported an additional increase of approximately 2,882. The gross increase in this three-year span is approximately 4,658.

5. New Jersey is covered by the New Jersey Public Employer-Employee Relations Act which guarantees to public employees the right to negotiate collectively through employee organizations. Approximately 80% of all State employees are represented by certified or recognized representatives.

Some Conclusions

1. Based upon comparative data, however, New Jersey ranks 49 out of 50 in the number of State employees per 10,000 citizens. Since some functions in other states may be performed at different levels of government, the above statistics may not fully reflect comparability. To insure a higher degree of comparability, we also compared total public employees at all levels of government. New Jersey ranked 38th among the states in the total number of public employees as a proportion of its population.

2. The Governor's Management Commission Report, which was completed in 1971, indicated that net annual savings of State funds would be approximately $60 million and gross annual income would amount to $24.5 million The Governor's Management Commission also estimated that net one-time savings would amount to $25 million and that one-time income would amount to $30 million. Internal reports indicate that approximately $19 million of annual savings and $19 million in annual income actually resulted, and that $5 million in one-time savings was achieved.

   One can assume that if a similar study was conducted in 1978, some worthwhile reductions could be achieved. The Subcommittee does not believe, however, that realistically speaking, these savings and income will exceed the amounts achieved in 1971, if that much.

3. Undoubtedly, if major reductions are to be achieved in the State Budget, substantial reductions will have to be achieved in the approximately $726 million budgeted for salaries. A 5% reduction would achieve a savings of $36 million--a 10% reduction would save $72 million. Assuming an average salary of $12,000, the 5% reduction would involve approximately 3,100 employees, and 10% would equate with 6,200 employees.

4. The Subcommittee based on its limited analysis of personnel patterns in the State does not recommend the above. In fact, it is our belief that such reductions would reduce the level of State services. The data is presented, however, as an exercise to reflect what could be achieved if a reduction were the only possible alternative. In addition, the Subcommittee points out that if sizable attrition occurred in some areas, it would argue for the elimination of the program rather than operate it below what is a minimum level to achieve results. Moreover, the Subcommittee feels that an across-the-board reduction or freeze is not the best way to approach budgeting--proper analysis should precede any reductions involving personnel.

PENSIONS AND FRINGE BENEFITS

Background

The other major component of personnel costs is employee benefits.

For FY 1978 the State appropriated $188 million for State employee benefits. For FY 1977 the amount was $163 million and for FY 1976 it was $143 million, an annual average increase of approximately 14%. The following lists the major components of the appropriation for employee benefits in FY 1978:

. Public Employees Retirement System	$ 42.4 million
. Judicial Retirement System	4.2
. State Police Retirement System	6.0
. Police and Firemen's Retirement Fund	3.5
. Pension Increase Act	8.1
. Social Security Tax	52.5
. Alternate Benefit Program	14.5
. State Employees Health Benefits	41.0
. Prescription Drug	3.8
. Premiums for Non-Contributory Insurance	6.4
. Unemployment Insurance	2.0
. Others	4.3

The largest items are the Pension Fund contributions ($76 million), the Social Security Tax ($52 million), and the Health Benefits ($41 million).

The contributory State-administered pension systems are the result of a long process of development. During the time period 1919 to 1921 the State pension systems became institutionalized. From 1921 to 1955, the systems assumed the basic coverage features which exist today. Since 1955 various incremental changes have occurred, including the separation of benefits under social security and PERS which had been previously integrated.

In addition to the $188 million appropriated for State employees, the State also pays the full cost of the local Teacher Pension Fund for all school districts in the state (see discussion on State Aid). For FY 1978 the appropriation is $250 million and is divided as follows:

. Normal contribution	$ 98.5
. Accrued liability	25.4
. Pension Increase Act	28.8
. Non-contributory Insurance	7.9
. Social Security Tax	89.5

The State does not pay for any health benefits negotiated by the local school districts.

Findings

1. The State government administers and regulates seven retirement plans, affecting virtually all of the public employees in the State.

2. All pension fund systems are subject to actuarial valuation every year and actuarial investigation every three years.

3. Any changes in pension fund benefits must be approved by the Legislature.

4. State law also provides the pension fund benefits are not subject to negotiati between the State and other public employers.

5. The accrued benefit liability is 70% funded for PERS, Teachers' and Police and Firemen's, the three major pension plans administered by the State. Based upon comparison with other states, this is an exceptional record, and one which adds to the State's financial credit.

6. The dollars appropriated for the cost of living increase are made on an annual basis and are not considered in the annual actuarial valuation.

Some Conclusions

1. Based upon our review of comparative data prepared by the Department of Civil Service and upon a comparison of the fifteen largest states in the country, the Subcommittee has satisfied itself that the benefits received by employees in State government are well within the mainstream of benefits provided to other public employees. They are generally more liberal than private pens s, particularly in respect to early retirement.

2. The Pension System, except as noted in six above, is on an actuarially sound basis, a record the State can be proud of, and one that the Subcommittee recommends be continued. We recommend, however, that the cost of living adjustments be included as part of the accrued benefit liability computation.

3. The Subcommittee examined one idea of reducing the cost of employee benefits, namely, the integration of the Pension System with the Social Security System. Under such an option, social security would be a partial offset to pensions. For example, if the State agreed that the beneifts of a retired person with twenty-five years of service should be 25/60 of the average of the highest three-year salary, a portion of the benefits from social security would first be counted toward that objective, and the pension plan would fill in the difference. Under the present system adopted in 1955, the above individual would receive his full social security benefits, plus 25/60 of his salary from the pension fund.

   The Division of Pensions was requested for an estimate of the annual reduction of such an integration of the Social Security and Pension System. No estimate could be provided because in the opinion of the Division it would take an actuarial valuation to determine the saving which would accrue to the State by reestablishing the offset provision in the two major systems; this would involve a major change in the accrued liability as well as in normal contributions made by the State and local employers.

4. The Subcommittee recommends that additional attention and study be undertaken as to whether it will be the policy of the State to continue to fund two separate retirement systems; i.e., a Pension System and a Social Security System.

SECTION III

STATE AND LOCAL RELATIONSHIPS

Overview

Any study of government costs, even though it may focus primarily on State programs, must necessarily consider the impact on local governments and local costs.

Many actions by the State eventually impact on local governments. The decision to increase State Aid may result in lower property taxes. The decision to pay for certain new programs on a matching basis might encourage local governments to undertake programs which they might otherwise neglect.

Property Taxes

As has been amply documented in the past, the property tax has paid for the major portion of local government costs. The following table shows the amount of property taxes which have been levied to support county, municipal, and school districts for the past twelve years:

Year	School	Municipal	County	Veterans & Sr. Citizens	Total
	$	$	$	$	$
1967	742,918,942	404,736,992	263,265,360	33,729,794	1,444,651,088
1968	839,145,343	372,714,208	307,389,161	33,771,834	1,553,020,546
1969	956,672,342	384,583,403	335,411,230	33,864,716	1,710,531,691
1970	1,111,248,145	453,837,828	368,679,057	33,853,040	1,967,618,070
1971	1,288,150,618	465,713,295	434,410,915	33,981,319	2,222,256,147
1972	1,404,171,924	525,351,851	477,209,731	34,839,440	2,441,572,946
1973	1,518,783,129	526,003,821	504,843,592	35,260,847	2,584,891,389
1974	1,589,947,109	583,719,724	552,202,467	35,686,746	2,761,556,046
1975	1,692,772,040	670,606,611	621,465,318	36,205,891	3,021,049,860
1976	1,825,927,728	783,479,526	699,572,710	36,566,753	3,345,546,717
1977	1,782,383,844	735,100,661	739,589,162	-0-	3,257,073,667

Except for 1977, when property taxes decreased by almost 3% (exclusive of homestead rebates), property taxes had been increasing on the average of 10% per year. Between 1976 and 1975, for example, the increase was 10.7%.

Budgets

The various components within the total levy are increasing at different percentages. For example, over the period 1967 to 1977, the total property tax levy has increased by 125%, while county levies have increased by 181%, school districts by 139%, and municipal tax levies by 81%.

In terms of total budget growth, the following data reflects the budgets for municipalities and counties over the past six years:

Year	Counties	Municipalities
1977	$1,104,985,009	$2,044.5
1976	1,084,596,675	1,926.0
1975	983,926,927	1,783.0
1974	819,584,254	1,580.0
1973	702,940,209	1,430.7
1972	651,126,910	1,283.3

Note: The county figures for 1972-1976 are expenditures.

During the above time frame, municipal budgets have increased by 59%, or an annual average increase of 12%. County budgets have increased by 69%, or an annual average increase of 13%.

Transfer of Functions

The New Jersey Tax Policy Committee Report in 1972 agreed that one possible technique for relieving some of the burden on local government finances would be the assumption of some local functions by the State government. This recommendation was part of the actual program submitted by Governor Cahill in 1973, as well as by Governor Byrne in 1974. To some extent the concept exists in the present Tax Program in the form of the State paying for the full cost of senior citizen and veteran tax exemptions.

Three other major areas of municipal and county expenditures which have not been addressed but were part of the original Tax Policy recommendations in 1972 were the assumption by the State of municipal welfare, county welfare and county judicial costs. These areas were recommended because the Tax Policy Commission in 1972 argued that the State's involvement is already so large that it makes local discretion an expensive illusion. In 1972, the Commission estimated that the cost of the State assuming these costs would be $82 million for municipal and county welfare and $25 million for judicial costs (judicial included: county courts, district courts, juvenile courts, surrogate, probation, law library and Law Division of the Superior Court).

Based upon data in the 1977 county and municipal budgets, the costs would be $103 million for welfare, and $89 million for courts (including those areas itemized by the Tax Policy Committee, plus the Prosecutor's and Sheriff's office) or a total cost of $192 million.

While the Subcommittee is in basic agreement with the 1972 report of the Tax Policy Commission that such costs would be best handled at the State level and that such a transfer in function would be desirable, the Subcommittee has not recommended that the State assume these programs. To recommend that the State assume these responsibilities and costs would of course reduce local property taxes by $192 million, but by the same token, it would necessitate the cost to be financed by a new tax or an increase in existing taxes at the State level. The Subcommittee urges, however, that if some existing programs now funded by the Tax Program were eliminated, consideration be given to funding these county costs. (See Subcommittee on Current Program)

State Aid

Government costs at the local level could also be affected by providing additional State Aid.

The Tax Program of 1976 provides substantial additional dollars in State Aid, especially to school districts. In terms of direct dollars for municipal and county operations, the Program, however, provides only $50 million in Revenue Sharing funds. In the FY 1978 Budget additional dollars have also been provided from general source revenue for county Revenue Sharing ($5 million--to increase to $10 million in FY 1979), and $8 million from In Lieu of Tax Payments for State-owned property.

As in the case of the transfer of functions to the State, the Subcommittee is in general agreement with the recommendations of the Sears Commission that additional State Aid either in the form of expanded General Revenue Sharing or additional dollars for categorical programs would be desirable. However, given our review of the overall budget needs and revenue sources available to the State, no additional State Aid is recommended at this time as an alternative to reducing local government costs.

EXHIBIT I

NEW JERSEY STATE APPROPRIATIONS
SUMMARY BY MAJOR BUDGET CATEGORY
(MILLIONS OF DOLLARS)

FISCAL YEAR	GENERAL STATE OPERATIONS	STATE AID	CAPITAL CONSTRUCTION	DEBT SERVICE	TOTAL APPROPRIATIONS
1970	567.445	809.652	44.506	28.224	1449.827
1971	707.587	882.923	53.101	39.185	1682.796
1972	807.111	978.098	37.085	61.191	1883.485
1973	945.532	1070.984	57.504	78.824	2152.844
1974	1104.397	1187.855	85.304	90.627	2468.183
1975	1282.341	1403.027	86.820	99.453	2871.641
1976	1318.392	1361.683	35.029	112.242	2827.346
1977	1489.244	1887.897	93.055	122.500	3592.696
1978	1616.319	2218.728	47.633	127.967	4010.647

Includes Property Tax Relief Fund

Source Division of Budget & Accounting, Department of Treasury

EXHIBIT II

NEW JERSEY STATE APPROPRIATIONS
DISTRIBUTION BY MAJOR BUDGET CATEGORY.
(PERCENTAGE)

FISCAL YEAR	GENERAL STATE OPERATIONS	STATE AID	CAPITAL CONSTRUCTION	DEBT SERVICE	TOTAL APPROPRIATIONS
1970	39.139	55.845	3.070	1.947	100.000
1971	42.048	52.468	3.156	2.329	100.000
1972	42.852	51.930	1.969	3.249	100.000
1973	43.920	49.747	2.671	3.661	100.000
1974	44.745	48.127	3.456	3.672	100.000
1975	44.655	48.859	3.023	3.463	100.000
1976	46.630	48.161	1.239	3.970	100.000
1977	41.452	52.549	2.590	3.410	100.000
1978	40.301	55.321	1.188	3.191	100.000

Source: Division of Budget & Accounting,
Department of Treasury

SUMMARY

COMPONENTS OF STATE SPENDING

EXHIBIT III

	Items of Expenditure	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
I.	Mandatory Items	$ 255.2	$ 286.2	$ 0	$ 286.2	$ 316.3	$ 0	316.3
I.	State Aid to Local Governments	1,361.6	1,334.9	558.0	1,892.9	1,320.8	904.8	2,225.6
I.	Revenue Producing Activities	33.2	41.7	0	41.7	37.5	0	37.5
V.	Self-Supporting Regulatory Agencies	27.5	29.3	0	29.3	32.8	0	32.8
	Major State Programs							
V.	Protection of Persons and Property	122.1	142.1	0	142.1	154.1	0	154.1
I.	Physical and Mental Health	400.5	470.4	0	470.4	482.0	0	482.0
I.	Social Services	14.3	19.3	0	19.3	23.7	0	23.7
.	Educational Activities	298.0	331.6	0	331.6	356.5	0	356.5
.	Community Development and Environmental Management	24.6	35.2	0	35.2	29.3	0	29.3
.	Economic Development and Income Maintenance	30.1	34.5	0	34.5	35.1	0	35.1
.	Transportation	148.3	220.8	0	220.8	176.6	0	176.6
.	General Government Activities	112.1	88.4	0	88.4	141.1	0	141.1
	TOTAL	$2,827.3	$3,034.7	$558.0	$3,592.7	$3,105.8	$904.8	$4,010.6

77 with adjustments for Business Personal Property Tax

Source: D[illegible]ion of Budget & Accounting,
Department of Treasury

COMPONENTS OF STATE SPENDING (Cont'd.)

