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THE PROPERTY TAX IN PERSPECTIVE

1965 - 1975

A REPORT
TO
THE TAXATION COMMITTEE
NEW JERSEY GENERAL ASSEMBLY
BY

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MAY 1976

State of New Jersey
NEW JERSEY LEGISLATURE
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TO: Chairman VanWagner and Members of the Assembly Taxation Committee

The report hereby submitted is an outgrowth of individual studies undertaken at the behest of members of the Assembly Taxation Committee in the previous session of the Legislature, and requests made by members of both the Senate and the General Assembly. In many instances these overlapped and rather than prepare a series of memoranda, I felt that an overall study including all matters for consideration would serve as a better answer to all concerned.

The study period to gather the data included has covered an eight-month period. This is not a purely statistical report, for a significant amount of field work was undertaken including contact with many local officials.

In some respects the study was evolutionary in that it evolved from relatively narrow beginnings, as the study of one point led inevitably to another.

I have been extremely fortunate in receiving outstanding cooperation from Sidney Glaser, the Director of the Division of Taxation, and many members of his staff. The assistance and advice given me by the Association of Municipal Assessors and the Association of Collectors and Treasurers has been invaluable, as have been my contacts with other local officials.

Last, but by no means least, the interest and concern of the members of the Assembly Taxation Committee in recent years for improvement in the State-local relationship has given meaning to the entire project.

Although there is a significant amount of statistical data contained in the report, I have made a conscious effort to keep tables to a minimum. However, there is a veritable mountain of detailed data available for anyone who wishes to pursue any of the subjects further.

I trust that this report will serve the committee, at least as a starting point for some of its deliberations.

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May 1976

INTRODUCTION

The purpose of this report to the Assembly Taxation Committee is to inform the members of the committee as to the factors which affect local taxes, the inequities which presently exist and some of the areas to which the committee may wish to address itself.

While a quite logical question might be asked as to the pertinence of local taxes on the agenda of the Taxation Committee, the subject is one having a direct bearing on the State budget, for State aid comprises the largest single part of that budget and the distribution of these moneys is governed by the local situation. Also, if we are to have true tax reform, it should begin at the bottom. Tax reform implies the removal of inequities, and inequities tend to filter upward rather than downward

If the State allows inequities to remain at the base, the more funds which are put in at the top, the more the inequities are compounded despite being undertaken in the name of tax reform.

There are two factors which affect the immediacy and urgency of a program to minimize the inequities at the local base. The first of these is the economic climate in the State which has had its greatest adverse effect upon that broad spectrum of the population which pays the bulk of the taxes which support government at all levels, the middle class. The second is the proposal to increase State aid in accordance with the Botter decision which affects the largest single area of public expenditures in the State, public education.

However, we should not lose sight of the fact that we cannot look at the funding of public education in a vacuum, as though other governmental costs were irrelevant. Unfortunately, this has been the tendency in New Jersey's financing of its public schools and it is because of this that some of the greatest inequities have developed. It has carried over into the development of school aid formulas which, in turn, influenced the findings in the Botter decision and, subsequently, dictated the proposed distribution of additional school aid funds.

Although county, school and municipal purpose taxes are calculated separately, they are imposed on the same base and the same taxpayers pay them all. Thus, the ability of a local taxing district to provide services to its residents lies in its total fiscal picture, not in just one of its parts.

The determination of the fiscal ability of a local taxing district presently ignores a number of important factors, primarily non-property tax revenues. This distorts the picture to the extent that in a number of instances money begets money and actual need is not served.

A further consideration which has been addressed at times, but never thoroughly, is that there is a tendency inherent in some of our distribution formulas to reward profligacy and penalize thrift and efficiency, the more you spend, the more you get. This, too, has distorted the local fiscal picture to a point where it is well nigh impossible for a legislator to make a determination on the true merits of a program, or for the public to be properly informed.

Most of the things which now create inequities and which upon close examination seem imprudent are not a matter of design, but rather are a result of using old methods in new situations, methods which at their inception were viable, but no longer can be considered so. This is particularly evident in the field of encouraging spending. When this was first instituted, municipalities were dragging their feet in funding programs and it was necessary to encourage them to meet their obligations. In most instances this is no longer true, and, in fact, it merely encourages waste and inefficiency.

One factor which seems to be ignored also is that in dealing with taxes, at the local level particularly, we deal in averages. We speak of rich towns and poor towns. While to some extent these are valid descriptions, they do not necessarily reflect the ability to pay on the part of individual taxpayers. Seldom is everyone in a rich town rich or, conversely, seldom is everyone in a poor town poor. Municipalities do not pay taxes. People pay taxes.

In the ensuing pages of this report all of the foregoing will be examined and analyzed from as many different approaches as possible. Too often, by using only one approach to the analysis of statistics, the same figures can be used to prove opposing contentions. Therefore, each area where there may be doubt will be examined from all sides in an attempt to prevent distortion and to bring a better body of information to a point where it can serve the committee in its decision-making.

To provide an additional body of information and to serve as a basis for comparison, some data on other states will be discussed and evaluated. Additionally, such information may serve to provide ideas for new means of approaching tax and expenditure problems to members of the committee.

SECTION I

THE PROPERTY TAX

The property tax is much maligned. This has been the case in the past when its impact upon the taxpayer was relatively less than it is now. As that impact became greater, the property tax became the perennial whipping boy in the tax field and not wholly without justification.

The property tax is singled out for primary criticism for many reasons. Perhaps the most telling reason is the fact that in many municipalities, the property tax has increased at a greater rate than income generally, and has been particularly onerous to those on fixed incomes. It is also a visible tax, one which is paid in relatively large amounts.

While the property tax is not progressive, it is not completely regressive, for property is <u>one</u> measure of wealth. There are positive values in taxing property, if the levels are not confiscatory. At the proper level, it provides a certain stability to property values, tends to inhibit speculation and provides a means to hold officials fiscally accountable. These must be considered in any proper evaluation of the property tax in the total tax structure.

There are many myths about the property tax which have given rise to a simplistic view of the tax. These myths, also, have given rise to increasing inequity, inequity between municipalities and inequity between individual property owners. It is these inequities which first must be corrected, for in many instances it is the inequities, not the property tax <u>per se</u> wherein lie the major problems.

Because the property tax is the largest single tax source in New Jersey, it must be carefully scrutinized. The $3 billion it generates indicates that it will not be totally replaced, and that even to reduce it by any substantial amount will require a major tax or large tax increases in other areas.

In making an evaluation of the property tax in individual municipalities, we are too often guided by the tax rate to determine the impact of the property tax. The assessment level, of course, is a significant factor, but the general public is often unaware of that signifance. While it is true that the use of equalization ratios does lessen the disparities in making comparisons, it does so only on an average basis and does not reflect the disparities between individual properties within a single taxing district. However, by using the equalization ratio to determine the "effective tax rate," that is the rate at 100% true value, we are better able to evaluate the property tax impact in a municipality and make a more valid comparison with others. Although the development of equalization ratios is far from satisfactory, it is the best measure we have at present.

Among the myths surrounding the property tax in New Jersey is that property taxes in New Jersey are high, with no qualification whatsoever. Certainly, properties taxes are high in many municipaliti but not nearly all.

For 1975, the median effective tax rate was $2.95 per $100 valuation, and ranged from a low of 32¢ per $100 valuation to a high of $11.79 per $100 of valuation. If we use the equalization ratios, this means that the median taxes on a property with a true value of $20,000 was $590 and ranged from $64 to $2,358. In more than 50% of the municipalities, the effective rate ranged between $2.50 and $3.50 per $100 of true value, or between $500 and $700 on a property with a true value of $20,000. But, because of inflated real estate prices, a $20,000 property does not reflect the average true value in many municipalities. In others, however, the great majority are below that level. This alone makes it difficult to evaluate our real estate taxes and their effect upon a municipality. Also, the range of effective tax rates cited above loses much of its validity in making comparisons, but it does indicate a tendency toward a wide range within the State.

The failure to revalue in many municipalities during a period of inflation has had a double barrelled effect. Those municipalities which have not revalued tend to be undervalued even after equalization, which places an unequal share of county taxes on those which have revalued. And, within municipalities which have not revalued, the inequities between individual properties have been compounded.

However, the mere fact that a municipality has revalued does not mean that inequities have been eliminated, for there have been indications that in some revaluations the job has not been a good one. One of the great problems in revaluation is the lack of a clear understanding by the general public. When the average homeowner sees his assessment double, his immediate reaction is that his property taxes will double and he screams to high heaven. If his property has been assessed fairly in relation to that of other property owners, revaluation should have little or no effect upon the dollar amount of his taxes. However, if revaluation does increase his property taxes substantially, it generally means that he has not been paying his fair share in the past.

Naturally, those property owners who know their assessments are low in relation to others will resist any revaluation. In suburban municipalities, in many instances where there has been no revaluation for many years, the long-time residents have remained in an advantageous position in relation to newer properties. Therefore, when a revaluation takes place, in many instances the owners of older properties find their taxes increased substantially.

In many of the cities the fear of revaluation relates to the relationship between residential and commercial and industrial property. Despite the Constitutional mandate that all property be assessed "according to the same standard of value," there has been a tendency to assess commercial and industrial property higher than residential property. In a municipality where this practice has been followed, a revaluation would result in higher taxes on residential property, which quite naturally concerns the residential property owner.

Tax Reform and the Property Tax

We hear a great deal about "tax reform," and, in most instances at least, the reference is to State taxes and the expansion of the State tax base. The inference also is made, or directly stated, that such "reform" will ease the property tax "burden." Yet, as noted previously, the magnitude of property tax revenues is such that even the dedication of all revenues from a major tax would enable us to reduce the property tax by only one-third. Therefore, if we are to pursue tax reform, one of the first areas to be considered is the property tax itself.

Although the general application of the property tax has remained relatively unchanged over the years, there have been significant improvements over the last 25 years. These improvements have generally involved the assessment process and equalization for county taxes and State school aid. If we examine these previous improvements, it may help us to determine the direction which further reform should take.

