

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

before

SENATE JUDICIARY COMMITTEE

on

SENATE CONCURRENT RESOLUTION NO. 20

(Amends the Constitution to allow the
granting of a tax exemption for improve-
ments to real estate in blighted areas.)

Held:
January 10, 1973
Assembly Chamber
State House
Trenton, New Jersey

Member of Committee present:

SENATOR JOSEPH C. WOODCOCK, JR. (Chairman)

Also:

Senator Frank J. Dodd, Sponsor of SCR 20

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SENATE CONCURRENT RESOLUTION No. 20

STATE OF NEW JERSEY

PRE-FILED FOR INTRODUCTION IN THE 1972 SESSION

By Senator DODD

A CONCURRENT RESOLUTION proposing to amend Article VIII, Section I of the Constitution of the State of New Jersey, by adding thereto a new paragraph to be numbered 5.

1 BE IT RESOLVED *by the Senate of the State of New Jersey (the*
2 *General Assembly concurring)*:

1 1. The following proposed amendment to the Constitution of the
2 State of New Jersey is hereby agreed to:

PROPOSED AMENDMENT

3 Amend Article VIII, Section I by adding thereto the following
4 paragraph:

5 5. The Legislature may enact general laws under which mu-
6 nicipalities may adopt ordinances grant exemptions from
7 taxation on improvements to buildings and structures in, or
8 intended for, residential use, in areas declared blighted within such
9 municipalities and to the land comprising the premises upon which
10 such buildings or structures are erected and which is necessary
11 for the fair enjoyment thereof. Such exemptions shall be for
12 limited periods of time as specified by law, but not in excess of
13 5 years, shall not be in excess of the additional value of the real
14 property resulting from the improvement, and may be limited
15 according to the nature and extent of the improvement but shall
16 not be granted on any improvement which increases the size of
17 any building or structure by more than 10%.

1 2. When this proposed amendment to the Constitution is finally
2 agreed to, pursuant to Article IX, paragraph 1 of the Constitu-
3 tion, it shall be submitted to the people at the next general election
4 occurring more than 3 months after such final agreement and shall
5 be published at least once in at least one newspaper of each county
6 designated by the President of the Senate and the Speaker of the
7 General Assembly and the Secretary of State, not less than 3
8 months prior to said general election.

1 3. This proposed amendment to the Constitution shall be sub-
 2 mitted to the people at said election in the following manner and
 3 form:

4 There shall be printed on each official ballot to be used at such
 5 general election, the following:

6 1. In every municipality in which voting machines are not used,
 7 a legend which shall immediately precede the question, as follows:

8 If you favor the proposition printed below make a cross (×),
 9 plus (+) or check (√) in the square opposite the word "Yes."
 10 If you are opposed thereto make a cross (×), plus (+) or check
 11 (√) in the square opposite the word "No."

12 2. In every municipality the following question:

	Yes.	Shall the amendment adding a new paragraph 5 to Article VIII, Section I of the Constitution, agreed to by the Legislature and authorizing the Legislature to enact general laws under which municipalities may grant exemptions from taxation on improvements to residential buildings and structures in blighted areas and the land upon which they are erected, in limited amounts and for periods not in excess of 5 years, and which may be limited according to the nature and extent of the improvement, as prescribed by law, provided such improvement does not increase the size of the building or structure by more than 10%, be adopted?
	No.	

SENATOR JOSEPH C. WOODCOCK, JR. (Chairman): I think we can now begin the hearing that was scheduled for this hour.

This public hearing on Senate Concurrent Resolution 20, proposing an amendment to the State Constitution is being held by the Senate Judiciary Committee, by direction of the Senate and in accordance with procedure for consideration of proposed amendments to the Constitution, directed by the Constitution and the Rules of the Senate.

I would open the public hearing on SCR 20 and call as the first witness to speak on the concurrent resolution Senator Frank J. Dodd, the sponsor of SCR 20.

S E N A T O R F R A N K J. D O D D: Mr. Chairman and ladies and gentlemen: The factors that brought about the need for SCR 20, I think, are obvious with the end result being the blight in our cities.

What we would like to do, and I would like to ask your Committee, Senator Woodcock, would be to consider along with SCR 20, S 202, of which I have copies and I will pass along to you.

The stopping of the blight in the cities is an obvious factor right now, but how do they get blighted? Where does the cancer start? And at what point can we put our fingers in the dike to stop areas from becoming blighted?

I think we have to look back. If I could compare two towns in Essex County: Newark, as the end result, the epitomy of blight in the State of New Jersey; and then a marginal town or one that could go, East Orange or Orange or some of the other municipalities. If we could step in now and encourage renovations by the landlords and owners of these properties to infuse money into the properties at this point, I think this is where the finger in the dike has to go. Of course, it is obvious what SCR 20 could do.

The critics' only valid argument, I think, is the fact that moneys will be lost to municipalities by

giving them this incentive. My contention is that people will bleed the properties for whatever they can get out of them at this point and then abandon them. So, in effect, the tax rolls of the cities would not be losing any money anyway because they wouldn't have put the money in to begin with. What we are faced with in the major cities in the northern part of the State is the tearing down of these buildings and having vacant lots.

I won't hold you up any longer, Mr. Chairman. I appreciated the opportunity to come down and speak on this. And I would like the Committee to consider Senate Bill 202 along with this as a companion measure.

Thank you very much.

SENATOR WOODCOCK: Thank you, Senator Dodd. I would say that this is certainly a very important piece of legislation and I would hope that the Committee will consider it at its next meeting or very shortly thereafter.

There is only one question that I have and I haven't looked at the resolution that closely. But with the exemption for the improvement, would that go on forever or would it be just for a certain period of time?

SENATOR DODD: This would be to your discretion, Mr. Chairman. My recommendation would be in the suburban areas, a three- to five-year hiatus on the taxes, where it is enough to encourage the people to put the money in and eventually we would get the long-range effects, the long-range good out of it, namely, the revenue.

SENATOR WOODCOCK: Because I was up in Newark - I guess it was last Thursday - and we took a tour of the city and it was pointed out that a substantial percentage of the properties in Newark - and I don't remember the exact percentage - were either exempt from taxation or were under a tax abatement program or owned by the Federal, the State or county governments and therefore exempt. I think if there was a lesson to be learned there, it was that Newark's tax position was

bad because it had a bad base. Too few people were asked to shoulder the burden.

However, I could make a distinction in this case, because, as you point out and as is evident in Newark too, unless the people are encouraged to improve the properties they just go into disrepair. As you point out, they bleed them for whatever they can get out of them and then leave them there and the city is left with what is not a producing ratable any longer. They are faced with the problem of having to foreclose and take over the property and all of the problems that that presents.

So I would say, as long as we do have some limitations on the number of years that the exemption or abatement would exist, I think this is certainly a commendable piece of legislation.

SENATOR DODD: If I could reiterate, the companion measure, S 202, would stop the blight before it got to an emergency basis that SCR 20 attempts to deal with. And SCR 20 isn't the panacea; it isn't the final answer. But we do feel it is part of a solution to a major problem.

Thank you, Mr. Chairman.

SENATOR WOODCOCK: Thank you, Senator Dodd.

Senator Merlino, please.

S E N A T O R J O S E P H P. M E R L I N O:
Senator, I sent an outline of my remarks on SCR 20 and I, of course, am very much in favor of the concept set forth in the resolution. As a matter of fact, the abatement of assessment of taxes on improvements or innovations has been something which I have been a part of since I came into the Legislature five years ago in the Assembly. Just this year, my own bill, S 584, was considered in Committee and surprisingly one of the reasons why the Committee did not vote it out was the fact that a fiscal note was attached to the effect that over a five-year period the municipalities of New Jersey would lose something in excess of \$13 million. Of course,

I refuse to accept the fiscal note or accept any of the theory behind it. Because my thought was that they couldn't lose something they never had. And unless the repairs are made on the older properties, they never would be in the position to be assessed for the collection of taxes; I think they said something in excess of \$2 million per year.

As I say, the theory and the concepts set forth in SCR 20 are fine. It brings forth the notion how difficult it is to do something in the area of real estate taxes in the State of New Jersey in that we do have to go through a Constitutional amendment to make even a slight change in our method of taxation.

Therefore, I suggested by way of an amendment to SCR 20 that the amendment be written in more general language and that the Legislature, therefore, could legislate the particulars to fit the need. For instance, rather than leave the term "blighted areas" in the proposed Constitutional amendment, I would suggest that we shouldn't wait until we have an area declared blighted before we step in and try to afford some relief. As an example, here in Mercer County over one-third of the 90,000 housing units are in Trenton and almost all of them, with few exceptions, are pre-World War II. They are not all in blighted areas, but they are older houses. To limit the Constitutional amendment to blighted areas, I think we would not be taking the necessary step forward that we should be taking and we should leave the definition of older houses up to the Legislature when they are called upon to move in that direction.

Since we are on the subject of trying to improve the real estate, I would think rather than limit the Constitutional amendment to residential buildings only, perhaps there is another area we could leave open for the Legislature to define as it sees fit and as the need

arises. Again I can only speak of my own particular experiences here in the City of Trenton. But most of the legislators who weren't aware of it are now aware of the problems that exist in Newark. And in the City of Trenton which was once a heavily industrialized city, we find most of the industries have either passed away or moved on. There are many old industrial structures in the City of Trenton which perhaps could be rehabilitated to be used in modern industry. You don't use the five- and six-story industrial building any more in this day and age, but at the time when Trenton was an industrial city that was the way they did things. They used the multi-story industrial plant.

Perhaps by this form of amendment to our Constitution, we could leave it up to the Legislature to determine whether or not at some future date they would also apply the tax abatement for improvements to non-residential buildings in our city, in fact even with some of our commercial property in downtown areas. We are all aware of the vacant stores in not just the City of Trenton but in all the big cities of this State. Perhaps this can also be an area where the Legislature should not be limited by the Constitution. If this amendment is broad enough, the Legislature, not necessarily the present one but future Legislatures, would be able to do something about aiding in the rehabilitation of the older properties, whether they be residential or non-residential.