I. MANDATORY ITEMS

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
nterest on Bonds	$ 67.4	$ 67.5	$ 0	$ 67.5	$ 69.7	$ 0	$ 69.7
edemption of Bonds	44.8	55.0	0	55.0	58.3	0	58.3
ensions and Social Security (State Employees)	143.0	163.7	0	163.7	187.3	0	37.3
Sub-Total - Mandatory Items	$ 255.2	$ 286.2	$ 0	$ 286.2	$ 316.3	$ 0	$ 316.3

II. STATE AID TO LOCAL GOVERNMENTS

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
igher Education	$ 33.6	$ 37.7	$ 0	$ 37.7	$ 49.4	$ 0	$ 49.4
ducation	815.0	764.0	376.0	1,140.0	761.3	505.0	1,266.3
ublic Assistance and Child Care	237.3	254.0	0	254.0	268.0	0	268.0
ransportation	10.2	13.3	0	13.3	11.7	0	11.7
ealth (Mental Health)	26.1	25.8	0	25.8	27.8	0	27.8
. Citizens' and Veterans' roperty Tax Relief	14.0	14.0	22.0	36.0	0	58.0	58.0
siness Personal Property Tax	142.7	148.6	0	0	108.2	18.8	127.0
ilroad Property Tax	8.1	7.7	0	7.7	7.7	0	7.7
icipal Aid Program and Safe d Clean	48.7	48.7	0	48.7	50.9	0	50.9
Program — Homestead; Veterans; venue Sharing	0	0	160.0	160.0	0	323.0	323.0

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
Other	$ 15.9	$ 21.1	$ 0	$ 21.1	$ 35.6	$ 0	$ 35.6
Sub-Total - State Aid to Local Governments	$1,361.6	$1,334.9	$558.0	$1,892.9	$1,320.8	$904.8	$2,225.6
III. REVENUE PRODUCING ACTIVITIES							
Casino Gambling	$ 0	$ 4.1	$ 0	$ 4.1	$ 0	$ 0	$ 0
Tax and Revenue Administration	18.7	22.0	0	22.0	22.0	0	22.0
State Lottery Administration	3.8	3.7	0	3.7	3.7	0	3.7
Motor Vehicle Licenses	7.5	8.4	0	8.4	8.5	0	8.5
Racing Commission	.8	.8	0	.8	.6	0	.6
Department of State	1.7	1.8	0	1.8	1.8	0	1.8
Investment Division	.7	.9	0	.9	.9	0	.9
Sub-Total - Revenue Producing Activities	$ 33.2	$ 41.7	$ 0	$ 41.7	$ 37.5	$ 0	$ 37.5
IV. SELF-SUPPORTING REGULATORY AGENCIES							
Department of Banking	$ 2.7	$ 2.8	$ 0	$ 2.8	$ 3.0	$ 0	$ 3.0
Department of Insurance	3.1	3.3	0	3.3	3.5	0	3.5
Department of Public Utilities	3.7	4.3	0	4.3	4.8	0	4.8
Division of Fish and Game	3.3	3.9	0	3.9	4.2	0	4.2
Regulation of Motor Boats	.9	.9	0	.9	.9	0	.9

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
lot Commissioners and Morris Canal	$ .1	$ .1	$ 0	$ .1	$ .1	$ 0	$ .1
ter Supply -- Spruce Run Round alley	1.0	1.0	0	1.0	2.7	0	2.7
gulation of Professional Boards	1.9	1.9	0	1.9	3.0	0	3.0
curity Responsibility Law	2.3	2.5	0	2.5	2.6	0	2.6
cond Injury Fund Administration	.5	.7	0	.7	.7	0	.7
sability Benefits	5.8	5.4	0	5.4	4.7	0	4.7
using Inspection and Code nforcement	2.2	2.5	0	2.5	2.6	0	2.6
Sub-Total - Self-Supporting Regulatory Agencies	$ 27.5	$ 29.3	$ 0	$ 29.3	$ 32.8	$ 0	$ 32.8

V. PROTECTION OF PERSONS AND PROPERTY

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
icle Inspection	$ 9.0	$ 10.8	$ 0	$ 10.8	$ 10.7	$ 0	$ 10.7
ver Control	5.6	6.0	0	6.0	6.2	0	6.2
r Vehicle Division Administration	1.5	1.6	0	1.6	2.9	0	2.9
e Police Operations	34.7	36.9	0	36.9	39.5	0	39.5
inal Justice	3.7	3.9	0	3.9	3.9	0	3.9
ion Law Enforcement	.3	2.1	0	2.1	2.1	0	2.1
Services	3.1	3.1	0	3.1	3.3	0	3.3
Law Enforcement and Management	.2	.4	0	.4	1.5	0	1.5

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
onsumer Affairs	$ 2.2	$ 2.5	$ 0	$ 2.5	$ 1.6	$ 0	$ 1.6
ivil Rights	1.3	1.2	0	1.2	1.4	0	1.4
lcoholic Beverage Control	1.9	2.3	0	2.3	2.1	0	2.1
iolent Crimes Compensation	1.2	1.0	0	1.0	1.3	0	1.3
ublic Advocate	1.9	1.5	0	1.5	1.5	0	1.5
orrection Institutions	42.5	53.8	0	53.8	59.0	0	59.0
arole Programs	4.4	4.5	0	4.5	5.4	0	5.4
orrection Management	2.1	3.7	0	3.7	4.4	0	4.4
ational Guard	4.6	4.9	0	4.9	5.2	0	5.2
ivil Defense	.3	.4	0	.4	.4	0	.4
EPA	1.6	1.5	0	1.5	1.7	0	1.7
Sub-Total - Protection of Persons and Property	$ 122.1	$ 142.1	$ 0	$ 142.1	$ 154.1	$ 0	$ 154.1

VI. PHYSICAL AND MENTAL HEALTH

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
d to Chronically Ill	$ 1.7	$ 1.6	$ 0	$ 1.6	$ 1.6	$ 0	$ 1.6
ippled Children's Aid	1.3	1.6	0	1.6	1.8	0	1.8
alth Facilities Administration	1.6	2.0	0	2.0	1.9	0	1.9
alth Planning	.2	.2	0	.2	.2	0	.2
cal Health Services and Other ealth	4.5	1.0	0	1.0	3.2	0	3.2

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
rug Treatment State Only	$ 1.3	$ 1.4	$ 0	$ 1.4	$ 1.6	$ 0	1.6
ealth Department Management	1.9	1.9	0	1.9	2.0	0	2.0
ommunicable Disease Control	1.0	1.0	0	1.0	1.0	0	1.0
rug and Alcohol Programs	3.5	3.5	0	3.5	4.9	0	4.9
ealth Laboratory Services	1.0	1.3	0	1.3	2.2	0	2.2
ental Retarded Institutions*	56.2	72.8	0	72.8	73.7	0	73.7
ental Retarded Purchased Care	4.9	4.9	0	4.9	5.2	0	5.2
Mental Retarded Day Training	5.1	5.1	0	5.1	5.9	0	5.9
ental Retarded Management	4.2	4.2	0	4.2	3.4	0	3.4
ental Hospital Institutions*	81.4	76.8	0	76.8	76.1	0	76.1
ental Health Management	6.5	6.8	0	6.8	8.3	0	8.3
edicaid Administration	7.5	9.2	0	9.2	10.6	0	10.6
edicaid Medical Services	208.5	267.0	0	267.0	275.0	0	275.0
edicaid Newark Program	5.0	5.0	0	5.0	0	0	0
lind Commission	3.2	3.1	0	3.1	3.4	0	3.4
Sub-Total - Physical and Mental Health	$ 400.5	$ 470.4	$ 0	$ 470.4	$ 482.0	$ 0	$ 482.0

The New Jersey Neuropsychiatric Institute was transferred from a Mental Health facility to a Mental Retardation facility during Fiscal Year 1976. The above data shows the Neuropsychiatric Institute as a Mental Health Institute in 1976, and as a Mental Retardation Center in 1977.

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
VII. SOCIAL SERVICES							
outh and Family Services	$ 11.0	$ 14.6	$ 0	$ 14.6	$ 18.9	$ 0	$ 18.9
elfare Administration	3.3	4.7	0	4.7	4.8	0	4.8
Sub-Total - Social Services	$ 14.3	$ 19.3	$ 0	$ 19.3	$ 23.7	$ 0	$ 23.7
VIII. EDUCATIONAL ACTIVITIES							
ublic Broadcasting Authority	$ 3.2	$ 3.1	$ 0	$ 3.1	$ 3.7	$ 0	$ 3.7
ouncil on Arts	.7	.8	0	.8	1.0	0	1.0
ew Jersey State Museum	1.1	1.2	0	1.2	1.3	0	1.3
tate Library and Historical Comm.	1.7	2.0	0	2.0	2.1	0	2.1
icentennial Commission	.4	.1	0	.1	0	0	0
roject COED	1.5	1.3	0	1.3	1.6	0	1.6
ocational Education Administration	.6	.5	0	.5	.6	0	.6
eneral Education Administration	8.1	9.5	0	9.5	11.6	0	11.6
& E Education for Mentally Retarded	0	0	0	0	4.0	0	4.0
chool for the Deaf	4.2	2.8	0	2.8	2.9	0	2.9
igher Education Institutions							
State Colleges	104.0	114.2	0	114.2	127.2	0	127.2
Rutgers	82.0	90.0	0	90.0	95.0	0	95.0
Medical School	42.0	45.4	0	45.4	45.6	0	45.6
NJIT	9.7	11.1	0	11.1	12.4	0	12.4

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
Edison College	$ .4	$ .9	$ 0	$ .9	$ .6	$ 0	$ .6
Scholarships and Loans for Higher Education	13.0	17.5	0	17.5	14.2	0	14.2
Equal Opportunity Fund (Higher Education)	16.2	16.8	0	16.8	16.3	0	16.3
Dental School	0	1.9	0	1.9	2.3	0	2.3
Higher Education Management	1.7	2.8	0	2.8	4.1	0	4.1
Aid to Independent Colleges	7.5	9.7	0	9.7	10.0	0	10.0
Sub-Total - Educational Activities	$ 298.0	$ 331.6	$ 0	$ 331.6	$ 356.5	$ 0	$ 356.5
IX. COMMUNITY DEVELOPMENT AND ENVIRONMENTAL MANAGEMENT							
Plant and Animal Disease Control	$ 1.4	$ 1.4	$ 0	$ 1.4	$ 1.5	$ 0	$ 1.5
Agricultural Resource Development	.9	1.0	0	1.0	1.3	0	1.3
Natural Resource Management	4.0	4.5	0	4.5	4.3	0	4.3
Air Pollution Control	.5	1.0	0	1.0	1.2	0	1.2
Water Pollution Control	1.8	1.1	0	1.1	1.2	0	1.2
Other Pollution Control (Radiation, Pesticide, Cancer, etc.)	.6	1.0	0	1.0	.6	0	.6
Parks Operations	6.1	5.8	0	5.4	7.8	0	7.8
Marina Operations	1.0	1.1	0	1.1	1.4	0	1.4

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
nvironmental management	$ 3.4	$ 3.6	$ 0	$ 3.6	$ 4.4	$ 0	$ 4.4
ommunity Affairs Management	.6	.8	0	.8	.9	.0	.9
outh Jersey Port Corporation	1.4	.7	0	.7	.9	0	.9
ousing Programs	1.0	5.9	0	5.9	1.3	0	1.3
ommunity Finance and Planning	1.9	7.3	0	7.3	2.5	0	2.5
Sub-Total - Community Development and Environmental Management	$ 24.6	$ 35.2	$ 0	$ 34.8	$ 29.3	$ 0	$ 29.3
X. ECONOMIC DEVELOPMENT AND INCOME MAINTENANCE							
Workmen's Compensation	$ 2.0	$ 2.4	$ 0	$ 2.4	$ 2.5	$ 0	$ 2.5
Miscellaneous Employment Programs	.7	1.2	0	1.2	.3	0	.3
Occupational Health and Safety	.7	.9	0	.9	1.0	0	1.0
Wage and Hour Bureau	1.0	1.0	0	1.0	1.3	0	1.3
Labor Relations	1.1	1.3	0	1.3	1.4	0	1.4
Economic Development	1.1	1.7	0	1.7	2.0	0	2.0
Labor and Industry Management	.7	.8	0	.8	.9	0	.9
Human Resources by Community Affairs Department	1.7	.7	0	.7	1.4	0	1.4
Vocational Rehabilitation	5.2	6.0	0	6.0	5.2	0	5.2
Agricultural Trade Regulation	1.2	1.2	0	1.2	1.3	0	1.3
Public Defender Activities	10.0	11.6	0	11.6	12.2	0	12.2

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
'eterans' Homes	$ 4.1	$ 5.1	$ 0	$ 5.1	$ 4.9	$ 0	$ 4.9
'eterans' Assistance	.6	.6	0	.6	.7	0	.7
Sub-Total - Economic Development and Income Maintenance	$ 30.1	$ 34.5	$ 0	$ 34.5	$ 35.1	$ 0	$ 35.1
		XI. TRANSPORTATION					
ighway Maintenance	$ 48.7	$ 58.3	$ 0	$ 58.3	59.8	$ 0	$ 59.8
ailroad and Bus Operations	61.0	67.0	0	67.0	67.6	0	67.6
eronautics	.2	.3	0	.3	.3	0	.3
:ansportation Planning and Research	1.6	1.6	0	1.6	1.6	0	1.6
ighway construction	31.0	86.7	0	86.7	40.3	0	40.3
'ansportation Department Management	5.8	6.9	0	6.9	7.0	0	7.0
Sub-Total - Transportation	$ 148.3	$ 220.8	$ 0	$ 220.8	$ 176.6	$ 0	$ 176.6
		XII. GENERAL GOVERNMENT ACTIVITIES					
vernor's Office	$ .8	$ .8	$ 0	$ .8	$ .8	$ 0	$ .8
gislature	9.0	10.1	0	10.1	10.8	0	10.8
dicial Branch	15.0	16.9	0	16.9	18.4	0	18.4
ntral Statewide Management	10.0	12.0	0	12.0	13.3	0	13.3
ntral Statewide Support Services	8.5	8.8	0	8.8	9.6	0	9.6
scellaneous Commissions	3.1	2.8	0	2.8	2.8	0	2.8

COMPONENTS OF STATE SPENDING (Cont'd.)