The first major reform in recent years was the equalization for county tax purposes. Prior to this, county taxes had been apportioned on the basis of assessed valuations. With assessment ratios ranging from as low as 8% to almost 100%, the result, obviously, was completely inequitable distribution of the cost of county government.

The removal of this inequity generally favored the larger cities of the State who had shouldered the greatest part of county costs in most counties.

Probably the most significant attempt to overhaul the system arose as a result of a court ruling on a property owner's action to compel assessment of all realty in a township at full and fair value, in accordance with the statutes. (Switz v. Middletown Township, Monmouth County, 23 N.J. 580 (1956). The court modified the order requiring the township to assess at full and fair value for the two ensuing tax years, to give the Legislature the opportunity to provide the administrative procedure and to afford the township time to fulfill the project, thus delaying the implementation of the order until the 1959 tax year.

Subsequently, the Legislature adopted Senate Concurrent Resolution No. 28 (1956) "requesting the Commission on State Tax Policy to make a special study of the impact upon the State tax program of certain problems related to taxation of real property."

The Commission submitted its report (Ninth Report) in February, 1958, with a number of recommendations designed to eliminate many of the inequities and inconsistencies in the law at that time. While the report went beyond the subject of the property tax, most of its study dealt with that subject.

The recommendations to the Legislature provided two alternatives which were identical in the assessment of real property and differed in the handling of personal property and business incentories, and one recommended the imposition of a corporation income tax and a tax on unincorporated business to replace revenues lost by exempting business inventories and household personalty.

In the course of its report, the Commission stated that it did not feel 100% assessment on a State-wide basis was feasible at th time and its recommendation was that there be uniform assessment of real property at 40% of true value.

The subsequent passage of Chapter 51, P.L. 1960 modified the recommendation of the Commission and required the county to set the level of assessment on a county-wide basis, at not less than 20% of the true value nor more than 100% of true value in intervals of 10%. This chapter also amended most of the then existing statutes dealing with the assessment process and to provide more State-wide uniformity. The majority of counties used a 50% level to start, but within 10 years all had gone to 100%. This does not mean that there is universal assessment at 100%, by any means, bu theoretically, at least all real property is assessed at true value.

In 1963, a further attempt was made to mitigate the effects of the property tax, this time on one class of property owner, the farmer. Property values were soaring and the value of land for development far exceeded its value for farming. A Constitutional Amendment was placed upon the ballot in November, 1963, and passed, enabling the Legislature to provide for the classification of farmland for tax purposes.

The amendment was implemented the following year by the Farmland Assessment Act. There is no doubt that this act has preserved farms in New Jersey and kept individuals farming who could not have remained had they not had some relief. However, as with many worthwhile programs, there have been abuses. In recent years, particularly, there have been criticisms of the use of the provisions of this act by corporations, land speculators and "gentlemen" farmers. As a result, during the last several years, bills have been introduced in an attempt to preserve the law for the farmer, but to eliminate the abuses.

Although there are certain basic changes which can be made to eliminate some of the abuses, there are a number of areas which have to be carefully considered. Because farm income in New Jersey can scarcely support a family, particularly on a small farm, many legitimate farmers have other jobs to bring their incomes to a reasonable level. Thus, the imposition of a test of percentage of income, if set too high, would hurt the part-time legitimate farmer and seriously reduce farm production in the State.

Therefore, any legislation passed to eliminate abuses should leave room for the part-time farmer and land leased for agricultural production, but strengthen in such a way, and properly administered to eliminate the flagrant violations of both the letter and the intent of the law. The real decision to be made is, are we willing to give tax breaks to maintain open land and to maintain New Jersey's agricultural production?

After the passage of the Farmland Assessment Act, the next significant legislation affecting property taxes and assessments was the elimination of the assessment and collection of business personal property taxes by municipalities and the transfer of this function to the State to be imposed at a uniform rate throughout the State, $1.30 per $100. Provision was made for returning the proceeds to the municipalities with a guarantee that they would receive no less than they received from the locally imposed tax in 1965, 1966 or 1967 whichever was the greater.

It was found that the receipts from the State imposed tax would not be sufficient to provide the guarantee to the municipalities and two new taxes were imposed, the Retail Gross Receipts Tax and the Unincorporated Business Tax, with the revenues earmarked for distribution to the municipalities. To the revenues from these three taxes was added an amount equivalent to a 1-1/4% corporation income tax, also earmarked for distribution.

Initially, the revenue from these sources did not provide sufficient revenue to meet the $106.8 million guarantee and the deficit was appropriated from general State funds. However, the revenues so generated soon exceeded the guarantee and provision was made for distribution of the amount above the guarantee. In 1975, the excess distributed was $30.3 million.

Further laws have been passed to upgrade the local assessor, to require him to be a professional with a certificate earned through courses at Rutgers, to provide the assessor with tenure to remove the office from the political arena, and to provide him with better guidelines and assistance in performing his job.

In addition to proposals which have been implemented, either wholly or in part, there have been many which have not been acted upon.

One of the most radical changes proposed has been the State-wide Property tax. In 1968, before the Botter decision and even prior to the Serriano decision in California, a proposal was made by Senators Miller, Hiering and Guarini to impose a State-wide property tax to fund the public schools and eliminate local school taxes. Such a tax would have been imposed at an equalized rate throughout the State,resulting in lower taxes in high rate districts and higher taxes in low rate districts. It would have provided full funding for a quality education in all districts and, thus, eliminated the "poor" and "rich district for public school purposes.

In 1972, the Committee on State Tax Policy, otherwise known as the Sears Committee, proposed a broad restructuring of the State's tax structure with a personal income tax and a State-wide property tax two of the most significant aspects of that proposal. On assessment, the Committee proposed that the State be divided into assessment districts to be established by the Director of the Division of Taxation.

The bills proposed to implement the Committees recommendations would have shifted the burden for many locally funded services to the State. However, the key to the entire proposal, the personal income tax, was defeated and the entire proposal died.

In 1974, Senator Bedell, Senator Russo and Assemblyman Littell each introduced proposals to fund the public schools through the imposition of a State-wide property tax. Assemblyman Littell's proposal was similar to Senator Miller's original program, but differed in that it would have been administered at the county level. Senator Bedell's proposal and Senator Russo's proposal both were based on a State-wide property tax for the public schools but were based on property classification with different rates for residential property and other classes of property. They differed in the proposed rates on various classes of property and in their distribution formulas. Both would have required a constitutional amendment to provide for property classification.

Soon after the above proposals were introduced, Governor Byrne proposed a sweeping change for funding the public schools and shifting much of the local tax burden to the State. Like the proposal of Governor Cahill, the Byrne program hinged on a personal income tax. The income tax bill passed the General Assembly but failed to pass the Senate and the entire program had to be abandoned, at least for the time.

Late in 1974, Assemblyman Littell and Assemblyman Sweeney introduced a proposal to increase aid to education and substantially aid municipalities and counties through a "revenue sharing" program to be funded by a personal income tax dedicated to property tax relief. This proposal never was acted upon.

The proponents of all the programs enumerated were aware of the need for improvement in the assessment process, though all did not deal with it directly through proposed legislation. But, as will be demonstrated, an improvement in assessment procedures and in equalization processes is necessary under any type of program if there is to be an elimination of inequities and there is to be real tax reform.

Areas for Consideration

One of the inherent inequities in the property tax lies in the "value" approach to assessment wherein the property owner who maintains his property in good condition is visited with tax increases for any improvement or through inflation, while the property owner who allows his property to run down benefits from reduced "value."

This is particularly noticeable in our older cities where absentee landlords have "milked" old buildings, creating slums and when finally the buildings are no longer habitable, they walk away and the property belongs to the city, but a liability not an asset.

In 1957-58, Assemblyman (now Senator) Musto attempted to gain support to deal with this problem, maintaining that we were creating slums, but could gain little support. The intervening years have proven him right.

Not only does this erode the tax base of our older cities, but it dooms many of the poor to live in abominable conditions because of the lack of decent housing.

One of the myths surrounding the property tax has persisted through ignoring this situation. In its 1972 report, the Tax Policy Committee calculated that those with low incomes paid a large percentage of their incomes for high property taxes which were reflected in their rents.

To ameliorate the situation one of the bills in the subsequent "tax package" proposed a "pass-through" of property tax reductions to tenants. An examination of the realities, using some representative properties in Newark, Trenton and Jersey City, indicated that, despite high rents, the pass-through would amount to an average of about $1 per month per tenant.

On the other hand, the pass-through in a luxury apartment would have been considerable, because a relatively high percentage of the rent payments were required by high property taxes.

This serves to illustrate that by merely observing the surface of a problem, we may arrive at erroneous conclusions.

The deterioration of property in our central cities has had a ripple effect upon other properties which has distorted much of our thinking about the property tax and its impact on individual taxpayers.

It is commonly assumed that the senior citizen property owner in Trenton or Camden is hurt by high property taxes far more than one in Cherry Hill or Lawrence Township, adjacent suburbs. However, in many instances quite the opposite is true. This is due to the vast difference between assessments in the center cities and the suburbs.

For example, the average residential assessment in Camden City in 1975 was $5,600 requiring the payment of $440 in property taxes. In Cherry Hill, however, despite a much lower tax rate, the taxes on the average residential property were $1,453, more than three times that in Camden. The difference lies in the fact that the average residential assessment in Cherry Hill is $39,800. The disparity between Trenton and Lawrence Township was not so great but still significant, in Trenton an $8,150 assessment and a $635 tax bill and in Lawrence Township a $33,600 assessment and a$1,161 tax bill for the average residential property.

Similar situations exist throughout the State. While it can be argued that in general those in the suburban communities are better able to pay than are those in the cities, it does not apply to everyone equally in either location. As has been noted previously, not everyone in a "rich" district is rich and not everyone in a "poor" district is poor. This can best be demonstrated by the fact that in 560 of the 567 municipalities in the State there are senior citizen property owners who qualify for the senior citizen exemption. When it is considered that there is a $5,000 income limitation, exclusive of social security, we are talking about those with low incomes.