I have submitted a proposed amendment to SCR 20 and hopefully I can get together with Senator Dodd before the Committee finally acts on his amendment as submitted. Perhaps we can come up with something that would be a little more flexible to permit rehabilitation of properties without excessive taxation.

Thank you, Senator.

SENATOR WOODCOCK: Thank you very much, Senator Merlino.

(See page 65 for Senator Merlino's proposed amendment.)

At this time I would call Walter W. Salmon and Mr. A. J. Reeves. Mr. Salmon and Mr. Reeves represent the Municipal Assessors Association of New Jersey. They have been here since early this morning to address the Committee on SCR 5 and they have stayed around because this is another area which is important to the Municipal Assessors of New Jersey. And, gentlemen, I want to thank you for staying and I would like to have the benefit of your thoughts with respect to SCR 20.

W A L T E R W. S A L M O N: Thank you, sir.

Good afternoon. I think I will preface my remarks by saying that I don't think any assessor in his right mind would object to residential units being fixed up to livable conditions. However, again we get into the category I mentioned this morning of administration problems.

Before going into that, I would like to read from the notes that I have here. Beginning with Paragraph 5 of the amendment, "The Legislature may enact general laws under which municipalities may adopt ordinances, granting exemptions from taxation on improvements to buildings and structures in, or intended for, residential use, in areas declared blighted within such municipalities," etc.

The question comes up: What is the definition of a blighted area? I raise that question because in two municipalities in which I have served the municipalities attempted to declare areas as blighted. None of the residential areas involved have ever been approved by the taxpayers who owned these properties. In two of the cases, there was an outside group which attempted to carry out a rehabilitation program, which in the final analysis meant a windfall of profits to the builders. This then is an open gate for any monied individual or group of individuals to rebuild, alter or repair properties,

hold them as tax free and unload at a handsome profit within the time of the tax-free period.

For the individual property owner there are already systems of evaluation that will permit modernization of structures without an unduly prohibitive increase in the assessed value. For example, where major alterations definitely enhance the utility of a structure, the market value is also increased. The percentage of appreciation is determined in part by the increase in the remaining life of the building. This does not mean that if \$10,000 were spent to rehabilitate a structure, the structure would increase in assessment by \$10,000. By a correction of the effective age factor, the \$10,000 may be only \$3,000, depending on the age and depreciation thereon.

A simple procedure to correct the effective age of a structure is to multiply the actual age by the cost of modernization or alteration and then divide by the calculated reproduction cost. Example: A 20-year-old structure having a reproduction cost of \$20,000 and have a \$4,000 alteration completion would be calculated as follows: Take the 20-year age and deduct from that 20 years times the \$4,000 alteration cost and divide by the number of years to establish a new effective age on the property. In this case, it would mean that we would take the 20 years and subtract from that \$80,000 divided by 20 or 4. So the effective age would be reduced to 16 years instead of 20. The correction would then be approximately 5 percent in depreciation rather than an addition of \$4,000, the cost of remodelling.

In the experience that I had while I was the Assessor in Moorestown, we had some 15 houses which the township felt they wanted to get rid of and build something for the present owners. But when we analyzed what it would cost to alter these houses or put alterations in and rehabilitate them, the owners could not

afford the cost of those rehabilitations.

Then I figured what it would cost in taxes, and surprisingly enough, the taxes would increase very, very little. But it would put the present property owners in a good substantial home.

This amendment is discriminatory against all other properties in the community which have not been given the privilege of non-taxation, regardless of the owner's financial position or ability to make improvements.

Further objections to the resolution are: the period of the tax-relief time; second, would be the speculation opportunities; third, is the elimination from the sales-ratio study; and, fourth, discrimination against industrial and commercial properties; and, fifth, possible roll-back taxation if sold within the tax-free period.

I think it is fair to say if a man can rehabilitate a property and improve it to the extent of \$4,000, certainly he is going to get more money than that on the market if he sells it within the tax-free period. I think, as in the Farmland Assessment Act, it shouldn't be allowed that the property owner could develop his property to a very substantial price and walk out without having paid some taxes on what the improvement was worth.

In reading some of the bills here, they talk about structures for one or more families. Let me give an example. In Moorestown, there is an area of apartments containing 44 units. It wouldn't be hard to say that this would be a blighted area. If according to this bill and other bills - let's say Senate 202 - they are allowed to spend \$4,000 per dwelling unit, then that means that the owner of the apartment could spend \$176,000 in improving the property, without benefit of any taxation for a given period. Certainly as soon as he is going to spend that kind of money, he is going to increase the rents. With tax-free improvement costs, it may help to hold down the rents. But if he were to

sell the property within the five-year period which is mentioned in these bills, then I think he should pay some kind of a roll-back on the recalculated value of the property at the time he made the sale within the period.

I don't think this is a proper way to handle it. I know we are talking about a Constitutional amendment. But I am fearful of what happens after the Constitutional amendment is passed. We have Senate Bill No. 202. We have Senate Bill No. 584. Both of them are of the same venue. I will leave that to Mr. Reeves to speak about if he cares to.

At this point, I am not in favor - and I am speaking now as an individual rather than as the President of the Assessors' Association - of this. Because, as I said this morning, neither the Executive Committee nor the membership have had an opportunity to discuss the bills. But I would like to have the opportunity to write a paper and submit it sometime in the future for your consideration.

SENATOR WOODCOCK: I would say, Mr. Salmon, there would be no objection to that; in fact, we would encourage you to have your organization put forward any remarks that you want for the record and they will be incorporated in the record.

There is only one question that I have and that is: How will we encourage people who have property, let's say, in places like Newark, to really improve them, even to the extent that you are talking about where you would have 40 units and could expend \$4,000 a unit and have no increase in taxes? How would you encourage a person to improve a piece of property like that if he were going to subject himself to an increase in his own tax liability of -- well, if it was \$160,000 in a city like Newark, he would add almost \$16,000 to his tax bill?

How do we encourage somebody to undertake that in that kind of a city?

MR. SALMON: What I am saying is that if the formula of the creation of a new effective age would not be the full value of, let's say, the \$4,000 -- I just don't know exactly how to word it -- but it wouldn't be that much of an increase. As I pointed out, on a \$20,000 property, \$4,000 would be less than 5 percent in the depreciation. This is what we look at from a standpoint of improvements.

But on the other hand, if such a thing were to happen, I think there should be some kind of a stop-gap on whether the property could be sold at a profit so that the municipality, the city, whatever, would not lose the taxes through an improvement for which someone is getting a handsome profit at the expense of the other taxpayers who are carrying that burden.

SENATOR WOODCOCK: I understand what you are saying, but I think we are viewing this from different viewpoints. As I see it, people who own real property in Newark - and when I say, Newark, I am talking also about the larger cities in the State ---

MR. SALMON: -- Newark, Camden or any of the big cities.

SENATOR WOODCOCK: (Continuing) --- are not encouraged to make improvements on their real property because, if they do, all they are going to do for themselves is add to their tax liability. There is a value, and a substantial value, not only to the City of Newark and every other big city, but to the State itself, to have private money go in there to save these cities and save them in the sense of making the residential properties more habitable to preserve a tax base rather than to ruin it.

Let me say, I took that tour of Newark and you

could look at block after block with many buildings abandoned - and I am talking about residential buildings - some of them on the verge of being abandoned, and when you consider if they put an improvement in, they are going to be taxed at 10 percent or not make the improvement, I think there is a social benefit in giving them what SCR 20 would. And, as explained by Senator Dodd and Senator Merlino, there would be a cut-off period in the number of years. The city would not, as I see it, get any more money during the three-year to five-year period. At the end of that period, they would be able to pick it up. But what they are really doing is establishing that ratable, which in today's conditions they are liable to lose and it is liable to go the other way. And the next thing you know, they are in there foreclosing and they have lost that ratable altogether.

So I don't know whether the approach that Senator Dodd is suggesting where we give them an absolute abatement of taxes for that period and then pick it up at the end of it is the best solution. I do think that perhaps if there is a sale and that sale would reflect a greater price than the assessed valuation, then obviously the new owner should pay at the rate he is purchasing it.

MR. SALMON: This is one of the provisions I think Mr. Reeves will speak to.

SENATOR WOODCOCK: Again let me say that I do appreciate the fact that you are down here because this basically is going to be your problem in the end if we act upon it. I am sorry that the rest of the Committee isn't here. But they will benefit from your remarks. I only speak as an individual; I don't speak for the Committee. But let me say I do thank you for coming down.

MR. SALMON: As you know, it is up to the assessor to try to hold the ratables as nearly as possible to

100 per cent. That is our responsibility. The more tools we have to work with, the better it is for all concerned.

SENATOR WOODCOCK: I understand.

Mr. Reeves?

A, H, R E E V E S: Speaking first as a tax administrator, always bearing in mind that I am also a taxpayer, I would say, of course, any legislation of this type at the present time is a discriminatory situation because it is a shift in burden from one piece of property to some other piece of property. Until such time as the base for taxation, at least real property taxation, changes, as property tax administrators, we would have to object.

We have heard talk this afternoon of 584 and 202, which are proposed bills. After a casual review of them, I would say that I would favor 584 over 202 because there are certain restrictions in S 584 that we don't find in S 202 from an administrative standpoint.

I would hope if this were to become law, from the standpoint of tax administration, there would be some way to include the true value of these properties in the apportionment of county tax. Now I can't speak for the northern part of the State, but I will speak for my area. I am from Burlington County. We have the City of Camden adjacent to us, which I am sure is in the situation that you are describing. If these abatements are to exist - and they will exist in the major cities - there must be some way to apportion the county tax burden which we all share as members of county communities. Rather than give the abated value, if it were to become law, as the basis for the apportionment of county tax, I would think at least for the county tax apportionment it should be equalized or the full value in comparison to the other properties in the area, the city or the town, in which this is going to take place, should be used. This becomes an administrative problem.

I certainly would suggest some consideration be given to this matter so that, at least between municipalities, we don't have discrimination with someone having x number of dollars of tax abatement because of a certain situation versus the rest of the municipalities in the county who are not sharing in that tax abatement.