	1976 Appropriation	1977 General State Fund	1977 Property Tax Relief Fund	1977 Total	1978 General State Fund	1978 Property Tax Relief Fund	1978 Total
Central Rent Account	$ 17.8	$ 19.6	$ 0	$ 19.6	$ 20.7	$ 0	$ 20.7
Civil Service Department	5.5	6.1	0	6.1	7.1	0	7.1
Management of Human Services Department	3.8	3.9	0	3.9	4.2	0	4.2
Emergency Fund	2.5	1.4	0	1.4	1.5	0	1.5
Salary Programs, Fringe Benefits and Overtime	32.1	(65.7)*	0	(65.7)	44.5	0	44.5
Miscellaneous Capital Construction	4.0	6.0	0	6.0	7.4	0	7.4
Sub-Total - General Government Activities	$ 112.1	$ 88.4	$ 0	$ 88.4	$ 141.1	$ 0	$ 141.1

* For comparative purposes — dollar amount allocated among Department,

EXHIBIT IV

STATE AID DISTRIBUTION

LEVEL OF GOVERNMENT

1978 APPROPRIATION

	General State Fund 1978	Property Tax Relief Fund	Grand Total
I. Schools			
Thorough and Efficient and Others	761,177,835	505,023,076	
Sub-Total	761,177,835	505,023,076	1,266,200,911
II. Counties			
Bergen County Hospital	2,000,000		
Solid Waste Management	900,000		
Revenue Sharing	5,000,000		
County Tax Board	428,125		
County College Aid ($700 per FTE)	49,850,000		
County Mental Hospitals	20,300,000		
Outpatient and Community Services	7,500,000		
Aid for Families of Dependent Children	168,385,000		
Supplemental Security Income	17,275,000		
Unemployment of Fathers Assistance	4,885,000		
Insufficient Employment of Fathers Assistance	9,999,000		
Emergency Assistance	600,000		
Child Care Services	26,503,664		
County Offices on Aging	378,000		
County Court Judges' Salaries	1,691,000		
Mosquito Control	300,000		
Payment of Fees for Sale of Certain Licenses	2,700		
Sub-Total	315,997,489	0	315,997,489
III. Municipalities			
Business Personal Property Tax Replacement	108,203,834	18,759,233	
Community Development	395,000		
General Assistance	41,238,000		
Local Highway Aid*	11,772,549		
Municipal Aid	38,940,170		
Safe and Clean	12,000,000		
Shore Protection	1,500,000		
In Lieu of Taxes	8,000,000		
In Lieu of Tax Payments for State Owned Property (Trenton, Ewing, New Brunswick)	1,675,000		
SLEPA Planning	517,413		
Aid for Keansburg	285,225		
Public Service Training Internships	250,000		
Rural Aid	400,000		
Railroad Tax Replacement Aid	7,725,663		
Housing Building Code Memberships	30,000		
Consolidated Police and Firemen Pension Fund	5,654,834		
Property Tax Rebate	0	266,000,000	
Revenue Sharing	0	50,000,000	
Veterans/Senior Citizens Deductions	0	58,000,000	
Youth Employment**	1,900,000		
Neighborhood Preservation	1,000,000		
Grants to Trenton for Historical Purposes	60,000		
Sub-Total	241,545,688	392,759,233	634,304,921
IV. Non-Profit Groups			
Program Development	100,000		
OEO (Legal Services, CAPS, etc.)	800,000		
Hispanic Organizations	500,000		
Special Olympics	75,000		
Revolving Housing Fund	750,000		
Sub-Total	2,225,000	0	2,225,000
V. Others			
Administration of Property Tax	0	7,055,000	
Sub-Total	0	7,055,000	7,055,000
TOTAL	1,320,946,012	904,837,309	2,225,783,321

* Some portion also goes to counties -- $1,497,549 is for Construction Engineering.

** Some portion also goes to non-profit groups.

Source: Division of Budget & Accounting, Department of Treasury

EXHIBIT V

STATE AID SUMMARY

GENERAL STATE FUND

	1977 Adjusted Appropriation	1978 Appropriation
I. Education		
Equalization Aid	377,894,032	336,644,032
Special Education	63,504,818	64,604,818
Teacher's Pension	217,157,007	250,358,574
School Facility Program	33,007,075	34,827,062
Pupil Transportation	37,070,000	37,070,000
Aid for Non-Public Education	3,500,000	4,770,000
Adult and Continuing Education	3,379,533	3,450,000
Other Grants in Aid	4,234,545	3,167,598
Nutrition Programs	9,300,000	9,800,000
Vocational Education	6,978,248	6,970,801
State Library Aid	6,752,321	7,825,000
State Museum	500,000	525,000
Educational Improvement Centers	540,000	1,164,950
Sub-Total - Education	763,817,579	761,177,835
II. Higher Education		
Aid to County Colleges (Operational)	35,877,400	47,950,000
Debt Service	1,900,000	1,900,000
Sub-Total - Higher Education	37,777,400	49,850,000
III. Human Services		
County Mental Hospitals	18,350,000	20,300,000
Outpatient and Community Services	7,500,000	7,500,000

	1977 Adjusted Appropriation	1978 Appropriation
Income Maintenance		
General Assistance	31,485,000	41,238,000
AFDC	163,586,000	168,385,000
SSI	19,649,000	17,275,000
Unemployment of Fathers	4,696,000	4, 85,000
Insufficient Employment of Fathers	9,386,000	9,999,000
Payments for Emergencies	600,000	600,000
Sub-Total - Income Maintenance	229,375,000	242,382,000
Child Care Costs	23,601,864	26,503,664
Sub-Total - Human Services	278,826,864	296,685,664
IV. Transportation		
Local Highway Aid Projects	11,882,681	10,275,000
Construction Engineers	1,499,956	1,497,549
Sub-Total - Transportation	13,382,637	11,772,549
V. Community Affairs		
Municipal Aid	38,940,170	38,940,170
Safe and Clean Neighborhoods	12,000,000	12,000,000
Revolving Housing Fund	1,700,000	750,000
In Lieu of Tax Payments (Trenton, Ewing, New Brunswick)	1,125,000	1,125,000
County Offices on Aging	360,000	378,000
Housing - Building Code Memberships	0	30,000
OPSAIL	310,000	0
Youth Programs	1,900,000	1,900,000
Community Development	395,000	395,000
Hispanic	0	500,000
Economic Opportunity Programs	800,000	800,000
Rural Aid	0	400,000

STATE AID SUMMARY (Cont'd.)

	1977 Adjusted Appropriation	1978 Appropriation
Public Service Training Internships	0	250,000
Program Development	476,000	100,000
Neighborhood Preservation	0	1,000,000
Special Olympics	50,000	75,000
Sub-Total - Community Affairs	58,076,170	58,693,170
VI. **Judiciary**		
County Court Judges' Salary	1,602,000	1,691,000
Sub-Total - Judiciary	1,602,000	1,691,000
VII. **Environmental Protection**		
Aid to Keansburg	0	283,225
Marine Land Management (Shore Protection)	1,000,000	1,500,000
Mosquito Control	275,000	300,000
In Lieu of Tax Payments (Water Supply and Recreation Facilities)	300,000	500,000
Solid Waste Management (Grants and Administration)	0	900,000
Historic Restoration for Trenton	0	60,000
Sub-Total - Environmental Protection	1,575,000	3,543,225
VIII. **Law and Public Safety**		
Payment of Fees to Counties for Sale of Licenses	2,700	2,700
Law Enforcement Planning	685,000	517,413
Sub-Total - Law and Public Safety	687,700	520,113
IX. **Health**		
Jersey City Medical Center	3,000,000	0
Be[illegible]n Pines County Hospital	0	2,000,000

	1977 Adjusted Appropriation	1978 Appropriation
... Health	3,000,000	2,000,000

X. Treasury

	1977 Adjusted Appropriation	1978 Appropriation
County Revenue Sharing	0	5,000,000
County Boards of Taxation	433,125	428,125
Railroad Property Taxes	7,725,663	7,725,663
Senior Citizens Property Tax Deduction	14,000,000	0
Consolidated Police and Firemen	5,353,852	5,654,834
Business Personal Property Tax Replacement Program	0	108,203,834
In Lieu of Tax Payments	0	8,000,000
Sub-Total - Treasury	27,512,640	135,012,456
Total - State Aid, General State Fund	1,186,257,990	1,320,946,012

PROPERTY TAX RELIEF FUND

I. Education

	1977 Adjusted Appropriation	1978 Appropriation
Formula Aid	) 374,000,00	341,105,968
Special Education		80,205,182
School Building		33,916,049
Pupil Transportation		49,795,877
Sub-Total - Education	374,000,000	505,023,076

II. Treasury

	1977 Adjusted Appropriation	1978 Appropriation
Revenue Sharing	25,000,000	50,000,000
Senior Citizens/Veterans	22,000,000	58,000,000
Homestead Rebate	130,000,000	266,000,000
Business Personal Property Tax Replacement Program	0	18,759,233
Administration	5,000,000	7,055,000
Sub-Total - Treasury	182,000,000	399,814,233
Total - State Aid, Property Tax Relief Fund	556,000,000	904,837,309
GRAND TOTAL - STATE AID	1,742,257,990	2,225,783,321

STATE AID SUMMARY

GENERAL STATE FUND

I. Education

Equalization Aid

Equalization support for current expenses of all school districts shall be paid in accordance with a formula based on district equalized and State guaranteed valuation per pupil, the local district current expense budget for the prebudget year, resident enrollment, and the State support limit.

Special Education

Categorical aid shall be provided for special education, bilingual education, State compensatory education, and approved local vocational education.

Teachers' Pension

The State provides the employer's share to the Teachers' Pension and Annuity Fund. Nearly all public school teachers and janitorial employees of local boards are required to contribute to the fund.

School Facility Program

This program provides State support for debt services and budgeted capital outlays for school buildings.

Public Transportation

State aid is paid to local school districts for 100% of the approved cost of transportation provided or purchased for public school students. Aid is also paid for approved remote transportation of non-public school students.

Aid for Non-Public Education

The Board of Education in each public school district is required to purchase and lend textbooks upon individual request to all students residing in the public school district who are enrolled full-time in grades K-12 in any non-public school within New Jersey.
The non-public schools must comply with compulsory school attendance requirements of Title VI of the Civil Rights Act of 1964 for their students to receive State aid. The aid may not exceed $10. per pupil.

Adult and Continuing Education

State funds provide the matching share required under a Federal aid grant for adult and continuing education, high school equivalency, adult literacy and schooling for the foreign-born programs.

Source: Division of Budget & Accounting,
Department of Treasury

STATE AID SUMMARY (Cont'd.)

Other Grants in Aid

The State provides funds for aid to children residing in institutions, aid for children residing on State property, emergency aid to meet unforeseen conditions in any school district, and reimbursement of up to 75% of the cost of public school law enforcement officers employed by local boards of education programs as well as disbursement of Federal funds received under the provisions of Titles I, III, and IV of the Elementary and Secondary Education Act.

Nutrition Programs

State and Federal cash reimbursements are paid to districts for part of the cost of school lunches. Extra funds are provided to eligible needy children.

Vocational Education

State aid is paid to school districts for varying portions of approved expenditures for new and innovative projects, general support of vocational programs subject to Federal requirements, consumer and homemaking, cooperative education, health occupation, vocational curriculum services, and exemplary programs. Aid for part-time vocation schools is provided for programs concerning training, retraining, upgrading and apprentice training. Career Development and Work Study programs are also State supported.

State Library Aid

Funds are paid to public libraries on a per capita basis, to public libraries to restore service lost because of emergencies and to encourage larger units of service, to area libraries to provide specialized services, as contractual grants to research libraries, to libraries for administrative costs incurred by the State Library.

State Museum

Materials are collected, exhibited, and interpreted which concern fine and decorative arts, cultural history, and science. Film and traveling exhibition services, the Newark Museum Association and the New Jersey School of the Arts are maintained and supported.

Educational Improvement Centers

Assistance is provided to administrators, teachers, parents, county staffs and private and parochial school personnel. The four EICs, three State funded and one Federally funded, help local school districts in their planning, program development, evaluation process, and in developing applications for Federal funds.

Higher Education

Aid to County Colleges (Operational)

The State provides support funds to county colleges and county assisted junior colleges for operational costs to the extent of ½ thereof or $700 per equated full-time student, whichever is less.

Debt Service

The State pays a share of the principal and interest payments for bond issues floated for county college capital projects.

III. Human Services

County Mental Hospitals

The State pays county institutions $\frac{1}{3}$ the per capita rate for the cost of care. These county hospitals diagnose, treat, and rehabilitate both voluntarily and involuntarily committed mentally ill persons.

Outpatient and Community Services

The State develops preventive treatment and aftercare services for mental health programs. The program also improves existing community health programs.

Income Maintenance

General Assistance

General assistance is directly administered by local assistance boards in each municipality. Maintenance and hospitalization expenditures, 75% State supported, is given by municipal departments of welfare to needy persons not otherwise provided for under the laws of New Jersey.