What has happened in most instances, particularly in the more affluent suburbs, is that property values have sky-rocketed and relatively low tax rates belie the true tax situation.

For example, in 1965, the average residential assessment in Cherry Hill was $12,275, increasing to $39,800 in 1975. In Lawrence Township, the assessment increased from $8,900 to $33,600.

Many people purchased homes in these suburban areas ten, fifteen or twenty years ago and have since retired. Their homes have increased in value, primarily due to inflation, but since retirement, with incomes stabilizing, they are finding it increasingly difficult to keep pace financially with the property tax.

While the property tax exemption allowed senior citizens has helped somewhat, the effect varies widely depending on the municipality. Because the exemption is a flat $160 deduction from the tax bill, it really is inequitable in a sense when one examines the effects.

At the extremes, a senior citizen owning an average residential property in Upper Township (Cape May County) assessed at $23,000 would have a tax bill of $178, which with his exemption would require him to pay only $18. If he lived in the average residential property in Ridgewood (Bergen County) assessed at $42,300, he would pay $2,140 less his exemption or $1,980. In East Orange on an average residential property assessed at $22,400, he would pay $1,760 less his exemption or $1,600. However, in Lower Alloways Creek, Salem County, for a senior citizen living in an average residential property assessed at $8,400, his total tax bill would be only $149, or less than the amount of his exemption, so his tax liability would be zero. It appears obvious that there should be a better method for providing relief for our older citizens.

One may well ask the reason for so much disparity in property taxes throughout the State. There is no single reason, but many. Thus, there is no simple answer. However, if we are to effect a more equitable system of taxation, all the factors which contribute to the impact of the property tax must be considered. Among the more important of these factors are the following:

(1) The total tax bill, including separate charges.

(2) Non-property tax revenues (which will be dealt with in detail in Section II).

(3) The residential - commercial mix

(4) Tax rates vis a vis assessment levels.

(5) State aid (which will be dealt with in detail in Section III).

(6) Equalization and reevaluation.

(7) Inflation (or deflation in some areas).

(8) Tax exempt property.

(9) Tax levies and expenditures - municipal, school and County.

Let us look at each of these factors.

(1) <u>The Total Tax Bill, including Separate Charges</u>.

As has been noted previously, too often we look at each element of the property tax as if it had little or no bearing on the other two. This has been particularly true in dealing with aid to the public schools.

The property owner may be aware of the different elements which make up his total tax bill, but his main concern is the bottom line, the total.

He may feel he is getting good schools and good municipal services, or he may feel neither is good or one is and one is not. But, no matter how he feels about his schools and municipal services, he really has little knowledge as to whether he is paying more for them than he should, or whether they are being operated efficiently. Obviously, there are some schools which provide a better education for less money than others. There are some which spend a great deal and get little and there are those which spend too little to to provide a good education. The same is true of municipal services, but the taxpayer has no real way to know what he is getting for his tax dollar.

As for county costs, the taxpayer is even further in the dark, yet in some counties, the cost of county government is a significant part of his tax bill.

Then, on top of all the above, there are other factors which may not be reflected in his property tax bill but which represent out-of-pocket expenditures for him. These are the "service charges" or assessments.

Service charges and assessments further distort comparisons between municipalities as to the impact of the property tax. In some municipalities, the cost of service is included in the tax bill, in others it is a separate charge. In some municipalities, water is included in the tax bill, in others it is a separate charge. In some municipalities there is municipal trash and garbage collection, in others residents must pay a private cartage firm for collection. In some instances the service charges can amount to a substantial payment above the actual tax bill and, in addition, when charged separately, they are not deductible on the taxpayer's Federal income tax.

Most cities have uniformed, paid fire departments, whereas the majority of municipalities have volunteers. Although municipalities provide a certain amount of support for volunteer fire companies, the cost is not nearly as great as that of a regular paid fire department. High-rise buildings require that fire departments have more costly equipment. Building density is a factor as is the age of the structures in a municipality.

Police services also vary greatly from one municipality to another. It is axiomatic that police costs in areas with a high population density will be greater than in low density areas. Until recently, a number of municipalities with substantial populations were relying almost entirely on the State Police for police protection. This meant taxpayers all over the State were subsidizing the property owners of those municipalities.

Is it any wonder that the property owner is frustrated? The majority of the property owners only know that their tax bills are going up, and their incomes haven't been keeping pace with the rise.

(2) Non-property Tax Revenues

A significant amount of non-property tax revenues is one of the primary factors in the disparity in the tax rates in some New Jersey municipalities when compared with rates generally. These will be treated in detail in Section II.

(3) The Residential-Commercial Mix

Choice commercial and industrial ratables has long been the pot of gold at the end of the rainbow sought by most municipalities to sweeten the "tax pot" and keep taxes down for the residents. In some instances these have been a mixed blessing. This is particularly true where the industrial ratable brings pollution and lessens the attractiveness of the community. Most affected are those municiapalities which are small in area and, thus, the entire municipality is affected.

Commercial ratables, on the other hand, do not bring the pollution problem, but, if not properly controlled through zoning and building codes, can give a "honky-tonk" atomosphere to large areas of a municipality or even to an entire municipality.

There are a number of municipalities which have chosen to remain primarily residential with a minimum of commercial ratables and little or no industrial ratables. For the most part these are relatively affluent communities in which the citizens generally are able to afford the resulting high taxes. However, it is in these attractive residential communities that some of the greatest hardships lie. The senior citizen who bought a residence in such a community 20 or 25 years ago has seen his property value increase four or five fold, now finds himself faced with a reduced income and a high tax bill.

On a State-wide basis, residential property, excluding apartments, constitutes about 63% of the ratables. On a county basis, the highest percentage of residential ratables is in Ocean County (71.5%), and the lowest in Hudson County (38.9%). On a municipal basis, the highest percentage, 98%, is in Interlaken, Monmouth County, and the lowest, less than 1/2 of 1%, is in Teterboro, Bergen County. Municipalities such as the latter two are anachronisms.

One is a small enclave of fine residential property and the other little more than a good sized industrial park.

If we look at more meaningful examples, one of the more attractive residential communities, Ridgewood in Bergen County, has 86% residential ratables, its residential property has an average assessment of $42,300, with an average tax bill of $2,140. In the same county, Ridgefield, has 51% residential ratables with an average assessment of $33,700 and an average tax bill of $438. This relatively low figure is due, not only to industrial ratables, but a large infusion of non-property tax revenues.

While a case can be made for the value of commercial and industrial ratables having a beneficial effect upon the taxes in a municipality, this is not always the case. In our older cities, the necessary cost of government is such that it often outweighs the effect of the commercial and industrial ratables. This is evident in the high percentage of commercial and industrial ratables in Newark, East Orange, Jersey City and Hoboken.

In any study comparing the impact of the property tax in various municipalities, one of the most difficult to assess is the New Jersey shore area.

On the one hand, Atlantic City with only 25% residential ratables and Asbury Park with 33% are plagued by high taxes, and on the other hand, most of the smaller resorts have relatively low taxes yet a high percentage of residential ratables.

There are two major factors affecting Atlantic City and Asbury Park, the former more than the latter. The first of these is that both cities have deteriorated physically from their once eminent position, there is a large group of unemployed swelling the welfare rolls and the type of visitor has changed. Secondly, despite all this they are forced to maintain municipal services at a level far greater than their full-time population would warrant if they were not resorts.

In the smaller resort communities some of the same factors are present, but because they are different types of resorts, these factors work in reverse to that in Atlantic City and Asbury Park. The high percentage of residential ratables does not reflect full-time residents. Therefore, the residential ratables do not reflect the numbers of school age children they would in a non-resort community and school taxes are spread over a wide base enabling the rate to remain relatively few municipal services required and, thus, municipal taxes remain low. Also, the communities are relatively new, improving rather than deteriorating and there is no widespread unemployment requiring large welfare expenditures. As a group, then, the smaller shore municipalities enjoy the lowest property taxes of any group of municipalities in the State. This is particularly beneficial to the full-time residents, the summer resident is also paying taxes elsewhere.

(4) <u>Tax Rates vis a vis Assessment Levels</u>

In making comparisons of Actual taxes, residential property lends itself to such comparison far more readily than does any other class of property. Also, it is to residential property that most tax reform proposals are primarily directed. For these reasons this study will restrict its evaluation to residential property.

Municipalities do not pay taxes, people pay taxes. As has been noted before, "rich" municipality and "poor" municipality tends to distort the actual impact of property taxes on the residents of any particular municipality, for there are rich and poor and middle income residents in all but a few small municipalities in the State. Where assessments are very low, the rich resident will benefit. Conversely, where assessments are very high, the poor resident is placed in an untenable position.

A study of assessments and taxes for 1965 and of assessments and taxes for 1975 throughout the State enables us to evaluate the impact of the property tax far better than to merely compare one town with another in any one year.

On a state-wide basis, in 1965 the median residential assessment was $11,700 and the median property tax was $460. In 1975, the median residential assessment was $24,900 and the median property tax was $1,025. Thus the median assessment rose a little more than 112% and the median tax rose almost 122%, sufficiently close to say they almost correspond in increase over the period.

We might make the point here that, on the average, a senior citizen receiving an $80 tax exemption in 1965 and a $160 tax exemption in 1975 saw an erosion of 22% in his exemption despite the fact that it doubled in value. Suffice it to say that, as with all property owners, it varied greatly from place to place. Let us look at some of these variations.

To begin with, it is obvious that the increase in the median assessment was due to the inflation of real estate values. Had this inflationary spiral been equal throughout the State, its impact would have been equal, but it was not and the impact upon the property owner varied greatly from place to place.

In 1965, the lowest average residential assessment was $1,335 with an average tax of $39. The same municipality had the lowest Average residential assessment in 1975 - $4,233 with an average tax of $149. This represents an assessment increase of about 217% and a tax increase of more than 280%, yet it does not represent a very substantial impact upon the property owner in that community.