We would also certainly recommend on the resale of such properties that they be excluded from the Director's ratio for the apportionment of State School Aid. We ran into this in the larger cities on FHA sales and our understanding now is that the Director excludes certain FHA sales where the down payment, I think, is 5 percent or less, from the ratio. But I think it is a matter of statutory requirement to get it in because our interpretations get into very fuzzy areas when we start to challenge our equalization for different purposes. So I would suggest to the Committee, if the Constitutional amendment is approved, in developing the legislation some thought be given to the sales-ratio study.

I think this leads one to believe that those of us who are taxpayers who have maintained and continue to maintain their houses are certainly being discriminated against in a proposal such as this. I don't know the background of the situation in the cities. Is the deterioration as a result of owner-occupied or rental-income property? I have some opinions and I wouldn't want to burden the Committee with them now. On the surface of things, unless we have respect individually for that which we own or occupy, no matter how much abatement or how much money we put in, is the same condition going to exist? Is it going to deteriorate again in five years? We have seen it in Federal housing. This is very evident in Federal housing. I wonder

if this is going to accomplish that which the community itself wants and that which possibly the Legislature wants?

Again this, to me, is a social problem and I don't think tax abatement procedure is the way to solve a social problem.

As Chairman of the Legislative Committee, I might say our one other concern is that we have this Concurrent Resolution in for consideration and it possibly will be on the ballot and we are at least aware of these two pieces of legislation which would implement this resolution if it was passed by the electorate -- as an administrator, it leads me to complain about the definition of a dwelling, one or more families. Again we are into the multiple-housing, the multi-story apartment buildings. Are these going to qualify? Then what about a home that is let run down that is not 20 years of age? We have these. We have houses that are 10 or 15 years of age, some 5 years of age, that get this kind of treatment. If someone comes in and takes it up or the present owner starts to rehabilitate it, are they going to be considered or will this apply only to those 20 years or older? I know what the intent is, but it is the abuses that occur after the statutes are part of the operation, and it is awfully difficult to get them corrected.

Again, as Mr. Salmon said, there is this problem of an auxiliary building. Take the example of a \$20,000 house identical to the one next door, but one has a two-car garage and one doesn't. We know what the cost of putting that garage on there per square foot is. But the total cost of that construction does not reflect the total value attributed by this auxiliary building to a piece of real estate.

The wording in one of the proposed bills is: Every application for exemption of one or more improvements which

qualify as improvements as defined by this act, and which is filed within the time specified, shall be approved and allowed by the assessor. This doesn't give us any jurisdiction at all. With full and fair value, we are in the area administratively of an owner saying there are x number of dollars in this improvement and we are saying that it lends x number of dollars to the total value of the property, and they might not even have any relationship one with the other. So this is an administrative problem. This closes the door as to whether we have the prerogative of saying, no, this doesn't qualify or it does qualify. I think this is an administrative function that only those in the field have the proper knowledge to adjudicate.

I would not want to go any further than that. We are here to consider the Concurrent Resolution, but we are fearful of the legislation which has now been introduced while we have this resolution open. Our concern as tax administrators is, if the resolution were approved, what opportunity would we have to iron these things out in the way of supporting legislation to make the resolution operative?

One other thing - and one of our other gentlemen will speak on it - is, what about costs involved in administration of this? This is another duty that the assessor himself does not have at the moment and I am sure is going to be a major problem if the same thing happens that happened in Philadelphia where I read in the newspaper some 35,000 of this type unit are vacant today. This could become a major expense. The municipalities are loathe to staff the office and to fund the office in the way we feel is proper. Then along comes a possible another administrative burden to handle and again no allocation of manpower or funds to support and make this program operate the way we would all like to make it operate. This is something

that has to be considered also.

As assessors, we endeavor to do what is handed to us, but there are certain limitations.

In closing, again I would say a social problem is not solved by a tax abatement program. There has to be some other way to do it. I don't know at the moment what it is. I am sure there are more learned people working on this problem than I. What makes us face this problem is neglect and if we rehabilitate the houses and give them this tax concession and the ramifications that go with it, will this solve the problem for us? I don't know. I can say to you as the Legislative Chairman of the Assessors that it is another administrative function. It is going to be difficult as we see it at the moment to administer without some means of expanding the offices, which some local municipalities are very loathe to do.

I think consideration of these facts and the others presented would at least help us if this does become law.

SENATOR WOODCOCK: Thank you, Mr. Reeves.

I just make one comment. I think there might be some misapprehension about what we are dealing with. We are dealing with blighted areas. I don't think that this affects most of the municipalities in the State. But it particularly affects the larger cities and the older cities of this State and, as Senator Dodd pointed out, affects some more than others. My recollection is that we have a statute which sets forth the manner in which a municipality declares a blighted area. My recollection of that statute is that it is fairly comprehensive as to what you have to do to class something to be a blighted area. I would say that most communities in the State, except those that I was speaking of, would be hard put to fall into the category of a blighted area. It has a particular meaning in our statutes and I think

that that is what we are talking about.

You say that it is a social problem. I would agree with you that basically it might be declared to be a social problem. But it is one that particularly affects the larger and older communities of this State. And I really don't know how we are going to get any private money to go into a community unless we do give them a tax abatement. I don't know how we are going to keep private money in the cities and improve the properties unless we give them a tax abatement in some form or another.

Again, just going to the City of Newark - I have been up there just recently - I am informed that a residential property up there that is assessed at \$20,000 pays close to \$2,000 in real property taxes. To say that it is unbearable is an understatement. If you are going to say to a man who has that piece of property, if you put improvements in there that would improve the property to the extent of \$4,000, that is going to cost you another \$400, you are not giving him any incentive to improve his property.

I think that anybody that would look at Newark - and I suppose Trenton or Camden or any of our older cities - would say we have to encourage these people to put money in. But if it is a bad investment just from the tax standpoint, you are not going to get them to do it. All they are going to do is run it right down into the ground. Then it falls back on the municipality because they have to foreclose for failure to pay taxes. It then comes off the tax rolls and the county doesn't even get any money then.

So I believe we have to do something to encourage private capital to maintain the properties that they now have, to improve them, and to make the conditions better. Because, if we don't, neither those cities nor the State of New Jersey are going to be able to afford them. I just think we have reached that critical point where it

is demanded that we do something. I don't think anybody is happy with tax abatements or tax exemptions or any of that. But sometimes you have to look to real hard solutions to effect a result. I think this resolution at least is directed to that end.

Again I want to thank you gentlemen for coming down. I understand the administrative problems that you have and I do wish that you would look at this problem, as I have asked you to look at the problems presented by SCR 5, and point out those areas which from an assessor's standpoint give you particular difficulty.

I think that the Committee in drafting the legislation can take care of those items. And I would say if we have that information, we will call upon you to work with us to give you at least a piece of legislation that as administrators you are going to be able to work with. We certainly don't want to give you an impossible task. But let me say it may fall on your shoulders to administer a change in the assessment practices for the benefit of all, the State, the municipalities and the counties of this State.

Again let me thank both of you for taking time out to come down and be here all day long. On behalf of the Committee, I want to thank you for coming down.

MR. REEVES: Thank you for the invitation.

MR. SALMON: Thank you for having us.

SENATOR WOODCOCK: Mr. Warren Massey, Aide to Mayor Bradway of Atlantic City.

Senator Dodd is still here. I neglected to invite him to sit with the Committee. I think some of the people testifying here today may have some questions to put to him or he may want to put some questions to them. So, Senator Dodd, if you would join us here, I would appreciate it.

W A R R E N M A S S E Y: Thank you.

I have here a statement prepared by Mayor Bradway. The statement reads as follows:

The problems I see with SCR 20 are that exemptions are only up to five years; it applies only to residential buildings; and it limits the amount of the improvement to 10 percent of the physical structure. The other clause relates to "no exemption shall be granted additional to the increased value as created by the improvement." Needless to say, a bill of this variety, and even Senate Bill 584, should not apply only to residential dwellings, and should be for a period longer than five years, and there should not be minimal restrictions insofar as the amount of the addition to be added.

I would suggest that a multi-faceted bill be considered that would accomplish what is intended in SCR 20, and also in Senate Bill 584. The essence of the bill, I think, should be to consider: to permit the municipality and the county to change the ratio of assessment as between land and building. (In Atlantic City and Atlantic County, the ratio of assessment between land and building is roughly 29.5 percent land, the residue being attributed to the building.) If this were raised in excess of 42 to 45 percent, this would stimulate an investor holding vacant land and create an impetus for him to develop such land rapidly, also stimulate rehabilitation of existing property in poor condition.

In conjunction with that, I feel that a longer period of time should be given relative to tax incentives, possibly a period of eleven years, whereby new construction and sizeable additions to buildings (in excess of \$20,000) -- There should be a graduated form of State real estate taxes whereby the first year there is no tax, the second year, 10 percent of the additional assessment, and the third year, 20 percent, so that at the end of eleven years 100 percent of the real estate

taxes due under the assessment would be charged to the developer or the renovator.

I think it is abundantly clear that many of the Southern states have created tax incentives to attract industry and attract the creation of ratables, and that the State of New Jersey must seriously address itself to such measures that would create investor appeal. Most of our urban centers, such as Atlantic City, offer very low attraction for an investor or industry to physically locate within its boundaries. A plan, such as the one I have outlined, would create investor appeal and would greatly help the urban areas in attracting industry, new development of commercial establishments, and certainly, development of the Urban Renewal Areas, which in many of our urban centers have been vacant for a good number of years, and unless certain tax reforms and incentives are created, may stay vacant and blighted for a number of years to come.

Most cities, like Atlantic City, have experienced an out-migration of population and, in this regard, drastic measures and tax incentives must definitely be offered in an effort to create investor appeal which would create the housing and would stop the out-migration of population that we are all experiencing.

At this time, I would like to thank you for permitting me the time to make this presentation on behalf of Mayor Bradway and, in summary, I think it wise to say that any tax incentive must include new building of commercial establishments and industrial enterprises. In this regard, urban centers will be afforded an attraction to industry and commercial development they do not have presently.