AFDC

Assistance for Dependent Children is the assistance and other services extended to or for needy dependent children and the parents and relatives with whom they are living. The program is Federal, State and county supported; the state contributes 37½% of the total funds.

SSI

The Federal Supplemental Security Income Program provides direct Federal Income maintenance payments to the aged, blind, and disabled persons at a stipulated minimum level. New Jersey supplements the Federal payments.

Unemployment of Fathers

This program is a segment of AFDC in which eligibility is based on the unemployment of the father.

Insufficient Employment of Fathers

This program is another segment of AFDC in which eligibility is based on the insufficient employment of the parents; standard for this segment is 2/3 of the full AFDC standard.

Payments for Emergencies

Emergency assistance is an extra payment provided to public assistance recipients. The payment, in the form of a vendor payment or cash is made when there has been a substantial loss of shelter, food, or clothing by fire, flood or other natural disaster, or when the household is homeless because of a situation over which it had no control.

Child Care Costs

These services include assistance to families in crisis through counseling and supervision, casework and supportive services, and maintenance for children in foster care or other out of home placements. Maintenance includes boarding, clothing, health needs, and other related costs necessary to maintain these children adequately.

IV. Transportation

Local Highway Aid Projects

The State contributes to the financing of projects on high traffic volume, arterial and collector routes, county and municipal highways, streets, bridges, and highway lighting as well as the construction of local roads and streets as part of a State-wide secondary road network.

Construction Engineers

Engineering services are provided to review the design of local roads and streets.

V. Community Affairs

Municipal Aid

Provides assistance to municipalities to enable them to maintain and upgrade services. Municipalities must meet eligibility requirements based on population and the number of ADC children. 28 municipalties now qualify.

Safe and Clean Neighborhoods

This program provides assistance to improve the safety and cleanliness of neighborhoods in municipalities which receive State municipal aid.

Revolving Housing Fund

This program aids the production of low and moderate income housing by advancing necessary organizational funds to non-profit corporations operating at the local level on limited dividend. The fund also provides grants for demonstration projects designed to develop and improve means of constructing low and moderate income housing.

In Lieu of Tax Payments (Trenton, Ewing, New Brunswick)

The State contributes in lieu of taxes to certain municipalities in which the State owns large parcels of tax-exempt land for which these municipalities must expend significant amounts for service benefits to their State properties without receiving any compensation in the form of tax Revenues.

County Offices on the Aging

This program provides up to 50% of annual operating costs not to exceed $20,000 for county offices, for which Federal short term funding has been arranged.

Housing - Building Code Membership

The State pays the membership dues for municipalities to Building Officials and Code Administrators.

OPSAIL

The State appropriated funds to cover the cost of additional law enforcement personnel and public health related expenses necessary to insure the public health and safety of spectators viewing "Operation Sail 1976."

Youth Programs

These programs assist community groups in developing demonstration projects to alleviate umemployment among disadvantaged youths.

Community Development

This program supplements the Federal program to enable cities to plan, develop, and carry out locally prepared and scheduled comprehensive city demonstration programs containing new and imaginative proposals to rebuild or revitalize large slums and blighted areas.

Hispanic

The Office of Hispanic Affairs provides financial and supportive services for Federal foundation funding of innovative projects for Spanish-speaking people at the State and local level.

Economic Opportunity Programs

The State assists in the operation of innovative human resources development programs for the poor by providing matching funds to obtain grants from public and private sources. In addition to funds for legal services in civil matters, grants are awarded to community action agencies for job development training, learning development and other related projects.

Rural Aid

The State may provide formula-based aid to certain small municipalities of dense population and low taxing capacity. Should the legislation pending be enacted, twelve (12) municipalities would receive this aid.

Public Service Training Internships

This program provides for the summer, semester, and management trainee employment of college students in the hope that these outstanding students would follow a career in government service.

STATE AID SUMMARY (Cont'd.)

Program Development

This program provides financial and supportive services for Federal foundation funding of innovative projects at the State and local level. These programs have included assistance to Action Now Centers, narcotics addiction control programs, job employment programs, and housing renovation projects.

Neighborhood Preservation

The State awards funds to municipalities so that the municipalities may provide grants to support local programs that coordinate the application of available resources for the housing stock preservation and neighborhood stabilization.

Special Olympics

Provides sports training and athletic competition for mentally retarded and physically handicapped children and adults which contributes to the physical, social and psychological development of the participants.

VI. Judiciary

County Court Judges' Salary

The county court system consists of 21 county courts which have original jurisdiction in civil and criminal cases as well as contested probate matters, 21 Juvenile and Domestic Relations Courts, 21 County District Courts which have jurisdiction over contract and negligence cases involving less than $3,000, small claims and landlord tenant matters, and 21 Surrogate Courts which have responsibility for the administration of estates and serve as clerks of the probate division of the County Courts.

VII. Environmental Protection

Aid to Keansburg

The State appropriated funds to the Town of Keansburg to enable that municipality to repay the State for costs advanced by the State on their behalf due to contract over-runs on hurricane protection projects.

Marine Land Management (Shore Protection)

This appropriation provides for the repair, reconstruction or construction of bulkheads, seawalls, breakwaters, groins, jetties, beachfills or other shore protection structures to prevent erosion of the New Jersey shore-front.

Mosquito Control

The State Mosquito Control Commission coordinates the mosquito control program in counties bordering on the Atlantic Ocean and the Delaware Bay. Funds are allocated to the State Air-Spray program, Mosquito Surveillance, and Water Management projects.

STATE AID SUMMARY (Cont'd.)

In Lieu of Tax Payments (Water Supply and Recreation Facilities)

The State pays municipalities in lieu of taxes on property acquired for future water supply facilities, recreation and conservation purposes.

Solid Waste Management

This program provides funds for grants to Solid Waste Districts to prepare plans as required under the Solid Waste Management Act, and for staff and materials for plan review and technical assistance to districts.

Historic Restoration for Trenton

Grants are provided for historic restoration in the capital city.

VIII. Law and Public Safety

Payment of Fees to Counties for Sale of Licenses

Counties and municipalities which have departments of weights and measures receive, for their use, 50% of the fees collected by the State from the sale of solid fuel and poultry licenses in those counties and municipalities.

Law Enforcement Planning

The State shares the cost of block grant projects under the Law Enforcement Assistance Act for the improvement of the criminal justice system and for the reduction of crime and delinquency.

IX. Health

Jersey City Medical Center

The State contributes funds to the Medical Center to enable that institution to cover its operating deficit. The Medical Center is the largest and most complex public general hospital in the State.

Bergen Pines County Hospital

The State contributes funds to the Bergen Pines County Hospital to enable the Hospital to cover its operating deficit. The Bergen Pines County Hospital is the largest county hospital in the State.

X. Treasury

County Revenue Sharing

This program is designed to replace revenues, previously collected by the State for distribution to counties, which were under legislation that was repealed or otherwise changed. Money is allocated on a formula basis.

County Boards of Taxation

A County Board of Taxation is established in each county to hear taxpayers' appeals from local tax assessments and to certify tax duplicates. The collectors determine local tax rates, prepare county abstracts of ratables, promulgate equalization taxes, supervise the activities of assessors and do related work in the enforcement of local property tax laws.

Railroad Property Taxes

Replacement tax revenue is determined for each municipality by applying the 1966 general real property tax rate to the assessed value for the year, plus an amount equal to the difference between the railroad tax revenue for the year 1965 and the year 1966 for each year subsequent to 1967. The increase is reduced 10% until such time as the difference is eliminated.

Senior Citizens Property Tax Deduction

The Director of the Division of Taxation allocates an amount equivalent to the senior citizen property tax deduction to all municipalities for the succeeding year ($160 per senior citizen). The veterans' property tax deduction is also included in this program ($50 per veteran).

Consolidated Police and Firemen's Pension Fund

This fund, administered by a commission of two police and two fire representatives, the State Treasurer, and four Governor's appointees, places 213 police and firemen's pension funds on an actuarial basis. The fund's liabilities are shared 2/3 by the participating municipalities and 1/3 by the State.

Business Personal Property Tax Replacement Program

This statute mandates annual legislative appropriation of not less than the amount certified by the Director of the Division of Taxation for payment to municipalities in accordance with the formula in the act. The statute had been revised after repeal of the Unincorporated Business Tax and the Retail Gross Receipts Tax in 1976.

In Lieu of Tax Payments

This program provides State payments to municipalities in lieu of taxes for local services on State-owned property.

PROPERTY TAX RELIEF FUND

I. Education

Formula Aid

See description under General State Fund-Education-Equalization Aid.

Special Education

See description under General State Fund-Education.

School Building Aid

See description under General State Fund-Education-School Facility Program.

Pupil Transportation

See description under General State Fund-Education.

II. Treasury

Revenue Sharing

The State Revenue Sharing Act of 1976 established a revenue sharing fund which is distributed to all municipalities with effective tax rates in excess of one dollar per 100 dollars of the valuation, in proportion to each municipality's population percentage.

Senior Citizens and Veterans Tax Exemptions

See description under General State Fund-Treasury.

Homestead Rebate

Every citizen and resident of the state is entitled to a homestead exemption on the dwelling house owned and used by him as his principal residence. The exemptions, based upon the assessed property value and municipal effective tax rate, are made semi-annually to the home owner, upon application. Totally disabled or senior citizens receive an additional exemption.

Business Personal Property Tax Replacement Program

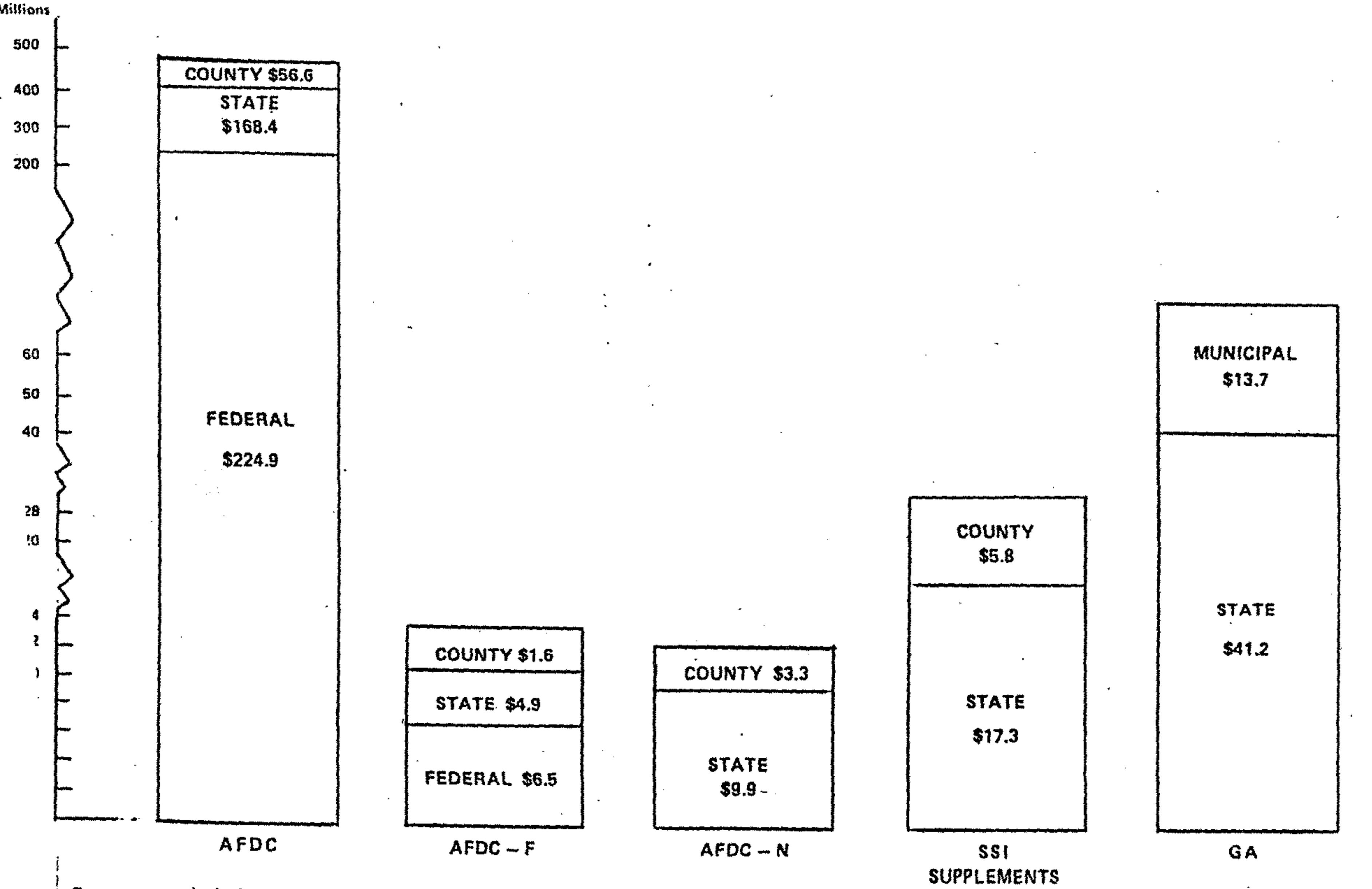
See description under General State Fund-Treasury.

Administration

The State pays the cost of administering the Gross Income Tax and the Homestead Exemption Act from theProperty Tax Relief Fund.