On the other hand in semi-rural Medford Township in Burlington County, the average residential assessment rose from $17,700 in 1965 to $29,300 in 1975, less than 100%, but the average residential tax rose from $431 to $1,359, more than 200%. This does represent a real impact upon the property owner. In this community, the $80 exemption a senior citizen received in 1965 represented a much larger percentage reduction in his property tax than the $160 he received in 1975.

The most spectacular increase in assessments was in Union County where the median average assessment increased almost 300% from $10,200 in 1965 to $40,400 in 1975. However, the average tax increased only slightly more than 100% from $607 in 1965 to $1,265 in 1975.

Looking at some of the older cities during this same period, we find varying situations:

1965 Avg. Asst.	1965 Avg. Tax	Municipality	1975 Avg. Asst.	1975 Avg. Tax
$ 4,300	$322	Atlantic City	$ 9,200	$ 621
5,100	495	Bayonne	18,600	1,369
2,950	266	Camden	5,600	440
14,600	752	East Orange	22,400	1,760
11,600	753	Newark	11,200	1,112
4,800	535	Jersey City	13,200	1,130
4,100	458	Trenton	8,200	635
7,400	427	New Brunswick	23,800	1,057
14,000	608	Paterson	19,500	1,044
8,600	518	Elizabeth	17,300	1,098
9,400	607	Plainfield	19,000	1,265

Although the average tax in Camden is the lowest of the citie above, in Camden the service charges discussed previously are extremely high.

Looking now at some of the larger suburban municipalities during the period,we also find varying situations:

1965 Avg. Asst.	1965 Avg. Tax	Municipality	1975 Avg. Asst.	1975 Avg. Tax
$22,400	$ 668	Teaneck	$37,100	$1,772
12,300	732	Cherry Hill	39,800	1,453
20,200	832	West Orange	31,700	1,935
20,300	548	Clinton Twp.	39,700	1,627
22,000	1,297	Princeton Twp.	61,900	2,159
9,600	448	Edison Twp.	34,500	1,144
14,600	477	Matawan Twp.	24,400	1,353
9,300	546	Parsippany-Troy Hills	30,900	1,352
22,900	642	Wayne Twp.	33,600	1,396
10,000	431	Bridgewater Twp.	41,000	1,320
13,400	795	Scotch Plains	40,500	1,557

The above tables do not prove anything <u>conclusively</u>, but they do indicate that some of the traditionally accepted concepts about property taxes may have to be discarded if we are to attain the illusive and elusive goal of "tax reform".

(5) <u>State Aid</u>

The subject of State aid will be dealt with in detail in Section III. Suffice it to say at this point that State aid, or the lack thereof, has had a significant effect upon local taxes.

(6) <u>Equalization and revaluation</u>

Perhaps one of the most controversial aspects of the entire property tax picture is that of equalization. It is also one of the most important aspects, because the distribution of county taxes, State School Aid and other aid programs is based in whole or in part upon equalization formulas.

As has been noted previously, despite the fact that the present system leaves alot to be desired, it is the best measure we have available at this time.

Basically, equalization is based upon property sales in a municipality and a correlation made between the assessed value of the property sold and the selling price. Not all sales are used, for there are some which obviously are not sales "at arm's length", and so would distort the assessment picture. The main controversy lies in what are "usable" sales and what are "not usable." In addition to those which are obviously not usable, there are those which different individuals would evaluate differently.

While there are usable and unusable sales in residential property, the volume of such sales is usually sufficient to provide a representative picture, although in some areas residential sales have fallen off sharply because of economic conditions. Also, many sales in those municipalities which have a high turnover include personalty which inflates the price and, thus, tends to distort equalization.

It is in the sales of large commercial and industrial properties that the greatest disagreement lies. Naturally, there are far fewer sales of this type of property than there is in residential property. It is far more difficult to assess such property to begin with and it is far more difficult to determine if the sales of a commercial or industrial property is a usable sale.

Vacant land is another category which is much abused. There are numerous examples of vacant land selling for many times its assessed value. In such instances, the other taxpayers have been subsidizing the owner of the vacant land.

Where assessment ratios are substantially below 100 percent, it is generally thought that revaluation is the answer. However, this is not necessarily the case. While revaluation usually will improve the situation, its main advantage will be to equalize values within a district, and not necessarily equalize them with surrounding districts, although both are goals of the revaluation.

In Cherry Hill, a recent revaluation was completely disregarded temporarily, primarily because of an outpouring of complaints and appeals by local taxpayers. In other revaluations, the equalization ratio in the year following revaluation has been below 90 percent.

Many municipalities have not had a revaluation in more than 10 years, some in more than 20 years. Does the equalization ratio overcome this in determining the distribution of county taxes or of aid? Many think it does not.

One of the major objections to revaluation is that it is an expensive process and local officials are loath to add a major item to the local budget which will increase local taxes and bring the wrath of many irate property owners down on their heads when the project is completed.

Is there an alternative? Some contend there is. There are those within the Association of Municipal Assessors who feel the local assessor would be best qualified to make a revaluation or at least to supervise one. He is familiar with the municipality. He understands the underlying aspects of property values in many instances which would not be apparent to an outside company. Naturally, he would need assistance to do such a job along with his regular work.

A similar alternative which has been discussed is that with the aid of data processing, the local assessor could make a continuing revaluation.

There would be many advantages to either of these alternatives. At the same time, however, there are many problems which present themselves.

The advantages are obvious. Either would be far less costly to the municipality. Revaluations could be kept current if done throughout the State.

The disadvantages are somewhat less obvious, yet equally real. Both alternatives imply that all assessors are highly professional and that all are full time officials. Both alternatives would require very extensive and very strict guidelines. Both would require monitoring at either the county or State level to prevent one municipality from placing its neighbors at a disadvantage.

Although these disadvantages do exist, there is no reason to say that they would be impossible to accomplish. Quite the contrary. The principle of either, if properly administered,would be a giant step in the improvement of the tax assessment process to provide equity within municipalities and between municipalities. Unfortunately, the accomplishment of either will require traversing a long and rocky road.

(7) Inflation (or deflation)

The problem of inflation as it pertains to assessments and to the property tax might best be considered in (4) or (6) above, but it pertains to both and, thus merits separate consideration.

Inflation has hit all municipalities in one way. The cost of goods and services has increased dramatically. Collective bargaining by public employees has been one of the major factors in the cost of government. For many years, the wages of municipal employees lagged far behind the private sector and in most instances behind those in other levels of government. Although it is only equitable that these disparities should be erased, it has had a marked effect upon local budgets.

In another sense inflation has been selective, affecting different municipalities differently. The spiraling cost of real estate has pushed property values in some areas to almost unreal levels. The property owner has been caught in the middle. While his property has increased in value and a balance sheet might show a sizeable increase in his net worth, as a practical matter he is worse off than he had been ten years before. As we have noted previously, this is particularly true of those on fixed incomes. If he sells his house at a good profit, where does he go? A new property will be selling at an inflated price and, if he requires a mortgage, his interest costs will be substantially higher.

This has been the case in what are commonly called the "affluent suburbs." Unfortunately not all of those who live in the affluent suburbs are affluent.

On the other hand, in the older cities and some of the old small municipalities property values have been depressed. Properties have been allowed to deteriorate, in turn affecting the value of those close by. In many places urban renewal has torn down, but has failed to rebuild. As slum areas are condemned, the people displaced are crowded into other sections of the community and new slums are created.

Although this situation affects the poor adversely, it is not necessarily the case with the more affluent in these communities. As has been noted before, the landlords can charge high rents because of the lack of housing and pay low taxes despite high tax rates because building values and assessments are low. The owner of a residential property in the "better" neighborhoods also benefits from the general situation, for he is likely to pay less property tax than he would for a comparable home in the suburbs.

Therefore, inflation (and deflation) in property values have not had a universal impact upon property owners throughout the State nor even within many municipalities.

The major problem confronting most of our central cities is the deterioration of the ratable base. Not only have property values been depressed, business and industry have moved to the suburbs.

As far as industry is concerned, one of the major reasons for abandoning the cities is factory obsolescence. Industry which fails to keep pace with modern technology will go the way of the dinosaur. A comparison of the buildings of the old textile mills along the Passaic River with those of modern plants along the New Jersey Turnpike illustrates the change from vertical to horizontal assembly line techniques. The need for large expanses of land precludes many companies from considering central cities for plant location.

The decline of central city commercial property is far more complicated than that of industrial property. Some of our cities have maintained a relatively viable "downtown" area, while others have deteriorated completely. The City of Camden is probably the best example of the latter.

However, the depression of land values is not a problem exclusively in the central cities. Rural and semi-rural areas of southern New Jersey have been affected by the closing of food processing plants. Unemployment has risen and property values have declined.

Therefore, in attempting to devise a more equitable distribution of available moneys, the complexities of inflation in property values in most areas and the erosion of the tax base in others must be considered.

(8) Tax Exempt Property

There have been a number of studies made on tax exempt property. In the long run, however, little if any of the recommendations have been implemented.

Perhaps the most persistent proposal deals with State property and payments in lieu of taxes on such property. Recently, there have been proposals to equalize the loss of ratables for county property throughout all the municipalities in the county.

The most recent and most comprehensive proposal is for a Constitutional Amendment to allow municipalities to impose service charges on all tax exempt property.

At present, there are statutes providing for State payments in lieu of taxes under certain conditions. However, the terms of these statutes provide little or no benefit to those municipalities where the impact of such property is the greatest.

The basic questions concerning tax exempt property is one of cost-benefit. In many instances the benefit is obvious, in others not so obvious. Perhaps the best example is the State Capitol complex in Trenton. Obviously, the State occupies much of the best property in the city, which, if it were on the tax rolls, has a large potential. On the other hand, if the main State offices were not located in Trenton, could downtown Trenton survive at all? On the other hand, the direct cost to the city of having the State buildings is at times considerable.

In Newark, the location of the College of Medicine and Dentistry, Rutgers-Newark and numerous offices is somewhat different than that in Trenton. The major benefit to Newark is the services provided to its people. Each community containing large amounts of State property has different degrees of cost and benefit.