SENATOR WOODCOCK: Mr. Massey, if you know, I notice that the Mayor's statement indicated that he was dissatisfied with the five-year limitation. Do you know what limitation he is suggesting?

MR. MASSEY: I think he suggested 11 years.

SENATOR WOODCOCK: And do you know how he arrived at that figure?

MR. MASSEY: No, sir, I can't answer that.

SENATOR WOODCOCK: And this would be, as I understand it, to include new construction and not just additions to existing structures?

MR. MASSEY: Yes, sir.

SENATOR WOODCOCK: Are you talking about - or did I miss it - an absolute abatement of taxes for that period of time?

MR. MASSEY: Yes, abatement.

SENATOR WOODCOCK: Or would it graduate from some point to some point?

MR. MASSEY: I couldn't answer that.

SENATOR WOODCOCK: Let me say, Mr. Massey, that I want to thank you and Mayor Bradway for participating in this presentation. Because, as we all know, the problems of the bigger cities and the older cities of this State are the concern not only of the mayors and the citizens that live in the communities, but certainly of the Legislature of this State.

I want to thank you for coming up here and participating in this hearing.

MR. MASSEY: Thank you.

SENATOR WOODCOCK: Is Eileen Tulipan Martini present?

E I L E E N T U L I P A N M A R T I N I: Good afternoon, Senator. I am an aide to Mayor Paul T. Jordan of Jersey City and I would like to present his testimony in support of Senate Concurrent Resolution 20.

One of the central issues that the urban centers of New Jersey are faced with at this time is the critical problem of housing. The large majority of our residential structures are older buildings that are in a deteriorated or dilapidated state.

The economics of the present property tax system discourage the already overburdened property owner from repairing and improving his or her property because the improvements increase the assessed value of the property and result in higher taxes. This fear of higher taxes by property owners, who have difficulty in meeting their current tax burdens, creates a very real reason for a lack of motivation to rehabilitate residential structures and directly contributes to the decay of the housing stock, run down and blighted neighborhoods and in many instances to unsafe and unsanitary living conditions for people whose financial resources force them to live in housing units that are in substantial violation of state and municipal building and sanitary codes.

It is most certainly in the public interest that the New Jersey Legislature take steps to alleviate this most critical housing problem that affects all the residents of our state on a daily basis. Property owners must be encouraged to repair their properties. The Legislature must have the authority to enact progressive legislation that will motivate homeowners in the private sector to rehabilitate the existing housing stock.

Senate Concurrent Resolution 20, by providing the Constitutional basis for exemption from taxation on improvements to residential buildings and structures, would greatly

encourage homeowners to improve their properties. The negative effects of the property tax system in relation to reassessment and increased tax obligations based on improvements would be reduced for a limited period of time and this in itself would provide a strong incentive in favor of rehabilitation of residential properties.

Mayor Paul T. Jordan of Jersey City supports the concept of delayed assessment on improvements to older residential units. It is our hope that SCR 20 be amended to delete the requirement that the property be located in an area declared blighted to qualify for tax abatement. In our experience, we have found that once an area has deteriorated to the extent that it has been officially declared blighted, it is too late to encourage or reasonably anticipate any rehabilitation in the private sector.

In Jersey City as well, I am sure, as in other larger cities in the State, the tool of actually officially declaring an area blighted is only used when urban renewal plans are reaching the culmination point. What normally happens is when we have an urban renewal area, we officially declare the particular area blighted and then everything is ripped down. So once it has reached that point, it is certainly not at all realistic in our past experience to expect anyone in the private sector to go in and rehab the property.

The properties must be improved before they have deteriorated to such an extent as to become substandard, dilapidated or abandoned. We must encourage rehabilitation of our housing stock before it has decayed into an uninhabitable condition as is the usual situation where the area has been declared blighted.

Let me give you some figures that will illustrate the scope of the problem in Jersey City:

Jersey City has 91,997 housing units based on the 1970 census. 79 percent of our housing units were built before World War II. 87 percent or 80,000 units are over 20 years old. So the remaining 11,700 units have been built since 1950.

39% of all units are substandard and 61% are classified as standard. Of all housing units this represents 35,879 substandard units and 56,117 standard units. Of units 20 years old or older 31,309 are substandard and 48,970 are standard.

Of the 31,309 substandard residential units 20 years old or older 6000 to 8000 are classified dilapidated which means there are substantial major code violations rendering the units unsafe, unsanitary or uninhabitable and 22,000 units are classified deteriorated which means minor to moderate code violations which do not render the units uninhabitable

but very often do render the units unsafe or unsanitary.

From these figures it is clear that the housing stock in Jersey City is old and decaying. Jersey City has a 2.7% annual rate of deterioration which is considerably higher than the 2% average annual deterioration rate for other New Jersey cities. On this basis, 2,500 residential units deteriorate each year and further add to the grave housing crisis in our city.

Based on the foregoing, Mayor Paul T. Jordan of Jersey City urges the chairman and members of the Senate Judiciary Committee and the members of the New Jersey Legislature to adopt Senate Concurrent Resolution 20 which would amend the Constitution of the State of New Jersey to allow the granting of tax exemptions for improvements to real estate. Mayor Jordan further urges the adoption of an amendment to SCR 20 that would delete the requirement that the property be located in an area declared blighted to qualify for such tax exemption.

We, therefore, support and urge the adoption of the amendment offered by Senator Merlino this afternoon to that effect.

This Constitutional amendment would enable the New Jersey Legislature to enact progressive legislation that would encourage homeowners to improve their properties and thereby help turn the tide of decay and deterioration

of residential property that is plaguing Jersey City as well as all of the urban centers in New Jersey.

SENATOR WOODCOCK: Mrs. Martini, with respect to that suggest that SCR 20 be amended to take out that section which would provide that only in blighted areas may we abate the taxes, how are you going to limit that?

MRS. MARTINI: We favor that the constitutional amendment be worded as Senator Merlino's amendment which would encompass older buildings and structures. Then the legislation - for instance, Senate Bill 584 - which we do support, could limit the age to, say, 20 years.

SENATOR WOODCOCK: Let me put it this way. Are you suggesting that without a finding of an area being blighted that all of Jersey City, for instance, would come under the constitutional provision?

MRS. MARTINI: We feel that the constitutional provision should be as broad as possible. The Legislature could then enact statutes that would define what types of units based on age or location in areas perhaps not officially declared blighted, but declared sub-standard or some other formula that could be determined by legislation.

SENATOR WOODCOCK: Isn't there a danger here that you might be giving somebody a tax abatement that neither needs it nor, even in a social sense, would it be desirable to give it to them?

MRS. MARTINI: Based on the statistics in our city, we find that so much of our housing is old and either deteriorating or decaying. Certain safeguards could be built into a bill. I think Senate 584 by talking about the unit being 20 years old or the structure being 20 years old would build in that safeguard. Buildings that are 20 years old often are in great need of rehabilitation.

SENATOR WOODCOCK: But are they also in need of tax abatement? What I have in mind is that I can think

of areas in Bergen County where a large percentage of the houses are 20 years or older. If we were to say they are to receive a tax abatement, we might be giving a tax abatement to people who really don't need it.

MRS. MARTINI: I understand your point, Senator. I think that rather than limiting the types of structures that would be eligible for such tax abatement, by using the word "blighted", which as I explained before is very unrealistic -- I am aware of some of the areas in Newark that have been declared blighted. It does not seem reasonable that any property owner in a blighted area is going to fix up; that area is slated for demolition. It is too late at that point. Our feeling is that the amendment should be broad. The legislation that is enacted then under the amendment can narrow down what types of areas we are trying to reach.

Perhaps legislation could provide that municipalities may determine that there is need based on certain factors - age of buildings, how substantial the code violations are, how uninhabitable or habitable the residential units are.

Our feeling is that by using the word "blighted" in the amendment, we are in effect making a change in the Constitution that in reality will not help.

SENATOR WOODCOCK: I don't disagree with that point. As a matter of fact, I would agree when you reach that point it is too late to really do much about anything. But the point that I am making is that the greatest problem we have with this, I would say, would be in the older and larger cities of the State.

MRS. MARTINI: Yes.

SENATOR WOODCOCK: That is not to say it doesn't exist in some of the smaller and older communities of this State, but not to the same extent.

What I really want to find out is what you consider and what Mayor Jordan considers the proper framework and

the limitations that should be placed on it, whether it be in the constitutional amendment or in the legislation carrying out that mandate. How can we prescribe those limits so that we affect the properties that are, let's say, regardless of age, going down and bring them back rather than be in a position where we just say 20 years old? And I can think of some colonial houses in Bergen County that are ten times that and they don't need this kind of tax abatement.

MRS. MARTINI: We could, of course, use a formula that deals with both age and violations of the State Multiple Dwelling Act.

SENATOR WOODCOCK: We would appreciate if you can ask Mayor Jordan if he would direct his attention to that or direct someone on his staff to do that so that we can have the framework to get at the problem we want to get at and at the same time not give an unneeded tax benefit to others.

MRS. MARTINI: Yes, I realize that. We have discussed this in terms of what I think my presentation showed, which was our concern with building and sanitary codes, and using that as a framework for a determination of what buildings are in need of repair and, therefore, in need of a removal of the negative incentive.

SENATOR WOODCOCK: Senator Dodd?

SENATOR DODD: Mr. Chairman, going on the premise that no mayor or city council or town council wants to weaken their tax base, would it be feasible to build in a formula which a municipality could adopt if they wanted to apply this program or not - give them the option? Certainly the mayors and councils of the various municipalities know the problems in their towns better than we do and we could leave it up to their discretion through their local zoning board to declare such and such a block in need of this. Could a formula be devised in that way?

SENATOR WOODCOCK: I think it is something to which we should direct our attention. Because I think everyone here is interested in taking care of the problem without creating ---

SENATOR DODD: --- a monster.

SENATOR WOODCOCK: (Continuing) --- a lot of things that we don't need. There are some people who don't need tax abatement.