EXHIBIT VII

TOTAL PUBLIC ASSISTANCE APPROPRIATIONS
BY PROGRAM AND GOVERNMENTAL LEVEL
FY '78



Source: Division of Welfare,
Department of Human Services

EXHIBIT VIII

Income for a Family of Four
From AFDC and Food Stamps Combined Compared With
Per Capita Personal Income

Ten States With the Largest
AFDC Caseloads

	Combined Income		Per Capita Personal Income (a.)		AFDC Families (b.)	
	Amount	Rank	Amount	Rank	Number	Rank
New York	$5,592	(1)	$7,100	(2)	363,914	(2)
Michigan	5,472	(2)	6,994	(4)	186,964	(5)
Massachusetts	5,364	(3)	6,585	(6)	114,050	(8)
California	5,292	(4)	7,048	(3)	434,568	(1)
Pennsylvania	5,220	(5)	6,466	(7)	194,956	(4)
New Jersey	5,124	(6)	7,269	(1)	137,683	(7)
Illinois	4,728	(7)	6,793	(5)	215,811	(3)
Ohio	4,188	(8)	6,432	(8)	165,523	(6)
Missouri	3,468	(9)	6,005	(10)	89,146	(10)
Texas	3,228	(10)	6,243	(9)	98,893	(9)

(a.) Source: US Dept. of Commerce, Bureau of Economic Analysis, Commerce News, May 11, 1977, "1976 State Personal Income", Table 1.

(b.) Source: DHEW, Public Assistance Statistics, January 1977, Table 6.

COMPARISON OF NEED STANDARDS

AFDC Family with 4 Recipients 1/

Ten States with Largest AFDC Caseloads

JULY 1976

	Largest Amount Paid for Basic Needs 2/	Bureau of Labor Statistics Poverty Level 3/	Largest Amount Paid As Percent Of BLS Poverty Level
Texas	140	523	26.8%
Missouri	170	523	32.5%
Ohio	254	523	48.6%
Illinois	317	523	60.6%
New Jersey	356	523	68.1%
Pennsylvania	373	523	71.3%
California	379	523	72.5%
Massachusetts	385	523	73.6%
Michigan	403	523	77.1%
New York	422	523	80.7%

1/ The national figure for a low income urban family of 4 for May 1977 for all family consumption items except medical care was $635 per month. This is based on the Lower Budget Cost for Urban United States as published by the U. S. Department of Labor's Bureau of Labor Statistics. In July 1976, this figure was approximately $600.

2/ Including only those items of basic need covered by the New Jersey Standard and, generally, the standards in other states, the national BLS figure for May 1977 was $559.

3/ The U. S. Department of Labor's Bureau of Labor Statistics estimated the poverty level to be $523 per month for July 1976. This should be differentiated from the Lower Budget costs of $600 per month in July 1976.

EXHIBIT X

MEDICAID ELIGIBILITY

	FY 1977*	FY 1978**	FY 1979**
SSI-Related			
Aged	63,770	68,600	73,100
Disabled	61,738	70,800	81,200
Blind	1,299	1,400	1,500
Assistance to Families with Dependent Children	447,770	456,700	465,900
Assistance to Families of the Working Poor	38,422		
AFDC-U / AFWP		57,600	60,500
Division of Youth and Family Services	20,238	21,700	23,200
Medical Assistance for the Aged	232	200	200
Total	633,469	677,000	705,600

* Actual
** Estimated

Source: Division of Medical Assistance, Department of Human Services

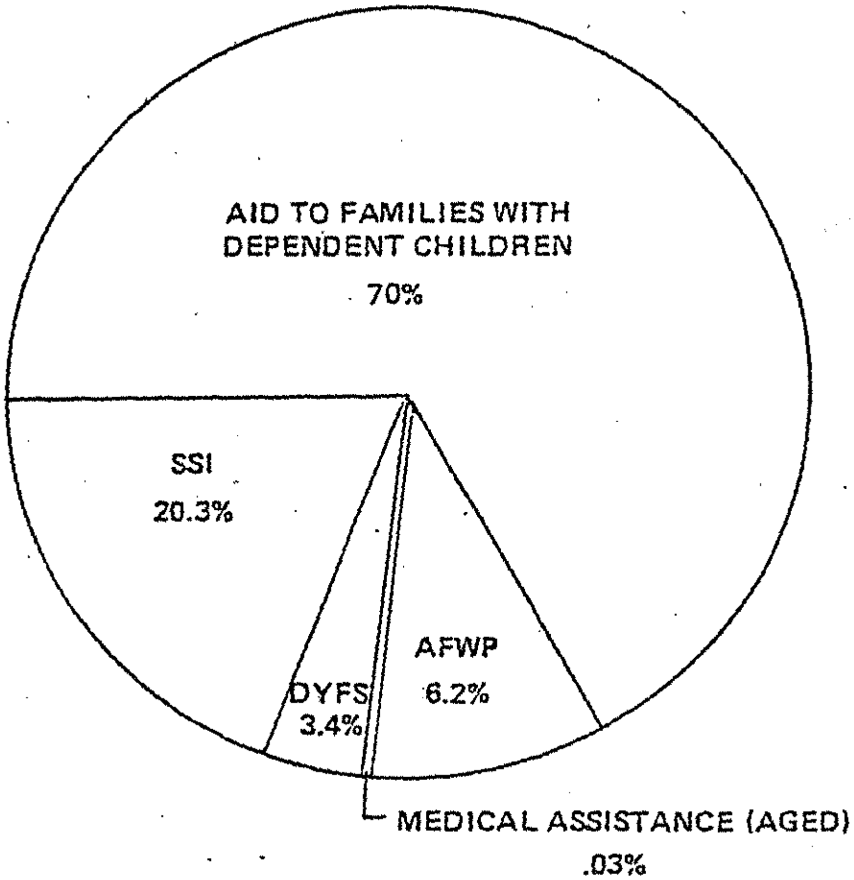
...ION OF MEDICAL ASSISTANCE

EXHIBIT X

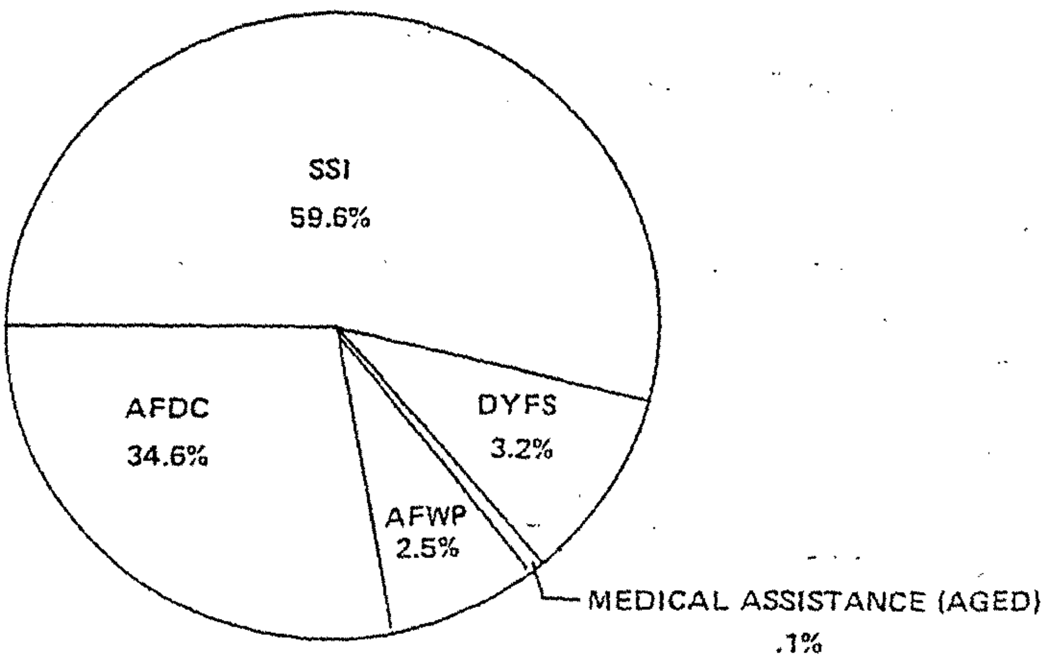
CASELOAD AND COSTS

FY 1977

ELIGIBILITY



COST



Source: Division of Medical Assistance,
Department of Human Services

EXHIBIT XII

MEDICAID PAYMENTS ($000)

	FY 1977	FY 1978	FY 1979
Mental Hospital	$ 37,977	$ 43,217	$ 47,569
Nursing Home	152,064	174,081	193,752
Hospital, Inpatient	123,637	149,761	173,264
Hospital, Outpatient	35,525	41,777	48,926
Home Health	1,663	2,142	2,756
Physician	49,993	54,792	58,831
Dentist	18,164	20,043	21,442
Optometrist Exam	1,951	2,158	2,314
Podiatrist	507	565	621
Prescribed Drugs	32,292	38,032	44,208
Clinic	3,799	4,433	5,110
Lab and X-ray	1,497	1,637	1,760
Optical Appliances	2,470	2,825	3,139
Prosthetic	1,415	1,681	1,973
Medical Supply	883	1,066	1,282
Transportation	1,823	2,077	2,367
Medicare B Premium	6,152	7,123	8,254
All Services	$471,812	$547,410	$617,568

Source: Division of Medical Assistance, Department of Human Services

OPERATING ASSISTANCE BUDGET

FY 1975-1981 ($M)

Needs	'75	'76	'77	'78	'79	'80	'81
Bus	26.9	36.8	40.9	52.6	61.8	78.7	87.9
Rail	40.9	47.9	52.2	60.5	78.3	85.1	89.7
E & H	2.4	2.6	3.4	3.7	4.0	4.5	5.0
Total	70.2	87.3	96.5	116.8	144.1	168.3	182.6

Resources							
State Approp.	71.6	58.6	64.0	62.5	99.1	129.3	141.6
Net Tfr/Refunds	- .2	.3	-	-	-	-	-
Carry Fwd.*	2.5	16.9	10.9	14.4	3.3	-	-
Section 5	13.0	20.2	30.9	34.0	38.4	39.0	41.0
Section 17	-	-	5.4	9.2	3.1	-	-
Total	86.9	96.0	110.9	120.1	143.9	168.3	182.6

Adjusted for commitment cancellation in prior FY

Source: Department of Transportation

REPORT OF THE SUBCOMMITTEE ON TAX ALTERNATIVES

SUBMITTED TO THE FULL COMMISSION

A REVIEW OF ALTERNATIVE REVENUE SOURCES

Contents

SUB-COMMITTEE ON TAX ALTERNATIVES

LIST OF EXHIBITS

I. BACKGROUND

Prior to the events set in motion by the State Supreme Court decision in Robinson v. Cahill, the State's need to establish a fair and equitable tax system, fitted to the needs of effective and efficient State and local governments, was apparent. Except for fiscal year 1976, when appropriations marked the first net spending decrease in at least two decades, it was apparent that revenues would not be able to expand fast enough to cover the growth in appropriations. As early as 1972, the New Jersey Tax Policy Committee warned that the relatively inelastic* nature of the State's tax system, designed as it was to change at approximately the same rate as personal income, would only aggravate the State's fiscal problems.

The problem lay in the fact that although the revenue structure was proportionately responsive to rises in personal income, the costs of servicing the public were rising at an even greater rate. In New Jersey, for example, between the years 1964 and 1975, the annual rate of growth of total appropriations versus the annual rate of growth of personal income was 15.8 percent versus 8.2 percent, respectively. One could argue about the causes or effects of what appeared to be a phenomenal increase in reliance upon public as opposed to private resources; however, the growth in this demand for public services was met. Thus, an important issue was how responsive the various tax bases or revenues were to growth in the total or per capita income of the State and its local governments.

The ruling in Robinson v. Cahill served to emphasize the trend towards increasing reliance on State appropriated monies, underscored the necessity of closing the gap between potential expenditures and potential revenues, and required an analysis of the tax system in terms of equity considerations. That ruling also required the State to define its educational obligation and to specify a plan for distribution of State financial aid so that each school district would have a fair chance of fulfilling the educational obligation through a combination of State and local resources. The Court's decision made it clear that the new funding formula could not rest upon a tax structure which was primarily local-oriented. Although Chief Justice Weintraub's decision was, in many ways, different from the decisions generated by similar cases in other states, most judicial experts agreed that the State's heavy reliance on local property taxes for education would not be upheld if again brought before the courts unless the unequal burdens caused by that system were to be mitigated by State aid.

The Subcommittee, therefore, is to some extent constrained in its consideration of alternatives to the current program, specifically in the field of educational financing, by both legal and real parameters. To the extent that our options are limited, we must choose from among the most feasible alternatives, the one which is best able to balance the burden of taxes at the local and State levels with the necessity of financing certain expenditures. Finally, if we intend to provide a balanced picture of the various

*Income elasticity is measured as a ratio between the change in expenditure or revenue and the change in personal income of the State's residents. An income elasticity of 1.0 means that an expenditure or revenue source changes at the same rate of income. When income elasticity exceeds 1.0, changes in revenues or expenditures occur at a faster rate than income. When income elasticity is less than 1.0, revenues or expenditures change at a slower rate than personal alternatives, we must consider the impact of those alternatives on the economic future of the State. A solution, for example, requiring excessive business taxes although temporarily solving the problem may prove more harmful than beneficial in the long run. The attraction of industry, and consequently jobs, to the State also must be kept in mind. Rising unemployment figures present a two-sided problem. Not only do they aggravate the need for additional revenues while reducing the base from which revenues are collected, but the further imposition of taxes on remaining industry forces many of these to leave the State for more economically agreeable climates elsewhere.

The goal of the Subcommittee is to identify alternative revenue sources to the existing Income Tax, and to present possible combinations or alternatives. No variations to the existing Income Tax are considered in this Report.

II. PROGRESSIVITY AND ELASTICITY

Several requirements may be used as criteria to appraise the quality of a tax structure.

The first of these is the notion of equity. On the revenue side, this involves various issues such as the "equal treatment of equals," i.e., the taxation of households in similar economic and social circumstances or the distribution of the tax burden among households with widely varying incomes. A common value judgment is that taxes should be based on ability to pay. That is, tax burdens should be distributed at least proportionately to income for many public expenditure purposes. Such a concept underlies any provision for a graduated or progressive tax.*

Employing the most commonly accepted methods of tax incidence analysis, nearly every tax used by the State appears to be regressive through most of the income range. Table I shows that as of 1971 the progressivity of the State's tax structure as a whole was only .68. This is not highly unusual. Almost all state tax structures show some degree of regressivity. However, virtually none of them showed it to such a degree as did New Jersey prior to the 1975 and 1976 tax changes. Based on 1974 data published by the Advisory Commission on Intergovernmental Relations, the tax burden on a family of four with an adjusted gross income of $5,000 was 20.5 percent. A similar family of four with an income of $50,000, however, carried a tax burden of only 9.6 percent. A comparison of selected states, using 1974 data, is shown in Table II.