For a number of years the Rutgers budget has contained an item to pay New Brunswick and several adjoining municipalities a token payment for services rendered. Recently, the State budget provided a payment to the City of Trenton and Ewing Township. These, however, were struck down by the courts as discriminatory, then reinstated upon repeal.

To a certain extent the same cost-benefit approach could be used for county property throughout the State.

The problem of State and county property could be dealt with rather easily. With the State property it is primarily a matter of settling on a formula and appropriating the necessary funds.

However, the most perplexing problem is how to deal with privately owned tax exempt property. Such property does not constitute a major problem in most rural or suburban areas, but in some of our urban areas the impact is great. Here too we can apply a certain cost-benefit relationship, for many private tax exempt organizations perform a direct and beneficial service to the community. On the other hand, the proliferation of tax exempt organizations, and the tendency on the part of some to expand their holdings has placed a real burden upon some of our urban communities. Each time a property is removed from the tax rolls, the tax loss is allocated among the remaining taxpayers.

A case in point is the City of Orange. Orange is a city that has reached its physical limits. There is no room for expansion, no acres awaiting development. Any property removed from the tax rolls places a direct burden upon the taxpayers. More than 30 percent of the property in Orange is tax exempt. Undoubtedly, this is a contributing factor to Orange having among the highest taxes in the State.

There are numerous organizations enjoying tax exempt status which are hardly more than private clubs. While they are nonprofit, and, thus, Federally tax-exempt, perhaps some or all of them should not enjoy property tax exemption.

How should we deal with a hospital? It serves not only the community in which it is located, but surrounding communities as well. Should the ratable loss be compensated for by those surrounding communities? The same may be said for other organizations where the service transcends municipal boundaries.

There is no easy answer to the problem of tax exempt properties, but, perhaps the idea of service charges in some instances may have considerable merit.

(9) Taxes, Tax Rates and Expenditures

The ultimate determination of the impact of the property tax is the level of taxation. Expenditures are the final indication of that impact. A study of the increases in taxes and the relationship of these increases to the corresponding increase in ratables further demonstrates some of the distortions in the general view of the property tax.

As might be expected, when we compare 1965 and 1975, there is no real pattern. What is evident, however, in most instances, is that inflation has been a major factor.

To illustrate this, the equalized valuation for the State in 1965 was $39.98 million and in 1975 it was $96.2 billion, an increase of 140.4 percent. It is obvious that this does not reflect new ratables, but in large part represents increases in real estate values. This can be further substantiated by the fact that the increase between 1974 and 1975 was $8.3 billion, a year in which new construction was the lowest in more than 25 years.

The inflationary factor also can be shown by the fact that in 1975 more than one-third (206) of the municipalities in the State had lower effective tax rates than they did in 1965. It is obvious this can't be said for the property tax bills in these municipalities.

Actually the State-wide average effective tax rate declined in the 1965-1975 period. However, the total property tax levy increased by 148.5 percent and the total school tax levy by 167.4 percent despite the infusion of large amounts of State aid.

Naturally, these increases were not uniform across the State and theeffect of increased State school aid had differing effects upon individual districts. Those which have been minimum aid districts have not benefitted to the extent that those receiving equalization aid have benefitted. Even within the latter group, there is a wide variance, even a wider variance than one might suspect.

As one would suspect, the increase in equalized valuations in the urban centers rose far less than did those in the suburbs and in rural areas. However, as one might not suspect the increases in their tax levies also were far less than in the other group. The same is true generally, for their school tax levies and, here, two factors had the greatest impact. School population grew far more in suburban and rural areas than in the urban centers and the urban centers were the recipients of the largest increases in State school aid. Since the portion of the property tax which goes for schools is by far the greater part of the total tax levy, naturally, an effect upon school taxes will be reflected in the total tax levy far more than an effect in either of the other components of the property tax.

To illustrate the wide variation in the above, let us look at a representative sample of urban centers and a representative sample of suburban and rural or semi-rural municipalities.

URBAN CENTERS

Municipality	% Increase Eq.Val. 1965-75	% Increase Tax Levy 1965-75	% Increase School Levy 1965-75
Atlantic City	12.1%	69.8%	71.2%
Camden	39.5%	45.8%	52.7%
East Orange	27.0%	128.9%	93.3%
Newark	3.8%	18.8%	-6.8%
Bayonne	105.3%	108.9%	185.8%
Jersey City	37.2%	35.9%	80.6%
Trenton	29.9%	35.4%	14.4%
New Brunswick	79.4%	122.0%	164.9%
Paterson	37.8%	48.5%	38.7%
Elizabeth	56.5%	102.3%	150.4%
Plainfield	59.3%	98.6%	85.8%
Teaneck	81.6%	167.2%	176.4%
Bordentown Twp.	170.0%	239.7%	242.4%
Cherry Hill	301.0%	377.4%	376.2%
Glen Ridge	84.8%	178.1%	211.4%
Clinton Township	278.7%	455.0%	494.1%
Princeton Township	134.8%	151.8%	126.1%
Madison Twp. (Midd)	220.0%	367.1%	398.9%
Matawan Township	149.5%	241.5%	267.5%
Parsippany Troy Hills	233.5%	347.3%	330.6%
Dover Twp. (Ocean)	268.1%	305.7%	349.1%
West Milford Twp.	180.8%	274.3%	329.0%
Franklin (Somerset)	244.6%	248.1%	453.2%
Vernon (Sussex)	412.0%	742.3%	1,041.3%
Scotch Plains	135.4%	163.2%	183.2%
Pohatcong (Warren)	159.0%	237.7%	248.2%

In both tables, one thing is obvious -- much of the increase in equalized valuations are the result of inflated real estate prices.

Camden, for example, had a decrease in real property rather than an increase. In addition, as noted before, Camden has extremely high sewer and water charges.

As a final indication of the role of inflation in the ratable increase is that there has been a far smaller increase in the net number of line item ratables in those categories making up almost 95% of the States' total valuations, residential, commercial, industrial and apartment than in the total increase in ratables.

It is quite obvious that many of the commonly held conceptions of the property tax and its impact are based upon simplistic reasoning, but that in reality the problem is a complex one which does not lend itself to an easy solution. It is equally obvious that our simplistic view of the property tax has led to continuing inequities. These inequities have existed for many years,but they have been compounded in recent years by the inflationary trends in real estate and in other areas as well.

Placed as it is between two of the major metropolitan areas in the country, with one of the nation's major tourist attractions and with a limited amount of available land, New Jersey can expect property values to be forced upward. Therefore, we must be aware of the distortions caused by inflation and not allow the existing inequities to be compounded even further.

SECTION II

LOCAL NON-PROPERTY TAX REVENUES

As creatures of the State, local governments are restricted by the several states in the sources they must use to raise revenues. Traditionally, the real property tax was the only tax source for raising local revenues and this, together with various licenses and fees, constituted all local revenues. As the complexity of government increased and greater local services were demanded, local governments looked to the State governments for assistance.

The first forms of assistance were usually direct grants in aid for specific purposes, mainly for schools and roads. Other grants soon followed. Subsequently, local governments found such grants were often insufficient to prevent substantial property tax increases at the local level. Thereupon, many petitioned the State for authority to impose taxes which previously had been denied them. Such authorizations soon were granted in a number of states and there has been a proliferation of local non-property taxes in the ensuing years.

NATIONAL PICTURE

There have been two basic methods used throughout the United States for authorizing non-property taxes to be imposed by local governments. One has been to allow local governments to impose certain taxes directly within their jurisdictions to be collected locally. The second has been to allow local governments to impose a tax as a "piggyback" on an existing State tax, to be collected by the State with the local share returned to the local governments. This is probably the most widely used method at present.

In all instances, whether the taxes imposed are direct or "piggyback," the states have restricted the scope of the taxes as well as the rates. In some states, special consideration has been given to the state's major city or cities. This is true in New York and Pennsylvania as well as others.

Also, in most states authorizing local non-property taxes, provision is made to allocate revenues between counties and municipalities by setting a rate limit for each. However, when the county-municipal relationship is considered, it must be remembered that in most southern and western states there is a decidedly differer relationship between counties and municipalities than there is in New Jersey. In New Jersey, the entire area of the State is incorporated, whereas in many states the incorporated area covers a relatively minor percentage of the total land area. In such states, therefore, the county is the sole level of local government and local services are provided by the county, requiring the county to have revenues above those which it receives from constituent municipalities, thus, the ability to levy taxes, an authority not granted to counties in New Jersey.

Of the taxes directly imposed and locally collected, the most common is an income tax or a wage tax. This is to be found in 15 states including New Jersey, which has only recently extended authority for imposing a wage tax to Newark and Jersey City.

In some states, Georgia is an example, which authorizes both local income and local sales taxes, a municipality is authorized to impose only one of the taxes.

The most comprehensive local income tax is that imposed by the City of New York and the least comprehensive are those which are "piggybacked" on the state income tax.

The wage tax, as imposed in Pennsylvania municipalities and school districts, is considered the least desirable because it applies only to earned income and many of the wealthy escape it entirely. To a great extent the justification for wage taxes is the payment by commuters for services they receive.

By far the most popular local non-property tax is the sales tax piggybacked on the state sales tax. These are to be found in 33 states. In addition, New Jersey authorized Atlantic City to impose a "luxury tax" many years before the state imposed its sales tax, and the city is exempted on certain items under the State sales tax.

The provisions vary from state to state, but generally the rates are restricted, the state collects the tax and returns the revenues from the local portion of the tax to the county or municipality, or both.

During the 1950s and early 1960s, local excise taxes on gasoline and cigarettes proliferated, but it was found that such taxes were inefficient and difficult to administer. The pattern of taxation became such a hodge-podge that most states withdrew such authority and, in the case of the gasoline tax, raised the state tax and returned monies to the municipalities and counties in the form of road aid.

Local excise taxes tend to cause intermunicipal competition and so become self-defeating. Only the very largest cities are able to properly administer such taxes and, even in those cities many problems are created.

Despite the increase in non-property tax levies, in 1974, only 14 of the 48 largest cities in the United States derived more revenues from such taxes than from the property tax for their general operating revenues.