MRS. MARTINI: I think Senate Bill 584 recognizes that. S 584 is permissive and not mandatory. I think legislation that is permissive, of course, would deal directly with that which you objected to.

SENATOR DODD: I have a similar measure, S 202. I think we are certainly going in the right direction. The blighted area, as you pointed out, is the end result - that is the nth degree of urban decay.

We have situations in the City of Newark and many other cities where a resident homeowner of a single-family home reaches the point where they have lived there all their lives and it comes to the point now where the house is in bad repair. They have the option of either infusing some new money into it at a higher tax rate or selling and moving. The more often a house is sold, the less and less you will get for it, and the quicker people want to get out.

The way the Tax Assessors Association was speaking before, we would be losing millions of dollars in tax revenues throughout the State because people would be constantly pumping money into their houses. This isn't the case. It was said there would be administration problems - more expenses. I think if we combined all our requests from the urban centers in our State for financial aid, we are probably talking over \$100 million in one form or another that we now pump into the cities. So they are talking about a problem, which is a legitimate problem, but when you think of the magnitude of the problem

that we have, that we are faced with right now in New Jersey, this is an emergency situation and it calls for emergency measures to stop it.

SENATOR WOODCOCK: Thank you very much.

Mr. Robert Ferguson, New Jersey Association of Realtor Boards.

Are you Mr. Rubin?

MR. RUBIN: Mr. Albert Rubin.

SENATOR WOODCOCK: You may proceed.

A L B E R T R U B I N: My name is Albert Rubin and I am President of the 10,000-member New Jersey Association of Realtor Boards. With me is Robert Ferguson, Jr., who is our Executive Vice President.

I am a licensed real estate broker with offices in Newark, New Jersey.

On behalf of the Realtors Association, I would like to thank the Judiciary Committee for this opportunity to appear today in support of the concept embodied in Senate Concurrent Resolution 20.

For over a decade, the New Jersey Association of Realtor Boards has been supporting legislative action wherein property owners would be encouraged to join in the war against blight and decay in housing.

In 1966, the Make America Better Program of the National Association of Real Estate Boards included a proposal similar in scope to SCR 20. I might add that a prominent New Jersey realtor, Alexander Summer, Sr., was the architect of the MAB program.

In the past, those charged with the responsibility for housing rehabilitation have vainly sought a dramatic, instant "cure all" to the problem of urban and near urban blight.

While the search for "Camelot" has been going on, the blight in our existing housing inventory has been spreading.

The recent publication "The Housing Crisis in New Jersey - 1970" stated that substandard housing units in our five major cities rose during the 1960's by some 50,000 units to a high of over 150,000 substandard units. If you add to this number the units in our suburban and rural areas that have become substandard, the result is staggering.

I am not here today to claim that any one program or combination of programs could have completely halted the increase in substandard housing; however, I do feel that the number could have been reduced if new innovative programs such as contained in SCR 20 had been instituted.

Change and new innovations are needed.

Limited tax abatement for improvements to real property which encourages property owners to re-invest to upgrade properties to meet minimum housing codes makes good sense.

First, it will encourage the conservation of existing housing, which is essential if New Jersey is to ever eliminate its housing shortage. Governor Cahill has stated publicly that our State falls short by 40,000 units a year in creation of new housing. Thus, if present housing is not retained, we will slip farther and farther behind each year.

Secondly, encouraging re-investment in existing housing will materially assist in stabilizing the tax rates in many areas. During the tax abatement period, the assessed value will not be reduced because of blight and loss of value, but at the end of the period the assessment will be increased to cover the improvements made.

Thirdly, in many instances when housing is improved it serves as a stimulus to improve the entire neighborhood, bringing about greater pride and a resulting change in attitude on the part of those who reside in the area.

I am going to depart from my text for a moment. I have been in business most of my life in Newark and

lived most of my life there. I have seen certain things happen in some areas. When you sell houses to people and they move in and fix them up, it becomes sort of like a disease. Everybody in the area wants to upgrade their property. This is a great way to help stimulate the saving of an area. If somebody moves in and puts up a new porch or something of that sort, the next thing you know the guy next door gets jealous and he talks to the contractor about upgrading his property. This is what we are looking for - upgrading and saving the properties in an area.

I would like to propose at this time two amendments to SCR 20 that are essential if the program is to work.

First, it must be spelled out in the bill that in order to utilize the limited tax abatement program the municipality must have an approved workable code enforcement program.

Gentlemen, without a reasonable code enforcement program at the local level to insure that property owners and tenants are maintaining the property, we will be wasting our time and efforts.

Secondly, SCR 20 should be amended to remove the requirement that the municipality must declare an area "blighted" before the program could be utilized.

Those of you who have had any experience with Urban Renewal know that more damage has been done to real property and human values as a result of the "declaration of blight" requirement than can ever be calculated. It is a disgrace.

The benefit to be derived from SCR 20 will be in areas which do not and should not qualify as "blighted", but are on the fringes where deterioration has not yet become widespread.

Areas that are declared to be "blighted" often experience a great deal of difficulty in attracting

mortgage lenders and insurance coverages that are available in other areas.

Many of your near urban areas, which for the most part are made up of older housing, need SCR 20, but may be reluctant to declare an area "blight" to qualify.

You also have in some suburban areas old towns that need help though they don't receive public notice such as the larger cities you have heard about in recent years.

In conclusion, I would like to point out that while SCR 20 will not require any expenditure of tax dollars to see results, a saving of tax dollars could eventually be realized if we can save housing units from blight.

Municipal budgets reflect the fact that real property in blighted areas produces the least in tax dollars and requires the most in municipal services, that is, fire, police, sanitation.

Unfortunately, this contradiction is encouraged under our ad valorem form of real property taxation. Perhaps some day in the near future this body will review this problem.

I would also like to echo Senator Merlino's remarks and say we should consider commercial property in this package. As you are all aware in the large cities you have commercial areas that have been going down hill and are blighted. I think something of this sort will very definitely help in having the owners upgrade their properties and rent them to new tenants, possibly bringing more tax dollars to these areas.

We have everything to lose if we sit back and do nothing and a great deal to gain by enacting an amended SCR 20.

We urge your favorable consideration. Thank you.

SENATOR WOODCOCK: Thank you, Mr. Rubin.

Senator Dodd, do you have any questions or comments?

SENATOR DODD: From the social point of view, I think it is a recognized fact that people do have more pride in a house when they own it. Channel 7 just recently did a program on crime relating it to high-rise apartments. It showed the higher the building, the higher the crime rate and inversely crime was less in the single-family units or two-family houses. It does make for deeper roots in the community and I can only concur with your thinking on that. Thank you.

SENATOR WOODCOCK: Mr. Rubin, I have just one or two questions. Number one, with respect to the amendment which you spell out here, you say, "In order to utilize the limited tax abatement program, the municipality must have an approved workable code enforcement program." Who would approve that?

MR. RUBIN: The Department of Community Affairs. I believe a lot of communities have programs, but they don't use them.

SENATOR WOODCOCK: I understand that. I was just wondering who would do this, whether it would be an arm of the county government or the State government; and if it be the State, in what department. You have suggested the Department of Community Affairs. I would assume that might be the proper department to handle that.

In addition, you spoke of the fact that we shouldn't just be talking about blighted areas and the problems created there. But in determining who should qualify under the tax abatement program, how would you suggest that we establish the limits?

MR. RUBIN: I think this could be worked out by sitting down with our group and your people and possibly some representatives of various towns. But I think it is very important that we eliminate that word "blight."

As I mentioned earlier, up until a few years ago I lived in Newark. I was born and raised there.

Unfortunately everybody mentions Newark, but it is not only Newark that has these problems or not only Essex County. It is all over the State. If we would be honest with ourselves, we would realize many, many of our suburban communities and small towns, 30, 40, 50, 60 and 70 miles from Newark, have areas that need to be fixed up.

What happens in Newark when an area is declared blighted, as soon as it becomes known to the people in the area, not only the home owners, but the tenants, they suddenly lose pride. The tenants don't worry about keeping the place clean any more; the owners figure sooner or later the place is going to go down the drain and be taken by the city or whatever it might be and they won't spend money. It is just like a snowball going down the hill. Before you know it, the whole area goes to pot. Sometimes it can take three, five or even ten years. We have areas in Newark that were declared blighted ten or twelve years ago that haven't been touched.

MR. FERGUSON: Senator Woodcock, I would like to make one point. There is a minimum housing code that has been adopted here in the State. For want of a better vehicle to start with, the Legislature in setting forth the necessary mechanics in the backup legislation might want to consider this as a starting point.

SENATOR WOODCOCK: I am not so much concerned with the fact of devising a code. I am sure we have enough experts around here to devise more codes than we would like to consider.

Mr. Rubin mentioned an approved workable code enforcement program. I think that is the important feature, that not only the code be approved, but that it be workable and that we have an enforcement program that is being actively conducted. Because, otherwise, I think we are wasting our time. That is the reason I directed my question to Mr. Rubin on that subject.

I do think if we could sit down with your group and others who have some knowledge in the area, we can come up with something that can work.

Again let me thank you for coming.

MR. RUBIN: Thank you for spending time with us.

SENATOR WOODCOCK: Mayor Holland is here and I am sorry I delayed calling the mayor. Would you come forward now, mayor?

A R T H U R J. H O L L A N D: In 1970, I was elected Mayor of Trenton on a platform, one of the planks of which was a pledge to work for legislation offering tax abatement incentives to owners of older homes who wished to improve them. Throughout my campaign and since my election, the people of Trenton have demonstrated widespread support for this type of legislation.

In particular, we have worked for the passage of Senate Bill 584, sponsored by our Senators Merlino and Schluter during the 1972-73 session. Since it now appears necessary to amend the State Constitution to allow passage of this bill, we should like to endorse strongly Senate Concurrent Resolution No. 20, introduced by Senator Dodd.

In the City of Trenton, 88 percent of all housing units were built prior to 1940. Market expectations of prospective residents are different today from what they were when most of our houses were built. Living conditions and personal standards have changed drastically. Units built before 1940 seldom meet contemporary demands and updating is sought of basic elements such as fire safety, room size, lighting and heating.