Equity, however, need not be the major consideration used by the Subcommittee in generating alternatives; it can choose instead to find alternative funds with absolute money levels as its prime consideration. However, the extent of regressiveness or progressiveness of a tax structure has implications beyond equity. One such issue is the elasticity of the revenue structure. A regressive tax structure, for example, will tend to raise decreasing amounts of revenue relative to state personal income as state personal income increases. If, as has historically been the case, the demand

*A tax is progressive if the ratio of tax to income rises when moving up the income scale, proportional if the ratio is constant, and regressive if the ratio declines.

for public services continues to increase with rises in personal income, there will be a call for an increase in various tax rates over time. Although the increase of tax rates is a normal decision that should be charged to the State Legislature, it is usually a slow and painful process. A proportional or progressive state and local tax structure may avoid the perennial debates over tax rate changes and keep governmental revenues more equal to citizen demand for governmental expenditures.

Before the passage of the Income Tax, New Jersey had one of the least elastic tax structures of all the states. Based on ACIR data, the overall weighted elasticity of the State's tax structure was .83 placing it second only to Ohio in a range among all states which ran from .80 to 1.47. See Table III. According to the 1972 New Jersey Tax Policy Commission the overall income elasticity of the State's revenues as shown in Table IV was .98.

The above considerations do not exhaust all the possible criteria of a "good" tax system. Furthermore, the various objectives of such a system are not necessarily in agreement. For example, equity may require administrative complexity and interfere with neutrality--two other possible requirements for a "good" tax system. Where conflicts occur, tradeoffs between objectives are needed. The Subcommittee, therefore, has reviewed a wide variety of alternative funding proposals to ensure that as many of the possible tax objectives have been considered. The Subcommittee realizes, however, that each proposal does not meet each objective equally well.

III. DEFINITION OF FINANCIAL NEED

The Subcommittee could take a wide variety of positions regarding the baseline from which the requirement for alternative funds should be determined. The most limited view of this requirement would be to establish the baseline at the level of Chapter 212 school aid support which would have been provided by Income Tax monies. For fiscal year 1978, $962.1 million was appropriated for programs under the provisions of Chapter 212. Based upon data provided by the Department of Education this commitment will increase by approximately $82 million in fiscal year 1979 to $1,044 million. Although these figures represent the total appropriation, only $505 million of this amount will be paid from the Property Tax Relief Fund in fiscal year 1978, and a projected $587 million in fiscal year 1979.

In the most extensive view, the Subcommittee could take the position that the level of funds needed should be determined by the total amount of appropriations supported by the Income Tax proceeds keeping constant all other provisions of the 1976 Tax Reform Program such as property tax relief and repeal of various business taxes. This amounts to $913 million in fiscal year 1978 and approximately $1,030 million projected for fiscal year 1979.

Between these extremes, however, lie a wide variety of options depending upon the chosen combination of programs presently supported by monies out of the Property Tax Relief Fund and the level at which the Subcommittee recommends support. Similarly, complications arise as a result of deciding whether or not to reinstate the business taxes which were repealed as part of the 1976 Tax Reform Program, some of which were used to support programs now supported out of the Property Tax Relief Fund.

For a comparison between the current Property Tax Relief Fund Budget for fiscal year 1978 and projected needs for fiscal year 1978-79, see Table V.

Table V also reflects the taxes which were repealed as the result of the Income Tax Program. For fiscal year 1978 they would have totaled $121 million, and for fiscal year 1979 they are expected to increase to $153 million.

IV. POTENTIAL SOURCES OF FUNDS

For the purposes of the following analysis, the Income Tax, in either its present form or any variation thereof, is assumed to be an unavailable option. The remaining potential revenue sources which seem to be likely candidates for the required funds are of five general types. These include: (1) Reductions in Programs Funded by the Income Tax; (2) the Normal Growth of Existing Revenue Sources; (3) Changes to Increase the Yield of Established Revenue Sources; (4) the Development of Altogether New Revenue Sources Including the Reinstatement of Those Taxes Repealed by the 1976 Tax Reform Program; and (5) the Reduction of State Services Other Than Those Provided by Chapter 212.

A. Reductions in Programs Funded by Income Tax

One option available includes a variety of cuts in expenditures presently supported by State Income Tax revenue. If the Income Tax were eliminated, and no alternative sources were developed, the following would be the impact if the existing programs were eliminated in their entirety.

- School Expenditures: The $590 million to be allocated to local school districts out of the Property Tax Relief Fund could be replaced by cutting school expenditures by an average of 12-15 percent Statewide, or by increasing property taxes.

- Municipal Expenditures: The $126.6 million to be allocated to municipalities from State Income Tax revenues could be replaced by cutting municipal expenditures by an average of 8 percent Statewide, or by increasing property taxes.

- Homestead Rebates: The $274 million to be allocated to homeowners from the Property Tax Relief Fund could be eliminated entirely. Homeowners would not receive property tax relief.

- Administration: The elimination of the State Income Tax would eventually save $7 million; however, some part of this appropriation would be needed in fiscal year 1979 even if the tax were eliminated June 30, 1978 so as to audit and collect taxes through June 30, 1978.

While this is a possible alternative, the elimination of the Education money would certainly raise the constitutional question again. Thus, exclusive of Education, the elimination of all other aspects of the Income Tax would reduce the need to $590 million, instead of $1,030 billion.

B. Normal Growth of Established Revenue Sources

Table V shows actual or anticipated revenue sources for past and present State budgets. In addition, projections of growth in the yield of existing revenue sources have been made for each source for fiscal year 1978-79; i.e., the year in which the self-destruct clause of the Income Tax goes into effect.

From the Table,it can be seen that revenues other than from the Income Tax will increase by approximately $200 million in fiscal year 1979. Theoretically, this growth could be used to replace some portion of the Income Tax; in practice, however, we know that some or all of this growth must be used for existing programs. Based upon estimates supplied by the Division of Budget and Accounting, it is expected that all of this revenue growth will be needed to maintain existing programs, such as 1979 negotiated salaries, pension obligations, etc.

C. Changes In Rates Or Base

1. Sales Tax Rate Increases

The New Jersey Sales Tax is levied at a rate of 5 percent while the combined State and local sales tax rates in jurisdictions surrounding New Jersey range from zero in Delaware to 4 percent in Orange and Rockland Counties (New York); 5 percent in Westchester County (New York); 6 percent in Pennsylvania; 7 percent in Connecticut, in Nassau and Suffolk Counties (New York), and 8 percent in the five counties within New York City. Until the passage of the Income Tax, revenues from the Sales Tax had averaged 30 to 33 percent of the State's total anticipated revenues. In comparison, the Sales Tax as a percentage of total revenue in selected states is shown in Table VII.

The Division of Taxation estimates that increasing the Sales Tax rate to 6 percent would produce an additional $180 million in fiscal year 1977-78.* Projecting the growth of Sales Tax collections at a rate of 8 percent, the impact of a change to a 6, 7, 8, 9, and 10 percent Sales Tax in fiscal year 1978-79 is shown in Table VIII.

From the Table, it can be seen that an increase in the Sales Tax rate to 8 percent approximately would cover those funds distributed to local school districts out of the Property Tax Relief Fund. Counting on some probable fall-off in return per penny as the rate rises, a 10 percent Sales Tax would be a reasonable estimate of the rate necessary to replace those funds lost by abolition of the Income Tax.

2. Sales Tax Base Extension

The New Jersey Sales Tax applies to a relatively limited range of taxable items. Chief exemptions include food, apparel, prescription drugs and medicine, several professional and personal services, and utilities. Although may of these items have been exempted on the grounds they reflect a substantially larger portion of the low

*A 20 percent rate change implies a 18.6 percent change in revenue holding the rate-elasticity of the tax at .93. If fiscal year 1977-78 Sales and Use Tax equals as opposed to high income family budget, this is not always the case. Furthermore, the Sales Tax, since it is an ad valorem and not a unit tax, has the advantage of being able to reflect economic growth. For an indication of those items included in the sales tax of neighboring states, see Table IX.

The estimated yield of various Sales Tax base extensions at alternative rates is shown in Table X. Although many combinations of base extensions are possible, the potential for revenue without food and clothing and without a rate increase, is limited. To illustrate, if all of the proposed base extensions except for food and apparel were to be made, the estimated yield in 1978-79 would be about $1,002.3 million. If, however, food and apparel are included under the Sales Tax, the yield at an 8 percent growth rate would be about $1.4 billion.

3. Increase In Fee Schedules and Other Tax Rates

A variety of other tax rates and fee schedules could be increased to provide a higher yield. Several of those taxes and fees are listed in Table XI.

While the list of possibilities is extensive, the total dollar value is not great. Furthermore, many of the items listed also are included in the list of Sales Tax base extensions. Relatively few of the State anticipated revenues, except for the Sales and Income Taxes, exceed the average growth rate. Since the sources which exceed the average are generally the greatest percentage of total anticipated revenues, one can expect that the remaining sources will grow at a somewhat slower rate. As a matter of fact, the State may have reached the point, as regards the cigarette excise tax, where an increased tax rate will actually lead to diminishing returns.

One important note is in regard to changes in the Corporation Business Tax. At a rate of 7.5 percent on net income, New Jersey is generally comparable to surrounding states. However, an additional $900 million in business tax revenues, according to the Office of Economic Policy, would require tripling the corporate income tax rate to roughly 20 to 22 percent and reinstatement of the Retail Gross Receipts and Unincorporated Business Taxes. This, obviously, would have a harmful effect on the State's economy.

One suggestion, however, is to change the graduation of the tax to either a flat rate of .002 or .003 on net worth. Such a change might answer arguments that the tax as now conceived has an undue effect on small as opposed to large corporations.

D. New and Reinstated Revenue Sources

A number of new revenue sources might be considered by New Jersey to replace the funds lost by abolition of the State Income Tax. These include a Statewide property tax, a payroll tax, and several smaller taxes. In addition, some of those taxes repealed by the enactment of the gross Income Tax could be reinstated.

1. Statewide Property Tax

A Statewide property tax has often been suggested as one of the alternative revenue sources available to the State. Proponents of the Statewide tax point to the rapid growth of the tax base as demonstration of its reliability as a revenue source. Counter arguments contend that property is no longer a good indicator of wealth and thus ability to pay, and that the tax compounds the financial difficulty of manufacturing in an already high cost environment.

Two kinds of property taxes have been suggested. One is a tax at uniform rates on all forms of taxable property; the other, a classified tax with different tax rates on different classes of property. If the aggregate true value of real property throughout the State, $100,507,603,109, as reported in the Table of Equalized Valuations for Fiscal Year 1976, were taken as the basis for the general Statewide property tax and projected at a 9 percent growth rate for 1977 and 1978, a uniform tax rate of approximately $.75 to $.80 per one hundred dollars of true value over and above the present local property tax would be needed to replace the loss of State Income Tax revenue. A uniform rate of $.45 to $.50 would be needed to fund those portions of Chapter 212 now provided.

Alternatively, a wide variety of classified property tax rates, higher on one form of property, e.g., commercial, and lower on others, e.g., residential, might be substituted for a uniform tax. Some of these latter proposals have envisioned full replacement of the local property tax by a classified State property tax. Although they are appropriate to a more complex package of tax reform most of these proposals contain rates which would be too high if this Subcommittee's objective is to cover merely the new cost to the State government of Chapter 212 or the total replacement of the Income Tax. In any case, if a classified rate of $.60 per hundred dollars of true value were applied to residential property which makes up approximately 65 percent of the total true value of taxable property, and $1.00 to commercial, industrial, farm, and vacant land, approximately the same impact would be felt as from a uniform rate of $.75.

2. The Payroll Tax

The New Jersey Department of Labor and Industry estimates that approximately $25.6 billion in wages and salaries was paid out in the calendar year 1976 to workers employed by private, for-profit firms. A one percent tax on the payrolls of such firms* would yield about $256 million.

*Private, for-profit firms constitute about 75 to 80 percent of the total number employed. Excluded, for example, are public employees, school district employees, and agricultural employees. The $25.6 billion figure is obtained by subtracting reimbursable wages from total private ownership figures.

Revenue growth over time depends on two factors: the rise in the number of employed persons and the rise in the employee's wages and salaries. A sharp increase in employment would lead to substantial revenue increases. Unfortunately, although the State unemployment rate has fallen, the total number of those employed also has decreased. Furthermore, even if revenue growth were projected at 9 percent, i.e., at a rate slightly above the growth rate for total income, the potential impact of a one percent payrol tax in calendar year 1978 would be only $304.15 million; for a 2 percent tax, the yield would be about $512 million, still slightly short of the monies needed to fund the lower figure of projected need.

3. Business and Miscellaneous Taxes

Along with the imposition of the State Gross Income Tax a number of established taxes were repealed. These included the Capital Gains and Unearned Income Tax (the principal elements of which have since been incorporated into the Gross Income Tax), the Retail Gross Receipts Tax, the Unincorporated Business Tax, and the Business Personal Property Tax on machinery and equipment. In addition, Sales Tax exemptions were provided for machinery and equipment and other miscellaneous services. The estimated revenue obtained by reinstatement of the above taxes is shown in Table XII. The estimate as projected by the Division of Taxation are based on fiscal 1977 receipts to which growth was given to the tax base and an estimate developed on the tax as it existed prior to repeal.

A summary of new or reinstated taxes is shown in Table XII.