LOCAL NON-PROPERTY TAX REVENUES IN NEW JERSEY

Local non-property taxes in New Jersey are divided into two types, those collected by the State and distributed to the municipalit and those apportioned by the State for local collection. In the first group are the financial business tax, shared by the counties, the Business Personal Property Tax Replacement and the Railroad Replacement. To these may be added the sales tax distribution and the Bank Stock Tax which are shared by the counties and the State. In the second group are the Public Utilities Franchise and Gross Receipts Taxes and the Insurance Tax.

These taxes vary greatly in their distribution and in their impact upon those municipalities receiving them. The three most important in terms of amount, are the Business Personal Property Tax Replacement and the Public Utilities taxes. The Sales Tax distribution is based upon population and, therefore, may be said to be equitably distributed. The Financial Business Tax and the Bank Stock Tax are based upon location. The Financial Business Tax has little impact except in a very few municipalities. The Bank Stock Tax is more widely distributed but the amounts are not significant to local budgets.

The Business Personal Property Replacement program represents a substantial distribution of revenues. It is based basically on a guarantee of the revenues received from the locally assessed and collected Business Personal Property Tax, plus a distribution of revenues in excess of the guarantee, based upon existing property taxes on business.

The Railroad Replacement is actually State aid, for it is made to replace taxes lost to local governments because of the bankruptcy of the railroads.

By far, the taxes with the greatest impact are the Public Utilities Franchise and Gross Receipts Taxes. However, they are not equally distributed and some municipalities receive a veritable windfall.

The last of the non-property taxes is the Insurance Tax which benefits only a handful of municipalities with Newark receiving almost 75% of the total.

The total amount received by municipalities from the above taxes was almost $450 million in 1975. This represented an amount equivalent to about 15% of the total property tax levy in 1975; and of the $450 million total almost $400 million came from three sources, the Business Personal Property Tax Replacement and the Public Utilities Franchise and Gross Receipts Taxes. It is to these then that this study will direct its attention.

Despite the considerable impact of the revenues from these sources, they are completely ignored in determining State aid programs. The result of refusing to consider these revenues has distorted the basis of need in numerous instances and has distributed State aid to municipalities in amounts greater than they deserve at the expense of those which get less than they deserve.

Because the revenues from these taxes have increased greatly in the last few years, the distortions have become greated and the inequities have been compounded.

Although the revenues from the Business Personal Property Replacement Program are not distributed on a completely equitable basis, they have not increased to the extent that the public utilities taxes have and, thus, the distortions are significantly less.

The following table illustrates the growth of the Public Utilities Franchise and Gross Receipts Taxes in the period 1965-1975:

LOCAL RECEIPTS FRANCHISE AND GROSS RECEIPTS TAXES

	Franchise Taxes	Gross Receipts Taxes	Total	Percent Increase
1965	$ 43,607,090	$ 57,281,871	$100,888,961	-
1966	46,124,499	60,899,616	107,024,115	6.1%
1967	49,224,704	65,304,019	114,528,723	7.0
1968	52,252,455	69,755,211	122,007,666	6.5
1969	55,352,218	74,820,421	130,172,639	6.7
1970	59,513,213	80,909,811	140,423,024	7.9
1971	64,355,927	88,498,244	152,854,171	8.9
1972	71,964,663	102,878,750	174,843,413	14.4
1973	79,655,717	114,171,221	193,826,938	10.9
1974	88,496,758	126,919,407	215,416,165	11.2
1975	104,626,679	156,027,494	260,654,173	21.0
Increase 1965-75	139.9%	172.4%	158.4%	

The accelerated increase in revenues during the last four years of the period promises to continue. Although new beneficiary municipalities may be added to the present list, the majority will probably remain at a relatively low level.

If there is to be serious consideration of the impact of the non-property tax revenues, however, the Business Personal Property Replacement revenues must be considered along with the Public Utility Franchise and Gross Receipts Taxes. It is difficult to understa why they were not considered in the ratable base by some method when the assessment and collection were changed from local to State. The effect was to lower the ratable base substantially in some municipalities thus giving them a windfall in terms of any State aid program based upon ratables.

To illustrate the wide disparity in the distribution of the three sources, if the revenues from these taxes were distributed equally on the basis of population, each municipality would receive about $51 per capita. However, the actual per capita distribution ranges from a low of $11 per capita to a high of $3,250 per capita. There are 18 municipalities which receive more than $200 per capita. Some of those which receive the most revenue are the recipients of large amounts of State aid.

To further compound the inequities, the municipalities which receive large amounts of utility revenues get a disproportionate share of Federal revenue sharing funds because the Federal formula considers these revenues as local tax effort.

Using a different method of comparison, we have indicated that all of the non-property tax revenues statewide are the equivalent of about 15% of the total raised by the property tax. The three revenue sources under consideration are equivalent to about 13%. If we examine the distribution of the revenues in this light, we find that the equivalencies to local tax levies range from 2% to more than 300%. Ten municipalities show revenues from these sources amount to more than 100% of the amount they raise by property taxes.

If we translate the revenues from these taxes into the equivalent of school aid on a per-pupil basis, it is even more evident the impact they have on local finance. Distributed on an equal basis, they would provide about $275 per pupil, but in actuality they amount to as little as $50 per pupil in some municipalities to the equivalent of more than $1,000 in 16 municipalities and over $10,000 in several. This, again, illustrates the impact of these taxes on local finances.

The significance as it pertains to State aid will be discussed in Section III of this report.

However, one method to equalize the impact of these revenues has been formally proposed in the Legislature, the redistribution has been proposed by several legislators.

A court case has been recently instituted by several municipalities challenging the distribution of the Public Utilities Gross Receipts Taxes only. If there were to be any movement toward redistribution of non-property tax revenues which are unequally distributed throughout the State all three should be considered, not just one. Property taxes are unequally distributed because of the difference in ratables among the municipalities. We attempt to equalize the disparity in ratables through the distribution of State aid. Therefore, similar consideration should be given non-property tax revenues in determining the distribution of State aid.

While this problem has been touched upon from time to time, there has been little indication to deal with it directly.

The first direct approach was made in the program proposed by Assemblymen Littell and Sweeney in 1974. The distribution of State aid to municipalities and school districts under that program recognized the impact of the major non-property revenues on the ability of a municipality to provide municipal and school funds.

The program proposed that the revenues from the three major now property tax sources would be "capitalized" and added into the ratable base for determining the distribution of State aid funds.

Capitalization would not work a hardship on the municipalities receiving large amounts of non-property tax revenues, but it would provide a better method for assessing the true ability of a municipality to support local services.

The principle behind capitalization is to equate the non-property tax revenue to ratables, that is, how many ratables would be required to raise the amount received from these taxes? To prevent distortion, the capitalization is done on a statewide basis to determine the ratable equivalent for each dollar of revenue. Then that amount is multiplied by the amount of revenue in each municipality. The product is then added into the equalized valuation before calculating State aid programs.

While the Littell-Sweeney program did not consider the use of capitalization for determining the distribution of county taxes, this would be a logical extension of the principle by adding the ratable equivalents into the apportionment valuations.

There is no doubt that, if we are to have true tax reform, non-property tax revenues must be taken into consideration in determining the needs of a municipality for State aid purposes.

SECTION III

State Aid

In Section I, we have examined the property tax and its varying impact on the State's 567 municipalities. In Section II, non-property tax revenues have been evaluated, particularly as they affect the property tax.

This section will discuss State aid, with the emphasis on State school aid, and the part State aid plays in property tax levels throughout the State.

There are two major principles in State aid programs. First, the states are in a better position to levy and collect most taxes than are local governments. Also, by levying taxes at the state level, taxes and rates are distributed evenly across the state and the proliferation of tax rates is prevented. Second, by collecting taxes at the State level, revenues can be allocated to the areas of greatest need and, thus, at least to some extent, mitigate local property tax burdens where they are the most onerous.

State aid takes two forms generally, outright grants-in-aid for specific purposes, and aid based upon a certain amount of local effort. The latter generally are based upon formulas designed to equalize their effect based upon need. The formulas, however, can be distorted by failing to consider critical elements as we shall demonstrate later.

Those State aid programs which require financial participation by the municipalities or counties, for the most part, were originally designed to encourage local governments to improve a specific service. In the years immediately following World War II, one of their main functions was to encourage local government spending which in many areas was below adequate levels. Education was one of the major areas of inadequate funding.

Despite the fact that the situation has changed greatly in the years since the original formulas were devised and new formulas have taken their place, the same principle is often followed with the result that they encourage spending beyond the original intent. Thus, efficiency in the operation of a program is penalized and the taxpayer in many instances does not see the desired effect of State aid. In fact, many taxpayers are not properly aware of the extent of State aid.

National Picture

The specifics are almost impossible to obtain on a nation-wide basis for all types of municipalities. The only immediately available data is on the nation's 48 largest cities. For that reason, we will use this data in this discussion. Also, most states distribute aid to their largest cities in greater proportion than aid to smaller municipalities, or they give them authorization to impose non-property taxes, or both. Unfortunately, the latest data available is for 1974. Therefore, this data is based upon the year 1974.

General revenues for these 48 cities was \$23.5 billion, of which \$6.8 billion came from state governments or almost 29%. This percentage is by no means a constant one. Among the cities, it ranges from 2 1/2% in Dallas to more than 44% in New York. The city next behind New York is Newark. The bulk of this in Newark is aid to education.

Federal aid is another significant factor amounting to about 12% of the total for all cities. In Newark, however, Federal aid amounts to only about 7%.

The property tax generates about 24% of the general revenues for the 48 cities. Again, there is a wide range of reliance on the property tax, from almost 60% in Boston to about 6% in Toledo. In Newark, it amounts to about 34%.

Despite the great disparities in reliance on the property tax and in the percentage of state aid distributed, there seems to be little direct correlation between either factor and the amount spent on general governmental services.