Like most urban areas, Trenton is faced with a large property abandonment problem. There is little incentive for home owners to maintain or improve their dwellings. Consequently, more buildings are abandoned each year, making of critical importance the need for

improving the city's stock of older housing units. SCR 20 enables these problems to be addressed in a significant way.

It is argued that by granting abatements on improvements, we are harming the tax base. If the abatements are not granted, however, improvements may never be made, abandonments could increase, and the tax base continue to decline. In the long run, we feel that abatements of this nature will strengthen our tax base.

I wish also to endorse the proposed amendment to SCR 20 offered by Senator Merlino. This amendment, broadening Senator Dodd's measure, would provide a foundation for programs which the Legislature might find appropriate in the future.

We in the cities have been criticized for relying on the state and federal governments for operating revenue and for funds for rehabilitation and development. Such funds are presently essential if our cities are to renew themselves. The major advantage of legislation such as that permitted under SCR 20 is that it enables the cities, without public loan or grant programs, to improve their housing and allows the homeowner to play an independent role in improving his property, thus generating involvement of the private market in resurrecting the urban areas of New Jersey. Moreover, under SCR 20 and its proposed amendment, the incentive provided can be offered wherever in our State the need for maintenance and improvement of housing exists.

SENATOR WOODCOCK: Mayor, then I take it that you would agree with some of the previous gentlemen who testified that we should delete the idea of limiting it to a blighted area.

MAYOR HOLLAND: I think I would. Because the problem basically in our city where the housing is relatively good is that with the tax rate as high as it is

people are afraid that if they improve their properties, their taxes will go up some more. Therefore, rather than invest in improving their property, they do nothing.

I don't think I have ever proposed locally any measure which has met with such wide support. When we first approached the Legislature on it, there was this kind of sentiment, we felt, for it. It is just, I think, a self-evident need.

SENATOR DODD: Mr. Mayor, would there be sections of your city that you wouldn't apply this formula to if you had the option?

MAYOR HOLLAND: Yes, just as I would like to have spot rent control. But I realize increasingly that there is hardly ever a measure which doesn't allow for some unnecessary action or even abuse.

SENATOR DODD: Naturally, you wouldn't, yourself, want to lessen your tax base.

MAYOR HOLLAND: If it meant strengthening many more units, then I would not be averse to having some relatively affluent property owner benefit under this formula.

The example usually given is that a slumlord has stayed at the fringe, perhaps not even complying with the codes, and with passage of such a law, all of a sudden he then can make the improvement without having his assessment increased for five years. Even that, hard as it is to take, I think we must, in order to provide the basic opportunity, the opportunity for the average person.

I would like to add too, having heard the Governor's Message yesterday, that I think this bill to some extent meets his call for doing something about housing in this State.

SENATOR WOODCOCK: Thank you very much, Mayor. I am sorry that we didn't see you over there earlier.

MAYOR HOLLAND: I had the benefit of the earlier discussion.

SENATOR WOODCOCK: Mr. Robert Kampf, New Jersey
Builders Association.

R O B E R T K A M P F:

Good afternoon. My name is Robert Kampf and I am here today representing Mr. Alfred S. Feibel, President of the New Jersey Builders Association. Mr. Feibel would be here himself today on behalf of the Association but is in Houston at the National Association of Home Builders Annual Convention. I have been a builder and developer for 18 years and am presently serving as President of the Builders Association of Metropolitan New Jersey, one of the 10 local affiliates of the New Jersey Builders Association. I am also a member of the Association's Legislative Committee. Although I am not personally involved in rehabilitation programs, it is through my experience with the builder's association that I am familiar with some of the problems faced in this area of the building business.

When our association discussed the merits of SCR-20, it was immediately evident that SCR-20 espoused a concept which has long been believed to be a most practicable solution to one of the housing problems we face.

Reliable sources, the Governor's 1971 Housing Message as an example, have indicated that there is a need for 100,000 new residential units a year in New Jersey. I emphasize the word new because this estimate is predicated, and rightfully so, on the assumption that our existing housing stock must and will be maintained in liveable condition and at certain minimum levels. Much stress has been placed on the need

for new housing and it is valid. However, without maintaining the existing housing stock, estimates for new housing needed would have to be greatly increased.

But, one of the major deterrents to the undeniably necessary goal of improving the existing housing stock has been the ad valorem system of property taxation in New Jersey. For this system actually penalizes the homeowner who strives to improve his dwelling and "rewards" the owner who allows his home to deteriorate. While the value of a home, which is maintained in good condition, increases and the property tax follows suit, the dwelling which is ⁱⁿ a state of dilapidation is assessed at a lower value and taxed at the same or a lower rate. What, then, is the incentive to improve one's residence?

And what does the system of taxation have to do with the State's shortage of adequate housing? New Jersey municipalities must rely almost completely upon local property taxes to pay for local services such as schools, police and fire protection, sewers, etc. In order to offset increases in these services and to help pay for those that already exist, the local community resorts to zoning -- not means for judicious land use -- but as a fiscal tool to balance the budget.

Thus the tax system becomes a two-edged sword -- slicing away any motivation for maintaining the existing housing stock and cutting short the hope that municipalities will encourage new development.

This system is unquestionably wrong, but I am aware that we are not here today to enact tax reform. What I hope to do is emphasize the necessity of providing some tangible incentive for homeowners to continue to maintain their dwellings in liveable condition and some

motivation for the rehabilitation and improvement of units which could be made habitable with a reasonable degree of work.

Just how many of the State's units are potentially affected by this resolution? As an example, three years ago, a survey by the New Jersey Builders Association on the condition of housing in the State of New Jersey indicated that 43.5% of all structures in the State were over 30 years old.

The encouragement to (1) maintain those units which are now in good condition and (2) refurbish those which could be made liveable, with improvements, is contained within the very provisions of this resolution.

It is a realistic measure in that it would limit the increases in size or structure of any building to 10%. This is a necessary stipulation since expansion to any greater degree would enlarge the work beyond the purview of "rehabilitation".

However, I would make two recommendations which I feel will give the measure greater effectiveness:

1. Hopefully the provision which makes it optional for municipalities to adopt such exemption ordinances could be changed to make it mandatory. I realize that this is a sizeable request, but all too often, unless a town is ordered, it will continue in the practices that have dominated its past. This might well be true in this instance, even though the resolution would serve to upgrade the housing stock of virtually every municipality in the State.

2. In addition, the resolution should be expanded to encompass areas other than those declared as "blighted". For, if the

adoption of such an ordinance remains optional, it is doubtful that many municipalities would be willing to list a section within their boundaries as "blighted", in order to qualify it for such relief -- yet this area may be badly in need of such assistance. By removing the "blighted" label, a certain stigma is dropped and the municipality's reluctance to take advantage of this measure is lessened.

Actually there is very little left for me to say about the proposed resolution. Its premise and, for the most part, its form is an ideal impetus for encouraging the maintenance and improvement of the existing housing stock throughout the State. And we are going ^{and} to have to follow this policy of rehabilitation/maintenance if we hope to overcome our housing shortage. Anyone who believes that new construction, and new construction alone, will eventually alleviate the problem, is only deluding himself.

With these thoughts in mind, we respectfully recommend that the committee give this measure its complete support.

Thank you.

SENATOR WOODCOCK: Thank you very much, Mr. Kampf.

I was wondering in looking at your first recommendation, that the requirement be mandatory that they pass such ordinances rather than permissive, what limitations do you place on the types of property that would be covered by the tax abatement? Are you talking about all properties regardless of their condition?

MR. KAMPF: It is hard to define. We are talking basically about residential, but we also would like to see commercial and industrial included in that because we feel eventually a higher tax rate would be forthcoming. I really can't say to what degree.

I feel personally that you can't discriminate in a law. If one person is eligible, another is, regardless of the condition. In other words, a house that is not classified as blighted, but perhaps in a very nice area, would also have to be involved in this concept. You can't discriminate.

SENATOR WOODCOCK: My problem with that is that we are talking about preventing property from going down hill, from becoming blighted. I can think of sections of this State where I would say the majority of the homes are over 20 years old and there is no appreciable blight, if any at all, in those communities. People are maintaining their properties without the aid or need for tax abatement programs.

I think that members of the Committee and I would hope the vast majority of the members of the Senate and the Assembly understand that there are areas, particularly in our larger cities and our older cities, where private money is not going to go in unless you give them some type of incentive. This would seem to be a proper incentive.

By the same token, I don't know that I or many people in the Legislature could see taking the other situation where there is no blight and giving somebody an abatement for improving his property and, in fact, increasing his investment and protecting his investment.

I was wondering if there isn't some way of drawing the limits that we are talking about as to who should receive the abatement and who should not.

MR. KAMPF: That is difficult. I don't think you can discriminate by age and I don't think you can discriminate by area. There has to be some other method of judging,

perhaps some on income level, perhaps on a total area rather than a block by block kind of concept.

I do think that one way of doing it - it is quite expensive and, as they mentioned before, administration costs would be high - is to have at the local level someone, such as a building inspector or the tax appraiser, brought in prior to the renovation or remodelling and be the actual judge of whether or not it would be eligible for such tax abatement. That could be a costly and ponderous type of operation, but it might work.

SENATOR WOODCOCK: Mr. Rubin talked in terms of a code. Could this be ---

MR. KAMPF: I don't think a code is the answer. I think it is a question of individual conditions. A building inspector who is qualified or a tax appraiser who is qualified could go in and say, 'yes, this is a house in such and such an area where if it were improved up to, say, 10 percent, it would increase the value of this house and at the same time possibly raise the levels of real estate in the area and might have a snow-balling effect encouraging other owners to do the same by finding out that this particular house was eligible for the award. That could be one answer to it, but certainly not an all-encompassing answer.