Two taxes not shown but often suggested are the value-added and single business taxes. The former, as utilized in Europe, has approximately the same impact as a sales tax; the latter, as practiced in Michigan, requires a sweeping revision of the State's business taxation laws and is based in the first instance on Federal taxable income. Because of its all-encompassing measures it is recommended as part of an entire tax reform effort, rather than as an alternative to funding Chapter 212.

E. Reductions In State Budget

This Subcommittee has not reviewed the general contents of the State Budget--this has been the job of the Subcommittee on Government Costs. We have been advised by that Subcommittee, however, that no significant savings can be accomplished by the elimination of State-supported or State administered programs.

V. POSSIBLE COMBINATIONS

Most of the previous discussion dealt with each of the alternative revenue sources as a single source. Although this method simplifies the task, it is an unfair means by which to judge alternatives. Some combination of these sources may better be able to equitably and efficiently fund Chapter 212 or replace the funds lost by the abolition of the Income Tax.

Tables XIII and XIV suggest some possible combinations whose sum total could replace either the funds needed for Chapter 212 or the entire Income Tax program. Table XIII lists alternatives which would fund the majority of the present appropriations now funded by the Income Tax. Table XIV addresses itself only to the funding of Chapter 212.

VI. CONCLUSION

The Subcommittee, after careful review, has chosen not to recommend any of the previously mentioned alternatives. The Subcommittee does not believe that any of the options presented are appropriate alternatives to the current tax structure and believes that its endorsement of any one alternative would dilute the strength of its conviction that a personal Income Tax is necessary to the State's well-being.

However, should an alternative be necessary at any future time, the Subcommittee recommends that a combination of alternative revenue sources be considered. Such a combination might be better able to distribute the tax burden across a greater range of the State's taxpayers so as not to depress any one particular sector of the State. Furthermore, a combination of alternatives has the advantage of being able to be coordinated for a particular governmental objective. For example, an alternative package consisting of taxes on energy sources, e.g., a sales tax on gas and fuel oils, a prope tax on motor vehicles, etc., could raise needed revenues and, perhaps, limi energy use; moreover, any additional revenues raised could be used to improve public transportation.

In addition, the Subcommittee suggests that review be made of several of the State's present taxes, particularly those unit-type taxes whose levels have not been adjusted to compensate for inflation. The State, at some future time, may want to peg these taxes by incorporating them under the Sales Tax or by using some other mechanism which is responsive to the economic climate.

EXHIBIT I

PROGRESSIVITY INDICES OF MAJOR STATE AND LOCAL TAXES USING FISCAL 1971 SALES TAX YIELD AND FISCAL 1970 YIELD FOR OTHER MAJOR TAXES

Tax	Unweighted	Weighted by Relative Population Shares
Property Taxes	.53	.55
Corporation Business Taxes	1.16	1.06
Sales and Use Tax	.85	.93
Public Utility Taxes	.61	.66
Motor Fuels Taxes	.67	.77
Motor Vehicle Fees	.80	.86
Insurance Taxes	.79	.92
Tobacco Taxes	.31	.31
Alcoholic Beverage Taxes	.84	1.01
Spectator Admission Taxes	.89	1.04
Inheritance Taxes	1.60	2.16
Other Taxes	.71	.99
Total Taxes	.64	.68

SOURCE: 1972 Tax Policy Committee

DISTRIBUTION OF MAJOR STATE-LOCAL TAX BURDENS RELATIVE TO FAMILY INCOME SIZE, BY STATE, 1974[1]

	Adjusted Gross Income, Family of Four, 1974					
	$5,000	$7,500	$10,000	$17,500	$25,000	$50,000
California	11.8	9.9	8.8	9.2	9.1	10.8
Connecticut	18.4	15.1	12.3	11.9	9.8	7.6
Delaware	9.8	8.9	8.3	9.0	9.5	8.6
Illinois	14.3	12.5	10.7	10.1	8.9	7.6
Maryland	13.9	13.6	12.8	12.4	11.9	11.7
Michigan	10.9	9.8	8.8	9.3	8.6	8.7
New Jersey	20.5	16.6	14.4	13.5	11.6	9.6
New York	11.6	11.2	10.6	10.7	11.5	15.0
Ohio	10.5	9.0	7.9	7.7	7.3	7.1
Pennsylvania	12.5	12.9	11.5	10.8	9.9	8.9

[1] All income is assumed to come from wages and salaries and earned by one spouse in the city of residence. Families are assumed to reside in the largest city in the State. Includes the following State and local taxes: State individual income, State general sales, local individual income, local sales, property tax on residence, cigarette excise, motor vehicle and gasoline excise.

Sourc Advisory Commission on Intergovernmental Relati

RESPONSES OF STATE TAX STRUCTURES TO A ONE PERCENT CHANGE IN PERSONAL INCOME, 1970

Low Elasticity (0.80 to 0.99)			Medium Elasticity (1.00 to 1.19)			High Elasticity (1.20 to 1.47)		
State	Weighted elasticity	Pct of taxes included	State	Weighted elasticity	Pct of taxes included	State	Weighted elasticity	Pct of taxes included
Ohio	0.80	77.5	Nevada	1.00[2]	86.2	Massachusetts	1.20	74.9
New Jersey	0.83	60.8	Delaware	1.01	56.9	New York	1.22	76.7
Texas	0.83	66.5	Indiana	1.01	87.2	Virginia	1.22	81.1
Connecticut	0.85	69.7	Nebraska	1.01[3]	82.5	Arkansas	1.25	78.4
South Dakota	0.85	84.3	North Dakota	1.01	75.9	Montana	1.28	67.6
Pennsylvania	0.86	63.5	Alabama	1.02	83.9	Oregon	1.29	70.4
Florida	0.87	80.8	Arizona	1.03	74.2	Idaho	1.31[2]	75.3
Wyoming	0.88	62.8	Mississippi	1.04	85.2	Wisconsin	1.41	82.3
Maryland	0.89	83.5	Oklahoma	1.05[3]	65.3	Alaska	1.47[2,3]	61.5
New Hampshire	0.90	66.2	South Carolina	1.06	85.0			
Tennessee	0.90	69.0	Missouri	1.06	82.0			
West Virginia	0.90	88.4	Colorado	1.08	80.5			
Maine	0.92[3]	80.8	Michigan	1.08[3]	73.8			
Washington	0.93	79.2	North Carolina	1.09	77.2			
Kansas	0.95	80.6	Illinois	1.10[2,3]	83.0			
New Mexico	0.95	70.1	California	1.11	75.7			
Rhode Island	0.95	68.8	Georgia	1.11	84.5			
Louisiana	0.96	53.5	Kentucky	1.12	82.3			
			Iowa	1.13	78.4			
			Vermont	1.14	81.1			
			Hawaii	1.17	93.7			
			Minnesota	1.17	79.2			
			Utah	1.19	81.1			

[1] Includes broad-based individual income, general sales and selective sales taxes.
[2] Elasticity may be slightly overstated since rate increases were not totally excluded from selective sales tax elasticity estimate.
[3] Individual income tax elasticity assumed to be 1.7

Source: Advisory Commission on

EXHIBIT IV

INCOME ELASTICITIES OF NEW JERSEY REVENUES

Revenue Source	Elasticity
Motor Vehicle	.73
Motor Fuels	.62
Transfer Inheritance	1.19
Alcoholic Beverage	.61
Corporation Net Worth	.83
Corporation Net Income	1.49
Foreign Insurance Corporation	1.24
Public Utility Surtax	.83
Pari-Mutuel Racing	.48
Cigarette Tax	.35
Emergency Transportation Tax	1.86
Miscellaneous Taxes and Fees	1.23
Department Sales and Services	1.60
Sales Tax	1.44
Other Sources	1.28
Total Revenues	.98

Source: New Jersey Tax Policy Commission

EXHIBIT V

PROPERTY TAX RELIEF FUND BUDGET

		Appropriation F.Y. 1978	Estimated F.Y. 1979
1.	Chapter 212		
	a. Current expense formula	341,105,968	
	b. Special education	80,205,182	
	c. School building aid	33,916,046	
	d. Pupil transportation	49,795,877	
	Sub-total	(505,023,076)	(591.0)
2.	Revenue Sharing	50,000,000	50.0
3.	Homestead Rebates	266,000,000	274.0
4.	Senior Citizen & Veteran Tax Exemptions	58,000,000	58.0
5.	Business Personal Property Tax Replacement	18,759,000	50.0
6.	Administrative Costs	7,055,000	7.0
	TOTAL - Property Tax Relief Fund	904,837,076	1,030.0

REPEALED TAXES

	Estimated--1978	Estimated--1979
Sales Tax (Services)	5.0	5.0
Sales Tax (Machinery)	17.5	35.0
Business Personal Property Tax (Phase-Out)	4.0	12.0
Unearned Income	62.0	67.0
Unincorporated Business Tax	24.0	25.0
Retail Gross Receipts	9.0	9.0
	121.0	153.0

Source: .. 1978 State Budget
.. Division of Taxation, Dept. of Treasury

TABLE VI

MAJOR STATE REVENUE SOURCES

(in millions of dollars)

	1975	1976	1977	1978 ESTIMATED	1979 ESTIMATED
General State Fund Revenues					
Sales tax	$ 770.5	$ 829.5	$ 905.1	$ 968.0	$1,050.0
Motor fuels tax	273.4	281.5	288.8	297.0	303.0
Corporation taxes	264.6	350.7	419.3	530.0	581.0
Motor Vehicle fees	159.3	195.3	223.1	227.0	228.0
Cigarette tax	166.6	167.7	168.8	168.0	169.0
Other major taxes	280.8	381.6	337.4	392.9	420.0
Miscellaneous taxes	226.7	258.0	255.2	292.3	320.0
Federal revenue sharing	69.6	67.1	69.5	72.9	73.0
Lottery fund	36.2	66.1	78.2	77.0	83.0
Other transfers	92.9	76.8	46.6	31.9	32.0
Total General State Fund	2,340.6	2,674.3	2,792.0	3,057.0	3,259.0
Property Tax Relief Fund Revenues					
Gross Income Tax	-	-	656.1	792.0	900.0
Total Revenues	$2,392.0	$2,674.3	$3,448.1	$3,849.0	$4,159.0

EXHIBIT VII

SALES TAX AS A PERCENTAGE OF TOTAL REVENUE IN SELECTED STATES, 1975

	Rate	Sales Tax Revenue	Total Revenue	Sales Tax Percentage
California	4.75%*	3.7 Billion	10.8 Billion	34%
Georgia	3%	.6	1.8	33%
Illinois	4%*	1.7	7.7	22%
Indiana	4%	1.4	5.8	24%
New York	4%	2.2	10.3	21%
Ohio	4%	1.0	3.4	29%
Pennsylvania	6%	1.8	5.5	33%
New Jersey	5%	.8	2.4	30%

Source: Advisory Commission on Intergovernmental Relations

IMPACT OF USING (N) PERCENT INCREASE IN SALES TAX in 1979

(millions of dollars)

1¢ =	194.40
2¢ =	388.90
3¢ =	583.35
4¢ =	771.81
5¢ =	972.26

SOURCE: Division of Taxation,
Department of Treasury

STATE SALES TAXES, TYPES AND RATES

(as of July 1, 1976)

EXHIBIT IX

State	Type of Tax	Rate on Tangible Personal Property at Retail	Admissions	Restaurant Meals	Transient Lodging	Telephone and Telegraph	Gas and Electricity	Water	Transportation of Persons and Property	Rates on Other Services and Businesses Subject to Tax (including retail sales subject to special rates)
California	do	$4\frac{3}{4}$	–	$4\frac{3}{4}$	–	–	–	–	–	Renting, leasing, producing, fabrication, processing, printing, or imprinting of tangible personal property; furnishing, preparing or serving of food, meals, or drink $4\frac{3}{4}$%.
Connecticut[1]	retail sales	7	–	7[2]	7	7[3]	7[3]	7[3]	–	Machinery used in manufacturing production process; information processing, business analysis, and other enumerated services, 3.[illegible] Lease, rental, or storing for use or consumption of any article or item of tangible personal property, 7%.
Georgia	do	3	3	3	3	3	3	–	3[4]	Lease or rental of tangible personal propert and charges on amusements and amusement devices 3%.
Illinois	do	4	–	4	–	–	–	–	–	Property sold in connection with a sale of service, 4%; remodeling, repairing, and reconditioningof tangible personal property, 4%. Hotel operators are subject to a hotel occupancy tax of 5% of 95% of the gross receipts from the rental of rooms to transients.
New Jersey	do	5	5[6]	5	5	–	–	–	–	Advertising, rental, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 5%.

Source: Advisory Commission on Intergovernmental Relations

STATE SALES TAXES, TYPES AND RATES (Cont'd.)

New York	do	4	4[6]	4	4	4	4	-	-	Rental, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 4%.
Pennsylvania	do	6	-	6	6	6[3]	6[3]	-	-	Lease or rental of tangible personal property, repairing, altering, or cleaning of tangible personal property (other than wearing apparel or shoes), printing or or imprinting of tangible personal property for persons who furnish materials, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 6%.

[1] Sales under 8¢ taxed at 3 1/2 if the vendor keeps adequate records.

[2] Restaurant meals below a certain price are exempt; Connecticut, less than $1, Maryland, $1 or less; the Massachusetts retail sales tax exempts restaurant meals, which ($1 or more) are taxed at 8% under the "Meals Excise Tax".

[3] Connecticut exempts telephone and telegraph, gas, electricity, and water services provided to consumers through mains, lines, pipes, or bottles. Sales of fuel used for heating purposes is also exempt. Maryland exempts sales of gas and electricity when made for purposes of resale or use in manufacturing, assembling, processing, refining or the generation of electricity. Pennsylvania exempts gas, electricity, and intrastate telephone or telegraph service when purchased by the user solely for his own resident use.

[4] Georgia exempts transportation of property, and charges by municipalities, counties, and public transit authorities for transporting passengers upon their conveyances.

[5] Motor vehicles are taxable at the general rates with certain exceptions. Maryland, 4% titling tax.