New York and Washington are by far the most expensive cities of the 48 to operate on a per capita basis. However, when the various components of local service are broken out and examined separately, there is no logical comparison. In education, New York has a higher per pupil and per capita cost than any of the other cities and receives one of the largest percentages of state aid. Sanitation costs are also the highest, but surprisingly this does not extend to police and fire department cost. Washington leads the cities in this area with Newark a close second.

Also, next to New York, the per pupil cost of education in Newark is the highest of the 48 cities, but in sanitation Newark ranks among the lowest in per capita cost.

One area in which Newark and other New Jersey cities generally rank low is in gross debt. In a number of instances, debt payments are among the major costs of city government. It goes without saying this is one of the major reasons for the fiscal crisis in New York.

An examination of the revenues and expenditures of the nation's 48 largest cities indicates that while state aid is an important component of the cities' revenues, it does not seem to be a necessarily dominant factor in the amount of their expenditures.

STATE AID IN NEW JERSEY

General

The position of New Jersey as regards State aid generally when compared to other states is complicated by several factors. The first of these factors pertains to non-property tax revenues.

As has been explained in Section II, most states have granted authority to municipalities and counties to impose non-property taxes, as a piggy-back on a state tax in most instances and as a direct tax in some of the larger cities. This does not reduce the total tax burden necessarily, but it does affect the reliance on the real property tax. Because the property tax is one of the most visible of taxes, the level of that tax in New Jersey makes it appear that this State is doing less than other states in providing aid to its local government units.

In addition, those taxes which in most states constitute state revenues but which in New Jersey have been relinquished by the State are not considered State aid, yet in essence they are despite their unequal distribution.

A further circumstance which clouds the picture for New Jersey is its geographical location and the physical characteristics of many of its larger municipalities. First, the cost of government in New Jersey is naturally higher than in many states. Lying as it does between two of the country's major metropolitan areas with the highest population density of any state, New Jersey's local government costs in the affected areas are inflated by the need for services or a higher level of services than is to be found in most states. Land in those areas is at a premium and values have soared to astronomical levels, affecting the home construction industry. Property values in many communities have reached a level where it is impossible for most families to purchase a home.

On the other hand, the older communities are suffering from decay. Many have experienced a reduction in their property base, yet the cost of services has increased rather than declined. Absentee landlords have contributed substantially to the deterioration of the larger cities, for the lack of an adequate supply of housing makes it profitable for them to rent at relatively high rates while evading the payment of all but nominal property taxes through allowing their buildings to deteriorate.

Thus, for New Jersey to maintain standards applicable in much of the rest of the country, the dollar amounts needed to meet those standards is greater.

The second factor which complicates the local aid picture in New Jersey is the dollar level of aid versus the percentage level of aid. This will be discussed more fully in the consideration of State school aid.

If we look at the general State aid picture for the 1965-1975 period, we find that the amount expended for that purpose increased dramatically during the period and, in fact, increased at a greater rate than any other facet of State government. Expenditures for State aid increased from $251 million in 1965 to $1.256 billion in 1975, an increase of more than 400%. However, as noted before, in addition to the grants-in-aid, non-property taxes relinquished by the State to local governments have also increased substantially. As shown in Section II, public utility franchise and gross receipts taxes have increased over 158%, from $101 million to $261 million. With the various minor taxes distributed to counties and municipalities, the total for 1975 becomes about $1.6 billion, or more than $210 per capita. However, as we have noted previously, this is not distributed evenly across the State. In total, it represents an amount equal to more than 50% of the amount raised by the property tax.

The passage of the tax program adopted by the General Assembly would increase the total aid to about $2.5 billion and would reduce the property tax level to about the same amount if applied as intended. Thus, the cost of local government, in that event, would be divided about 50-50 between local effort and State aid.

Although present levels of aid are high percentagewise and bid to become even higher, all programs should be examined to provide a more equitable distribution of aid in an effort to reduce the peaks and valleys in the property tax.

State School Aid

The examination of State School aid by itself is justified in that it represents the highest dollar figure of State aid (1975 - $817 million), it represents the area of greatest governmental expenditure and it affects the greatest number of people. The implementation of the "T & E" legislation will merely increase this emphasis.

New Jersey is often accused of lagging behind other states in its support for public education. However, this contention should be put in the proper perspective before we pass judgment on its validity.

The basis used in making the contention is the percentage of public school costs assumed by the State of New Jersey in relation to the percentage assumed by other states. First, no consideration is given to "percentage of what?" and second, the percentage is for statewide support which varies greatly across the state.

What is meant by "percentage of what?"? The difficulty in making comparisons lies in equating percentages. First, let us look at this on a statewide basis, then on the basis of some examples of individual school districts.

The national average for State support of the public schools is approximately 40%. The average for New Jersey is about 28%, thus, if we follow this concept, New Jersey supports its public schools at one-third less than the national average. However, this does not take into consideration the total level of support and the fact that New Jersey is consistently ranked second or third in per pupil expenditures for the public schools.

Let us say that State "X" contributes 40% of the cost of the public schools, State "Y" contributes 35%. On the face of it, New Jersey appears to be deficient in its support of its public schools, but this is not necessarily the case as may be demonstrated.

The amount spent per pupil in the public schools varies widely in the several states. As noted before, New Jersey consistently ranks near the top in per pupil expenditure. In many instances, therefore, the comparison of New Jersey's support with that in another state or other states will be misleading if based strictly on the percentage of support.

If State "X" which pays 40% of the cost of public education has an average per pupil expenditure of $1,000 per pupil, its contribution averages $400 per pupil, or if its average per pupil expenditure is $1,200, its contribution averages $480 per pupil. State "Y" on the other hand, which has an average contribution of 36%, would contribute $360 and $432 respectively based on the above pupil expenditures. It should be pointed out that these are not the lowest per pupil expenditures in the country, but would fall close to the median. New Jersey, on the other hand, with 28% support contributes well over $500 per pupil on a statewide average.

This is not to say that the State should not contribute a greater percentage of support for the public schools, but it should be put in the proper perspective. The increased support, in most instances, should be used to relieve the reliance on the property tax which is the case in most states which contribute a high percentage of the public school funds.

Although the State support of the public schools in New Jersey averages 28% across the State, this fugure does not properly reflect the situation in individual districts, for it does not indicate the effort on the part of the State to compensate "poor" districts. This is evident if we look at a representative sample of the urban districts most of whom have a low ratable base per pupil. The following figures reflect the budgeted current expenditures per pupil and the amount of State aid per pupil for 1975-76, showing the percentage of support.

State School Aid 1975-76*

District	Current Exp. Per Pupil	State Aid Per Pupil	Percent of Current Exp.
Asbury Park	$1,736	$841	48.4%
Atlantic City	1,082	526	51.2
Bridgeton	1,365	829	60.7
Camden	1,396	969	69.4
East Orange	1,432	587	40.9
Elizabeth	1,560	209	13.3
Hoboken	1,361	911	66.9
Jersey City	1,499	738	49.2
Newark	1,688	1,190	70.4
New Brunswick	1,550	226	14.5
Passaic	1,300	520	40.0
Paterson	1,143	682	59.6
Perth Amboy	1,539	293	19.0
Plainfield	1,504	514	34.1
Salem	1,885	1,181	62.6
Trenton	1,498	947	63.2
Union City	1,568	632	40.3

*Amounts are approximate.

It is obvious from the above that the 28% figure for State support is somewhat misleading. When compared with many of the urban centers throughout the country, New Jersey's school support shows up favorably.

Let us look now at some of the other larger urban and suburban communities to examine the State aid situation as it exists in comparison with those in the previous table.

State School Aid 1975-76*

District	Current Exp. Per Pupil	State Aid Per Pupil	Percent of Current Exp.
Bayonne	$1,497	$178	11.8%
Brick	1,293	187	14.4
Bridgewater-Raritan	1,759	201	11.4
Cherry Hill	1,712	191	11.1
Clifton	1,359	184	13.5
Edison	1,804	193	10.6
Franklin (Som.)	1,645	239	14.5
Hamilton (Mer.)	1,301	187	14.3
Irvington	1,330	194	14.5
Middletown	1,284	202	15.7
Montclair	2,038	235	11.5
Morris	2,321	253	10.9
North Bergen	1,428	176	12.3
Parsippany-Troy Hills	1,642	194	11.8
Phillipsburg	1,240	438	35.3
Rahway	1,408	193	13.7
Teaneck	2,137	224	10.4
Toms River (Dover)	1,358	186	13.6
Vineland	1,225	546	44.5
Wayne	1,439	191	13.2
Willingboro	1,515	804	53.0
Woodbridge	1,623	197	12.1

*Amounts are approximate.

The passage of Chapter 212, P.L. 1975 (T & E) will change the picture significantly in some districts, but not a great deal in others. In some respects, the pattern does not seem consistent. Taking the same districts in the previous tables, the implementation of the funding provisions of Chapter 212, P.L. 1975 would show the following:

District	State Aid Per Pupil	Percent of Current Exp.	Percent Increase Per Pupil
Asbury Park	$1,056	60.8%	25.5%
Atlantic City	625	57.5	18.8
Bayonne	279	18.6	56.7
Brick	447	34.5	139.0
Bridgeton	986	72.2	18.9
Bridgewater-Raritan	329	18.7	63.6
Camden	1,277	91.4	31.7
Cherry Hill	469	27.3	145.5
Clifton	241	17.7	30.9
East Orange	955	66.6	62.6
Edison	262	14.5	35.7
Elizabeth	628	40.2	200.4
Franklin (Som.)	340	20.6	42.2
Hamilton (Mer.)	503	38.6	168.9
Hoboken	1,083	79.8	18.8
Irvington	649	48.7	234.5
Jersey City	1,074	71.6	45.5
Middletown	535	71.6	164.8
Montclair	336	16.4	42.9
Morris	335	14.4	32.4
Newark	1,341	79.4	12.6
New Brunswick	398	25.6	76.1
Parsippany-Troy Hills	518	31.5	167.0
North Bergen	274	19.1	55.6
Passaic	760	58.4	46.1
Paterson	889	77.7	30.3
Perth Amboy	608	39.5	107.5
Phillipsburg	739	59.5	68.7
Plainfield	849	56.4	65.1
Rahway	256	18.1	32.6
Salem	1,312	69.6	11.0
Teaneck	283	13.2	26.3
Toms River (Dover)	4 454	33.4	144.0
Trenton	1,186	79.1	25.2
Union City	845	53.8	33.7
Vineland	754	61.5	38.0
Wayne	253	17.5	32.4
Willingboro	1,045	68.9	29.9
Woodbridge	265	16.3	34.5

The above table is a composite of the districts shown on the previous two tables indicating the projected State aid under the first year of T & E.