SENATOR DODD: I don't think we have to be that selective. Again we are not dealing with great sums of money as far as direct taxes derived from improvements. I contacted a Mr. Richter, head of the Newark Tax Office, and asked him for a dollar figure of what Newark gained last year in taxes just on improvements. He didn't have the exact figure, but he said it was so small, so infinitesimal, the amount of money derived -- He originally contacted me, upset about the fact Newark was going to lose all this money and that is how he got to looking into this. He is the one who did the research on that, to find

out exactly what Newark did derive out of improvements on residential real estate. It was a very small amount. So I think if it is left to mayors and councils or zoning boards or whatever and they are given the discretion to declare a ward or a block or an area eligible, the machinery can be devised in a sensible manner.

MR. KAMPF: The only thing, in a blighted area -- not blighted - I don't like that word -- in an area of potential improvement, there might be many houses in that area that are beyond repair and others that don't need it. It is very difficult to narrow this down.

SENATOR DODD: Many people take this as a personal affront, not just the dollar value or their ability to pay, but they feel, why should they be penalized for improving their house, improving the neighborhood and improving their community.

MR. KAMPF: I agree.

SENATOR DODD: Why should they be penalized for making the community a better place in which to live?

MR. KAMPF: But why should that only apply to a fellow who owns a \$10,000 as opposed to one who owns a \$50,000 house. Where do you draw the line?

SENATOR DODD: True.

MR. KAMPF: So it is very difficult.

I think everyone should be eligible according to some specific bureau or whatever you want to call it in a town. I think that is the best way of getting to the crux of the matter.

SENATOR DODD: I have great faith in government on the municipal level and the fact is that they zealously guard their tax base and they will not go out indiscriminately handing out tax abatements in areas where there is no need.

SENATOR WOODCOCK: The problem I have is this: If we are going to make it mandatory -- and let's say that we mandate that Essex Fells pass a tax abatement program --

it would involve abatement not only of the municipal taxes but the county taxes. And if we are going to stay on a real property tax base, I would assume in Essex Fells, you would find homes that are quite old and would fall into almost any category you want. If they were to go out and improve their property to the extent of the 10 percent limitation, wouldn't we really be giving a tax benefit to people who, number one, don't need it; and, number two, at the expense of people in Newark, East Orange and elsewhere in that county who are forced to pay county taxes?

MR. KAMPF: Yes, you would.

SENATOR WOODCOCK: I am trying to reach a standard that would do what we want to do. I agree with you and everyone else that has testified to the fact we ought to be trying to have private money rehabilitate properties that are starting to dip so that they don't dip, so that we can maintain a very viable tax base by reason of the fact that the properties are in good shape. I agree with that. But by the same token I don't think that we ought to be passing legislation that gives a tax benefit to people who would have made the improvement anyway at the expense of other people who are going to have to pay taxes for the services, if you get my point.

MR. KAMPF: I understand. So how do you draw the line?

SENATOR WOODCOCK: This is the problem and I am looking for some suggestions. Let me just say, Mr. Kampf, if there is anyone in your organization that can direct their attention to that type of a problem, understanding what we are trying to accomplish and you are trying to accomplish, that would be most helpful to us. I think if you can do that for us, we would be happy to hear from you at any time.

MR. KAMPF: We will consult our locals and come up with an answer.

SENATOR WOODCOCK: Thank you very much for being patient and coming down here to testify.

MR. KAMPF: Thank you.

SENATOR WOODCOCK: Is Mayor Nardi of Camden present? I understand Mayor Nardi has submitted a statement which I will read:

"City of Camden, Office of the Mayor, January 10, 1973.

"Senate Judiciary Committee

"Attention: Joseph C. Woodcock, Chairman.

"Mr. Chairman and Members of the Committee:

"My name is Joseph M. Nardi, Jr. I am the Mayor of the City of Camden and I am the President of the New Jersey Conference of Mayors and I come before you to speak in support in principle of the Senate Concurrent Resolution No. 20 proposed to amend Article 7, Section 1 of the Constitution of the State of New Jersey by adding thereto a new paragraph. I support this amendment in principle because some exemption or moratorium or assistance is needed to encourage improvements on the older residential structures throughout this state. This is particularly needed in the central inner-cities in New Jersey. I believe that the exemption should be applicable to not only the areas declared blighted in such municipalities but to the entire municipality. It is only with such legislation or constitutional enablement that such improvements can be made so that we may stem the deterioration of these properties and our neighborhoods. In addition, I do not believe that there should be a limit on the percentage of the size of the structure or building. I believe that the limitation, if any, should be addressed to the amount of the expenditure for the improvement.

"Serious consideration must be given to these questions and I urge that before final adoption thereof that such consideration be given."

That is the statement of Mayor Nardi.

Now is Mr. Bradford L. Pryce still with us?

B R A D F O R D L. P R Y C E: Mr. Chairman,
I am the Planning Director of the City of East Orange,
New Jersey, and I am here on behalf of Mayor William
S. Hart, Sr. Mayor Hart wished to be with you this
afternoon, but due to his recent illness, he had to
curtail some of his activities.

Mayor Hart asked me to encourage you and your Committee
to endorse and recommend to the full body Senate Concurrent
Resolution Number 20. We feel that passage of the
resolution and the subsequent constitutional amendment
would ~~help~~ fulfill the objectives of the City of East
Orange in two ways:

First, it would help to stimulate improvement of
our current housing stock and, second, it will ameliorate
the overall financial burden of housing on the city's
low and moderate income residents.

We find in East Orange that the property taxation
helps to foster blight and deterioration, and that New
Jersey property taxation policies are a major cause of
the physically related problems that we find in cities
like East Orange. As slum residential properties are
assessed at lower ratio of their current market values than
other properties, particularly properties that have just
been rehabilitated, it is clear that property taxes
deter private renewal of residential property. That
part of the property tax which falls on the improved
residential property has the effect of inhibiting
renewal of residential property. Reducing the magnitude
of the property tax on improvements to residential
property, while keeping land valuation constant, will
have desirable effects on the revitalization of East
Orange.

Occupancy by a low or moderate-income owner-
investor of property in blighted areas can affect the

economic well-being of such a family which is most unfortunate. Neighborhoods decline for many reasons, and the cause and effect are hard to separate. The process of decline in cities like East Orange normally includes a more or less parallel set of trends: aging of the housing stock, reduced maintenance and increased deterioration, increased density of occupancy, change in racial composition, aging of community facilities, and negative attitudes by lending institutions. Public policy can either promote or inhibit this development. If property tax assistance is provided to the low- or middle-income home buyer, if adequate maintenance and repairs are encouraged through tax incentives, then declines in value may well not occur and the unfortunate position of a homeowner in a designated blighted area may be reversed. Property taxation has been given broad concern on the local level as well as on the State level. We feel this measure, while it may be small, would be an important step in overcoming the blight found in some of the major cities in the State.

Thank you.

SENATOR WOODCOCK: Thank you very much, Mr. Pryce, for coming down from East Orange to give us the benefit of Mayor Hart's thoughts on this matter. Please express to the Mayor our hope that he has a very fast recovery. You can tell him that certainly as far as this Committee is concerned we are going to move ahead with this as fast as we can.

Senator Dodd, do you have any questions?

SENATOR DODD: No. I am very pleased that Mr. Pryce came down. As a matter of fact, if I knew you were coming down, we could have split the quarter toll.

I think the area in which East Orange lies is a classic example of urban blight. Newark, East Orange, Orange and West Orange lie in a direct route, coming up any of the main arteries, Park Avenue, Central Avenue

or Main Street. Starting with West Orange, if you buy a home and sell it five years later, the real estate values there are such that you get a very handsome return on appreciation of the value. If you move to Orange, the next town, you still get a small return on an investment. As you move into East Orange, someone purchasing a home there, with the high tax rate, is lucky to get what he paid for it. Then, of course, there is Newark, itself.

This is the classic example of what is going on not only throughout our State but throughout our Nation. And where do we plug the hole? Where do we stop and say, "please, stay - we want you to stay in our municipality - we want you to have your roots here" rather than constantly moving out to the suburbs"? Pretty soon all my constituents will be out with you, Joe.

Thank you.

SENATOR WOODCOCK: Next we have Mr. Marriott G. Haines, representing the Municipal Assessors-- the League of Municipalities, I believe.

M A R R I O T T G. H A I N E S: First of all I want to explain that this afternoon I am speaking in behalf of the League of Municipalities.

Since we have cities that are in favor of the resolution and other cities that aren't in favor of the resolution, we aren't taking any particular position. But there are a few things that we would like to bring to your attention and perhaps make a couple of suggestions. I don't want to repeat a lot that has been offered already this afternoon.

One of the things we want to point out to you is that while the resolution is permissive in its present form, the competition that would develop as a result of this permissive legislation, it is felt, would force all of our older cities to grant this exemption. Because,

as I mentioned to you this morning, I had the privilege of being a member of the New Jersey Tax Policy Committee, and for 20 months was on your side of the table. We held public hearings here in Trenton, Camden, Atlantic City, Jersey City, Newark and Paterson. And in all of these places we heard many comments made similar to what you have heard here. We are very familiar with the plight of these older municipalities which you are hoping to correct by this proposal.

As I stated this morning, we are opposed to any further exemptions unless they are financed by the State. Because exemptions like this certainly are going to make a shift in the tax burden, as we have outlined to you already.

Older cities, as you probably are aware, are not holding business and commercial properties for various reasons. They are moving out under existing conditions and it is believed that they will continue to move out because of taxes and certainly a proposal like this is going to increase the tax burden on business and it might make them move out faster.

The tax abatement through the Fox-Lance legislation has financed most new high-rise office or apartment buildings that have been constructed in the State in the past decade. While those of us who worked for the enactment of that legislation thought that it would help solve the problem, apparently it has not and instead those of us who are administering the taxes on the local level are forced to prepare higher tax bills on the remaining commercial and residential property owners.

As has been suggested on two or three occasions here this afternoon, the administration of this proposal will almost be impossible. It is going to create quite a problem on the local level. This is going to increase the cost to our municipalities. And I would certainly urge your Committee to give consideration, if you have

not already done so, to see whether some means of State aid couldn't be made available to the municipalities, so if this is enacted into law, there will be some State aid to assist in the cost of its administration.