[6] In New Jersey, admissions to a place of amusement are taxable if the charge is in excess of 75¢. Admissions to horse race meetings are taxable at 10% under a separate admissions tax. New York taxes admissions when the charge is over 10 cents; exempt are participating sports (such as bowling and swimming), motion picture theaters, race tracks, boxing, wrestling, and live dramatic or musical performances.

EXHIBIT X

ESTIMATED YIELD OF SALES TAX BASE EXTENSION
AT (N) PERCENT TAX RATE

Source	Fiscal Year 1977-78[1] N=5	N=6	N=7	N=8	N=9	N=10	Fiscal Year 1978-79[2] N=5	N=6	N=7	N=8	N=9	N=10
PROFESSIONAL & BUSINESS SRVCS.												
Business Mgt. & Consulting, Public Relations Services	13.8	15.8	18.2	20.7	23.2	25.7	14.4	17.1	19.7	22.4	25.1	27.8
Statistical & Computer Services	3.3	3.9	4.5	5.1	5.8	6.4	3.6	4.2	4.9	5.5	6.3	6.9
Advertising Services	7.7	9.1	10.6	12.0	13.4	14.9	8.3	9.8	11.4	13.0	14.5	16.1
Legal Services	27.9	33.1	38.3	43.5	48.7	53.8	30.1	35.7	41.4	47.0	52.6	58.1
Architectural, Engineering, & Landscaping Services	25.5	30.2	35.0	39.7	44.5	49.2	27.5	32.6	37.8	42.9	48.1	53.1
Services to Buildings	5.9	7.0	8.1	9.2	10.3	11.4	6.4	7.6	8.7	9.9	11.1	12.3
Construction Services												
a. for $100,000 or more	44.0	52.2	60.4	68.6	76.7	85.0	47.5	56.4	65.2	74.1	82.8	91.8
b. for no minimum (93 million)												
Accounting, Auditing, Bkkpng.	6.4	7.6	8.8	10.0	11.2	12.4	6.9	8.2	9.5	10.8	12.1	13.4
Other Business Services	33.0	39.0	45.3	51.4	57.6	63.7	35.6	42.1	48.9	55.5	62.2	68.8
TOTAL - PROF. & BUS. SRVCS.	167.5	197.9	229.2	260.2	291.4	322.5	180.3	213.7	247.5	281.1	314.8	348.3
PERSONAL SERVICES												
Beauty, Barbering, Hairstyling	6.9	8.2	9.5	10.8	12.0	13.3	7.5	8.9	10.3	11.7	13.0	14.4
Laundry & Dry-Cleaning	30.6	36.3	42.0	47.7	53.4	59.1	33.0	39.2	45.4	51.5	57.7	63.8
Shoe Repair	0.3	0.36	0.41	0.47	0.52	0.58	0.32	0.39	0.44	0.51	0.56	0.63
Funeral Services & Crematories	5.3	6.3	7.3	8.3	9.2	10.2	5.7	6.8	7.9	9.0	9.9	11.0
Misc. Personal Services	1.9	2.3	2.6	3.0	3.3	3.7	2.1	2.5	2.8	3.2	3.6	4.0
TOTAL - PERSONAL SERVICES	45.0	53.5	61.8	70.3	78.4	86.9	48.6	57.8	66.8	75.9	84.8	93.9
INSURANCE PREMIUMS												
Domestic	7.6	9.0	10.4	11.8	13.3	14.7	8.2	9.7	11.2	12.7	14.7	15.9
Foreign	181.6	215.4	249.2	282.8	316.7	350.5	192.2	232.6	269.1	304.8	342.0	378.5
TOTAL - INSURANCE PREMIUMS	189.2	224.4	259.6	294.6	330.0	365.2	200.4	242.3	280.3	317.5	356.7	394.4

PRODUCTS
(see next page)

[1] The figures for N=5 are estimates provided by the Division of Taxation; the remaining figures are calculated by multiplying the rate change percentage by the rate elasticity (.93) by the base.

[2] These figures are projected at an 8 percent rate of growth.

ESTIMATED YIELD OF SALES TAX BASE EXTENSION (Cont'd.)

Source	Fiscal Year 1977-78 N=5	N=6	N=7	N=8	N=9	N=10	Fiscal Year 1978-79 N=5	N=6	N=7	N=8	N=9	N=10
PRODUCTS												
Gasoline												
a. with excise taxes	102.9	122.0	141.2	160.3	179.5	198.6	111.1	131.8	152.5	173.1	193.9	214.5
b. excluding excise taxes	87.2	103.4	119.6	135.9	152.1	168.3	94.2	111.7	129.2	146.8	164.3	181.8
Fuel Oils (and Ice)	67.0	79.5	91.9	104.4	116.8	129.3	72.4	85.9	99.3	112.8	126.1	139.6
Cigarettes												
a. with excise taxes	29.0	34.4	39.8	45.2	50.6	56.0	34.4	37.2	43.0	48.8	54.6	60.5
b. excluding excise taxes	20.6	24.4	28.7	32.1	35.9	39.8	22.2	26.4	31.0	34.7	38.8	43.0
Apparel	87.5	103.8	121.1	136.3	152.6	168.9	94.5	112.1	130.8	147.8	164.8	182.4
Food	275.7	327.0	378.3	429.5	480.8	532.1	297.8	353.2	408.8	463.9	519.3	547.7
Prescription Drugs & Medicine	21.4	25.4	29.4	33.3	37.3	41.3	23.1	27.4	31.8	36.0	40.3	44.6
Newspapers, Magazines, & Periodicals	4.8	5.7	6.6	7.5	8.4	9.3	5.2	6.6	7.3	8.1	9.1	10.0
TOTAL - PRODUCTS	696.1	825.6	956.6	1,084.5	1,214.0	1,343.6	754.9	892.3	1,033.7	1,172.0	1,311.2	1,424.1
UTILITIES												
Gas & Electric												
a. residential users	74.9	88.8	102.8	116.6	130.6	161.3	80.9	96.0	111.0	126.0	141.0	174.2
b. non-residential users	91.6	108.6	125.7	142.7	159.8	176.8	98.9	117.3	135.8	154.1	172.6	190.9
Telephone & Telegraph	28.3	33.6	38.8	44.1	49.4	54.6	30.6	36.3	41.9	47.6	53.4	59.0
TOTAL - UTILITIES	194.8	231.0	267.3	303.4	339.8	392.7	210.4	299.6	288.7	327.7	367.0	424.1
GRAND TOTAL	1,292.6	1,532.4	1,774.5	2,013.0	2,253.6	2,510.9	1,394.6	1,655.7	1,917.0	2,174.2	2,434.5	2,684.8

Source: Division of Taxation, Dept. of Treasury

ESTIMATED YIELD OF INCREASES IN FEE SCHEDULES AND OTHER TAX RATES

Source	Estimated Revenue (in millions of dollars) FY '78	FY'
Motor Fuels tax increase of 1¢/gallon from 8¢ to 9¢	38.0	
Cigarette tax increase of 1¢/pack[1] from 19¢ to 20¢	9.0	
Alcoholic Beverage tax increase[2]		
on liquor of 10¢/gallon (from $2.80-$2.90)	1.65	
on beer of 1⅔¢/gallon (from 3⅓¢-5¢)	2.5	
on beer of 3⅓¢/gallon (from 3⅓¢-6⅔¢)	4.8	
on beer of 6⅔¢/gallon (from 3⅓¢-10¢)	9.6	
on wine of 5¢/gallon (from 30¢-35¢)	0.8	
Transfer Inheritance tax change limit insurance proceeds exemption to $10,000	5.0	
Corporation Business tax change		
increase of 1% in net income tax	88.0	55.0
increase net worth to flat .002	3.2	
increase net worth to flat .003	38.0	

[1] Connecticut's, New York's, and Pennsylvania's tax on cigarettes is 21¢(sales tax exempt), 15¢ plus 4¢ in N.Y.C.,and 3-4¢ extra on high tar and nicotine(taxable), and 18¢(exemp respectively.

[2] Connecticut's, New York's, and Pennsylvania's tax on liquor is $2.50, $3.25, and 18%, respectively. Their tax on beer is $2.50/bbl., 4 ¢/gal., and $2.48/bbl., respectivel Their tax on wine is 25-62 ¢, 10-53 ¢, and .005¢ per unit, respectively. These number reflect 1976 rates.

Source: Division of Taxation, Department of Treasury

ESTIMATED YIELD OF NEW OR REINSTATED TAXES

(in millions of dollars)

Source	Estimated Revenue FY '78	Estimated Revenue FY '79
I. NEW		
Tobacco Products Tax (40 percent of wholesale price of products other than cigarettes)	7.1	
Motor Vehicle Property Tax (tax on passenger cars at statewide average actual tax rate)	232.0	
Insurance Tax (2½ percent on interest and dividends of domestic insurance companies)	14.0	
Statewide Property Tax (80¢ per 100 of true value)	872.0	936
Payroll Tax (1 percent tax on payrolls)	304.0	330
II. REINSTATED		
Unincorporated Business Tax (½ percent on gross receipts)	24.1	
Retail Gross Receipts Tax (1/20 of 1 percent)	8.0	
Business Personal Property Tax (reinstate as previous)	4.0	12.0
Capital Gains and Unearned Income Tax (1½ - 8 percent)	62.0	
Sales Tax (machinery)	17.5	35.0
Sales Tax (services)	5.0	5.0

Source: Division of Taxation, Department of Treasury

ALTERNATIVE COMBINATIONS: PROPERTY TAX RELIEF FUND

	FY 78	FY 79
I.		
A.		
1. Sales Tax Increase: 1¢	180.0	194.40
2. Sales Tax Base Increase		
a. Gasoline (excluding excise)	103.4	111.67
b. Fuel oils (and ice)	79.5	85.86
c. Gas and electric		
Residential	88.8	95.90
Non-Residential	108.6	117.29
3. Motor Fuels Tax Increase: 1¢	38.0	38.76
4. Motor Vehicle Property Tax	232.0	261.0
	(830.3)	(904.88)
B. Above plus additional 1¢ on Motor Fuels	(868.3)	(943.64)
II.		
A.		
1. Sales Tax Increase: 2¢	360.1	388.9
2. Sales Tax Base Increase		
a. Personal services	61.7	66.6
b. Business services	229.8	248.2
c. Gasoline (excluding excise)	119.6	129.2
3. Motor Fuels Tax Increase: 1¢	38.0	38.76
	(809.2)	(871.66)
B. Above plus an additional 1¢ on Motor Fuels	(847.19)	(910.42)
C. A plus Sales Tax Base Increase on Fuel Oils	(901.1)	(970.96)
B plus Sales Tax Base Increase on Fuel Oils	(939.09)	(1,009.72)

EXHIBIT XIII (Cont'

III.		
1. Sales Tax Increase: 2¢	360.1	388.9
2. Sales Tax Base Extension		
Business services	229.8	248.2
3. Motor Vehicle Property Tax	232.0	261.0
	(821.9)	(898.1)
IV.		
A.		
1. Reinstate Repealed Taxes		
a. Retail Gross Receipts	8.0	8.5
b. Capital Gains	62.0	66.9
c. Unincorporated Business	24.1	25.5
d. Business Personal Property	4.0	12.0
e. Sales Tax Exemptions	17.5	35.0
2. Corporation Business Tax flatten rate to .003	38.0	38.76
3. Sales Tax Increase: 2¢	360.1	388.9
4. Sales Tax Base Extension		
a. Personal services	61.7	66.6
b. Business services	229.8	248.2
	(805.2)	(890.36)
B. A. except raise Corporation Business Tax 1%	(855.1)	(906.6)
V.		
A.		
1. Reinstate Repealed Taxes	115.6	147.9
2. Motor Vehicle Property Tax	232.0	261.0
3. Sales Tax Increase: 2¢	360.1	388.9
4. Sales Tax Base Extension		
Business Services	229.8	248.2

	B.	A minus Business Services plus Personal Services	(751.9)	(828.9)
VI.				
	1.	Reinstate old taxes	115.6	147.9
	2.	Motor Vehicle Property Tax	232.0	261
	3.	Sales Tax Increase: 1¢	180.0	194.4
	4.	Sales Tax Base Extension		
		a. Gasoline (excluding excise)	103.4	111.67
		b. Fuel oils (and ice)	79.5	85.86
		c. Personal services	61.7	66.6
	5.	Motor Fuel Tax Increase: 1¢	38	38.76
			(810.2)	(906.19)

ALTERNATIVE COMBINATIONS: CHAPTER 212 FUNDS

	F.Y. 78	F.Y. 79
I.		
1. Reinstate Repealed Taxes		
a. Retail Gross Receipts	8.0	8.5
b. Capital Gains	62.0	66.9
c. Unincorporated Business	24.1	25.5
d. Business Personal Property	4.0	12.0
e. Sales Tax Exemptions	17.5	35.0
2. Corporation Business Tax Flatten rate to .003	38.0	38.76
3. Sales Tax Increase: 1¢	180.0	194.40
4. Motor Vehicle Property Tax	232.0	261.0
	(565.6)	(642.06)
II.		
1. Sales Tax Increase: 1¢	180.0	194.40
2. Sales Tax Base Extension		
a. Business Services	189.7	214.6
b. Personal Services	53.4	55.3
3. Motor Vehicle Property Tax	232.0	261.0
	(655.1)	(725.3)
III.		
1. Sales Tax Increase: 2¢	360.1	388.9
2. Sales Tax Base Extension		
a. Business Services	229.8	248.2
b. Personal Services	61.7	66.7
	(651.5)	(703.8)
IV.		
1. Sales Tax Increase: 2¢	360.1	388
2. Corporation Business Tax Increases		
a. Flatten rate to .003	38.0	38
b. Raise rate from 7½ to 8½	88.0	55
3. Reinstate Repealed Taxes	115.0	148
	(601.0)	(629)
V.		
1. Sales Tax Increase: 1¢	180.0	194
2. Reduction in State Programs	420.0	406
	600.0	600