As indicated, the largest percentage increases in per pupil aid are in the suburban communities for the most part, yet the dollar amounts and percentage of expenditures remain relatively low.

If we examine the three tables and make a comparison between some of the districts in each, there seem to be some rather unusual situations. For example, Bayonne and North Bergen in Hudson County have among the highest tax rates in the State, yet they are among the lowest in State school aid. Also, there is no doubt that Atlantic City is one of the most depressed areas in the State, yet that city falls far behind many districts which are not depressed areas. The answer to the above situations lies in the fact that school finance is considered in a vacuum, as though other forces affecting the finances of a municipality do not exist. This will be discussed later from the other side of the picture.

There are many factors which affect the ability of a municipality to raise revenues for local services. We have examined these to some extent previously, but they bear repeating in this section. First, the tax rate reflects three elements, county taxes, municipal purpose taxes and school taxes. Second, the mix of ratables has an affect upon all three elements. Third, the assessment level is one of the most important factors in determining the tax rate and which, as has been demonstrated in Section I, distorts the situation in comparing the relative ability of municipalities. Fourth, as indicated in Section II, the revenues from non-property taxes are highly significant. In determining the distribution of State school aid only the second of the foregoing is considered.

While the cost of the public schools represents the largest single governmental expenditure in the State, and requires the largest local effort at the local level through property taxes on a statewide basis, it varies in thepercentage of the property tax required from municipality to municipality.

In the three municipalities cited above, the percentage of the tax levy for school purposes is 21.5% in Atlantic City, 38.2% in North Bergen, and 41% in Bayonne, indicating that the other two elements of the property tax have a greater effect upon local taxes than does the school tax.

On the other hand, if we examine several of the suburban districts which far exceed the three urban areas in school aid per pupil, we find that in Willingboro school taxes are more than 69% of the levy and about 50% in Vineland. Most of the smaller suburban and rural communities have an even greater percentage of their tax levies go for schools.

If we examine the situation in the three municipalities, Atlantic City, Bayonne and North Bergen, we find some diversity there. Atlantic City's major effort goes into its local purpose tax levy. The city, although having a population of less than 50,000 must maintain services at a level befitting a city many times its size because of the influx of visitors. The municipal purpose levy accounts for 63% of the total. In addition, its county taxes are quite substantial. Bayonne's tax levy for municipal purposes is about the same as that for school purposes, but its county taxes account for more than 20% of its total levy. North Bergen's local purpose levy is somewhat less than its school levy, 30%, but its county tax levy is 28% of the total. Thus, we have three somewhat different situations all having an impact on the total tax burden in each municipality, yet none of which are considered in determining school aid.

The second factor, the mix of ratables, that is residential as compared to commercial and industrial, has been discussed in Section I, but in counties with a heavy county tax, the ratable base is somewhat of a mixed blessing, for it increases county taxes and inflates the total tax rate beyond what it would be otherwise.

As noted in Section I, the third factor, the assessment level has a very significant effect upon the local taxpayer and present methods of equalizing valuation leave much to be desired. However, until a better method is developed, this cannot be considered differently as regards school aid.

The fourth factor, discussed more thoroughly in Section II, non-property tax revenues is a significant factor in the ability of a municipality to finance local services and should be considered in determining the distribution of State school aid as well as in the apportionment of county taxes. For the purpose of this study, however, this consideration will be restricted to the school aid distribution.

If one examines the amount of school aid per pupil, there are elements which must be examined closely, for otherwise the figures can be misleading. This is particularly true in suburban and rural areas where a large part of State aid is transportation aid. Naturally, a district which has a low density of population necessarily will have relatively large expenditures for transportation. Also, regional school districts will tend to have high transportation costs. Because Chapter 212 of the

Laws of 1975 increases the State's share of transportation costs from 75% to 100%, some of the increases in aid to suburban and rural districts particularly will reflect this.

As an example of this, let us use the three municipalities with high taxes alluded to previously, Atlantic City, Bayonne, and North Bergen, and compare them with some of the suburban municipalities. Using the distribution proposed under T & E, which anticipates 100% transportation aid, in Atlantic City such aid amounts to 3.9% of the total, in Bayonne such aid amounts to 5.3% of the total, and in North Bergen it amounts to 12.4% of the total. However, in Edison it represents 23.1% of the total, and in the Morris School District it amounts to 25.4% of the total. In numerous rural districts, transportation aid will amount to 40% or even 50% of the total aid. It is obvious, therefore, that total aid to a district on a per pupil basis can be misconstrued if not considered carefully.

The impact of non-property tax revenues on the overall fiscal position of various municipalities and the distortion they cause in State school aid can best be demonstrated by some of the most glaring examples. Although the examples will be limited to a relatively small number of districts, there are numerous others which might be used if one wishes to examine every district. As has been pointed out in Section II, these revenues are not considered and, therefore, an inequitable distribution of revenue results. As a basis of comparison, the three urban municipalities will be compared with such districts.

District	Effective Tax Rate	Effective School Rate	State Aid Per Pupil T&E*
Ridgefield	$.77	$.36	153 (213)
Burlington City	1.77	.98	665 (832)
Upper Twp.	.62	.12	153 (367)
Holland Twp.	1.10	.61	210 (425)
Lower Alloways Creek	.98	None	560 (884)
Blairstown Twp.	.63	None	192 (353)
Atlantic City	5.57	1.19	473 (625)
Bayonne	4.58	1.86	177 (279)
North Bergen	3.51	1.33	153 (274)

*Figure is for formula aid only, figure in parenthesis is total aid.

It is obvious that inequities exist as a result of using ratables as the sole criterion of the ability of a municipality to finance governmental services.

In any attempt to provide tax reform, all elements of the property tax and the effect of non-property taxes must be considered if that reform is to really be accomplished.

SECTION IV

CONCLUSIONS AND RECOMMENDATIONS

There is ample evidence that a great deal of room for improvement exists in the application of the property tax and in the use of real property values to determine the method for distribution of State aid funds.

There is evidence, also, that there must be better State-local coordination and cooperation in efforts to erase the inequities within the existing property tax structure. Too often in the past legislation has been passed which has had inherent merit, yet which has caused administrative frustration at the local level because there has been a lack of communication between the Legislature and local officials.

If there is to be continued heavy reliance upon the property tax to finance local government services, and there is no evidence to the contrary, there must be a conscious effort to prevent the constant erosion of the tax base.

New techniques for the improvement of the equalization process must be developed, both for equalization between municipalities and for equal treatment of property owners within each municipality.

One of the first and simplest things which should be done is to make certain that all bills introduced in the General Assembly concerning the property tax be referred to the Assembly

Taxation Committee. This means every bill having to do with assessment, tax collections, property tax exemptions, in lieu payments, sewer assessments, in other words anything even remotely concerning the property tax. By doing this there will be no working at cross-purposes. In the past there have been mix-ups because bills were referred to different committees.

Another recommendation is that a line of communication be established between the Taxation Committee, the County and Municipal Government Committees of the General Assembly and the County and Municipal Government Study Commission.

Already, there has been a significant move toward communicati between the Taxation Committee and the Assessors Association a the Collectors Association, and this should be strengthened and formalized. While there has been some dialogue with the County Board and Secretaries Association and with the Taxation Committee of the New Jersey State League of Municipalities, these should be expanded, formalized and strengthened. To an extent the same should apply to communications with the Freeholders' Association.

All of the above will serve to coordinate efforts in the field of local property taxation and all those areas which have bearing upon the property tax.

As has been pointed out, the property tax is the largest singl source of revenue in the State and in all likelihood will conti e to be for some time to come. Also, it is a tax which has a significant bearing upon the day-to-day living of the great majority of the people of the State. Therefore, it should receive the attention that it deserves.

Beyond the property tax, we should assess the place of non-property tax revenues at the local level. In the interest of equity we should examine existing local non-property tax revenues and come to some determination as to how they should be equated in the whole local finance structure.

However, it might be well if we went beyond existing revenues from non-property tax sources to determine if we should follow the lead of most other states in expanding non-property tax revenu to further relieve the reliance upon the property tax. Until we examine all the possibilities in detail and assess the effect upon our local governments and upon the State as a whole, we cannot truthfully say we have considered every aspect of tax reform.

As for State aid programs, there are obvious inequities growing out of faulty formulas. Probably the greatest deficiency in our development of State aid formulas has been that we tend to segregate each element of local financial responsibility and deal with it as if the others didn't exist. It matters little to the taxpayer in the final analysis which element or elements of the property tax extract the greatest amount from his wallet. It is the "bottom line" which is important to him.

<u>How much does he have to pay?</u>

Although it is not within the purview of the Taxation Committee to monitor expenditures at any level of government, the committee should be aware of expenditures and of the cost-benefits of various elements in any study of taxation. After all, the Taxation Committee is asked to serve as the arm of the General Assembly responsible for evaluating taxes and the levels of taxation to provide the revenues necessary to operate the State government. It would seem logical, therefore, that the committee must equate the revenues with the use to which those revenues will be put.

These are general observations and recommendations for the most part. This is as it should be in a study such as this. Specifics should be handled by the committee as each situation arises, for it is not logical to assume that anyone can anticipate future eventualities.

The problems facing the Taxation Committee are not ones which will be solved easily nor will they be solved overnight. It will be incumbent upon the Taxation Committee, whatever its composition, to undertake an examination and evaluation of the entire tax structure, both State and local, on an ongoing basis with a view to adapting that structure to changes which have taken place already and to meet further changes as they develo