With 10 to 15 percent or even greater turnover in residential property each year, it will be hard to trace the benefits of this act. And in some instances, the new owners could be paying not only a higher tax but also find it difficult to actually derive any benefits from this tax exemption in some municipalities.

The thing we would to urge you to keep in mind is what harm this proposal might have on our sales-ratio program. Certainly something should be written into the enabling legislation to hold the municipality safe and harmless from any adverse effects from sales that would be generated by such a program.

Another point that I would like to bring to your attention is that this exemption could become perpetual in so far as some owners are concerned because they might take steps to spend the required amount to make certain improvements every four or five years, depending upon the terminology of the legislation. Again, if there is any way to eliminate such a possibility in the enabling legislation, this certainly should be kept in mind.

One of the things that I think should be written into this legislation - and I might be taking a little thunder from one of the speakers that is going to follow me - is something we mentioned in our Tax Policy Report, namely, that we need a definition as to the difference between maintenance and improvements. If we had a proper definition of these terms and the assessors were obliged to follow these definitions today, it is possible that we might not even need this legislation. This is one thing that has not been forthcoming from the proper level, and we certainly urge you to keep this in mind

in the preparation of the enabling legislation.

Here again, as was stated this morning, this is another piecemeal attempt to amend our present tax laws. We spent a lot of time trying to come up with a complete revamping of our property tax situation here in this State. I still think that it is something that is needed. And I don't think in the over-all situation that this is going to solve the entire problem. Because as long as we are enacting piecemeal legislation, we are simply shifting a greater portion of the tax burden over to the remaining taxpayers.

We would certainly urge you to consult with the Division of Taxation regarding this proposal if you have not already done so. Because we on the local level will be looking to them for certain interpretations and regulations. Some of the regulations that will have to be prepared, naturally will come through them and we believe that they should be consulted on this matter.

One final comment, and that is this, that legislation like this usually gives everyone the impression that they are going to derive some benefit regardless of whether or not they are in a blighted area and certainly it is going to require a tremendous public relations campaign to point out who will benefit and who will not. Because we have many people who are purposely neglecting the maintenance of their properties to avoid higher taxes. This seems to be the nature of our taxpayers. Unless we can point out to them that only those who are in blighted areas will qualify under this act, I think we are going to have a lot of explaining to do on the local level, particularly in those municipalities where part of them are in a blighted area and part of them aren't.

That is about all I have to say. Thank you,
Senator.

SENATOR WOODCOCK: Thank you, Mr. Haines.

Senator Dodd, do you have any questions?

SENATOR DODD: Just one point, Mr. Haines,- it is not really a question. The fact is that our Federal government spends billions of dollars a year on new housing. We are asking for a small fraction of that to achieve the same end, a place for people to live. We realize the enforcement problems would result in more administration from your office and we can appreciate the problems that you would have. But when you look at the total dollar figure for the same result, don't you agree that there is some merit to doing it this way rather than putting up high-rise units that will be slums within five years?

The final goal we are trying to achieve is a place for people to live and, where possible, to encourage them to stay in homes rather than high-rises for obvious reasons. Billions and billions of dollars have been spent through a number of Federal and State programs. Do you have any figures of what any municipalities derive in revenues per year just on that basis? Do you have any idea of what an average town would derive?

MR. HAINES: When you mention Federal programs, are you thinking of the 235's, for example?

SENATOR DODD: Yes.

MR. HAINES: Well, we have mixed feelings about the 235 program.

SENATOR DODD: We can't debate the merits of that. But the fact is they are in existence and they are trying.

MR. HAINES: To answer your question, Senator, I don't have any figures available. A lot of these programs that have been financed through Federal aid like the 235, some of us are very fearful in the next decade are going to be blighted areas themselves.

SENATOR DODD: But that is an incentive. We do all these programs to encourage this.

MR. HAINES: As I say, I don't have any figures

available at the present time.

SENATOR WOODCOCK: Mr. Haines, with respect to the assessed valuations in the cities as compared with the assessed valuations in the suburbs, would you say they are increasing at the same rate?

MR. HAINES: No.

SENATOR WOODCOCK: And isn't it true that the assessed valuations in the cities are going down as compared to the suburbs?

MR. HAINES: Yes.

SENATOR WOODCOCK: If we are talking about shifting responsibilities or tax burdens, isn't it true that the only time you can increase the assessment on a piece of property is when it is increased in value under our system of taxation?

MR. HAINES: Yes. We are supposed to reflect the true value. Of course, we take various factors into consideration in determining true value.

SENATOR WOODCOCK: So if a homeowner in Newark does not improve his property, he has not added any value and he doesn't have any increase in his taxes, does he, in the sense that he has added to his assessed valuation?

MR. HAINES: Well, there are extenuating circumstances that can affect one's value, regardless of whether you make any physical change to the property.

SENATOR WOODCOCK: Right - in other words, if you take the sales of properties in a municipality and they indicate an increase in value. Do you know whether Newark, for instance, has ever been affected that way where the sales of real property have caused an increase in the assessed valuations?

MR. HAINES: I am not familiar with Newark's tax rolls to that extent, sir.

SENATOR WOODCOCK: Let me ask you this: Do you think there is any value in trying to stem the tide of urban decay in the big cities? Is there any value in

trying to do that?

MR. HAINES: I certainly think there is. I have been acquainted with most of our large cities in this State for many years. Take our State capital, for example, I think it is a shame what has happened here in Trenton.

I have lived within an hour of Atlantic City all my life. It is a shame what has happened there.

I am familiar with Jersey City and had relatives that lived there for 50 years and the transition there is fantastic.

Whether this will do it or not, I don't know.

SENATOR WOODCOCK: Do you know of any other means of getting private money into these cities that are faced with this urban decay? Is there another way of doing it without giving somebody a tax incentive?

MR. HAINES: I would like to refer you to page 28 of Volume II of the New Jersey Tax Policy Report for a suggestion.

SENATOR WOODCOCK: Well, I don't have that. Can you tell me what it says.

MR. HAINES: Site value.

SENATOR DODD: I thought you were going to say the income tax.

SENATOR WOODCOCK: What was that? I'm sorry.

MR. HAINES: The site value concept. We spent a lot of time on this. I would certainly refer you to that section of that report.

SENATOR WOODCOCK: The other members of the Committee may never see that. So I think it might be wise for the record to reflect what we mean by site value and how that would be beneficial to the bigger cities and how that would be a better solution than the one that has been proposed here today.

MR. HAINES: I am just pulling this from memory now. It would give the owners of the land certain

inducements to properly improve their land to get the higher return from it, if I recall correctly.

SENATOR WOODCOCK: How would that work, if you know?

MR. HAINES: Here again, as I say, I would have to refer you to the report. It is not an easily explained concept. But it was one that our Committee explored very extensively and it is spelled out, as I said, in Volume II of our report.

SENATOR WOODCOCK: Does that call for any type of tax abatement or assessment abatement?

MR. HAINES: The land would be assessed at its true value, full value, and then it would be up to the owner since his land would be assessed at true value, to develop it to get a reasonable return on it.

SENATOR WOODCOCK: What do they do with the improvements? How do they tax that?

MR. HAINES: The owner would put a type of improvement on it that would give him a suitable return.

SENATOR DODD: You see, the problem ---

MR. HAINES: I am familiar with your problem.

SENATOR DODD: In Newark if you buy a \$20,000 home this year, next year you are lucky if you can get \$17,000 for it whether you improve it or not. There is no incentive to improve right now.

This trend is in complete reverse of all other housing throughout the State and the Nation.

MR. HAINES: I am familiar with your situation.

SENATOR DODD: We don't think in our wildest dreams that this is the solution to urban decay. It is just a small part. There are other problems, such as education and crime. But we have to start somewhere in an effort to get meaningful change. And it is going to cost something. What we are looking for is the cheapest way of doing it with the most return. That's the only reason we are here today.

SENATOR WOODCOCK: Thank you very much, Mr. Haines,

for remaining all day and giving us the benefit of your thoughts. I am sure this Committee is going to benefit by having them in the record.

MR. HAINES: Thank you.

SENATOR WOODCOCK: Mr. Frank Haines, New Jersey Taxpayers Association.

F R A N K W. H A I N E S: My name is Frank W. Haines and I am here to briefly report on our views on Senate Concurrent Resolution Number 20.

Worthy as the bill might seem on initial consideration, the New Jersey Taxpayers Association does not endorse this measure. Our principal reason is that for over two decades the Association has favored the principle of statewide uniformity in property tax administration. We opposed the Constitutional amendment in 1956 which would have permitted each municipality to establish its own assessment ratio. We did not favor the provisions of Chapter 51 of the Laws of 1960, which permitted county tax boards to establish the countywide assessment ratio for use by assessors within their respective counties. In relation to that aspect, I might point out that administrative action of county tax boards has finally brought 20 of the 21 counties to the same announced ratio of 100 per cent of assessed to true value for 1973.

In addition to the local discretion aspect of the amendment which is counter to the Association's policy, we view the amendment as unnecessary because it appears to be based on the assumption, which may possibly be erroneous, that there is a widely accepted common definition in law, regulation and practice, of what constitutes "maintenance" and what constitutes "improvements".

We attempted to make a search of regulations and laws, etc., and we find nothing available in anything for New Jersey assessors to give them any guidelines to differentiate between maintenance and improvements.

So we think maybe this is really the heart of the problem.

There is general agreement that ways must be found to rehabilitate blighted areas, particularly those involving residential property. More important is need for action to maintain residences in habitable condition and prevent them from becoming uninhabitable. Two principal methods are rigid enforcement of sound and adequate building and housing codes, and an assessing policy which clearly differentiates between maintenance and improvements so that the property owner will not allow his property to deteriorate because he fears increased property tax assessments on any work done to maintain his property.

The 1972 report of the Governor's Tax Policy Committee cited national studies showing that the present property tax is "a deterrent to new housing and the maintenance of existing housing, and that it places a particular burden on low-income renters." The Tax Policy Committee made no specific recommendations for special tax treatment of residential buildings in urban areas. The reason, as interpreted by us, is the Committee's belief that its overall program for real property tax relief would be of special benefit to residential taxpayers in the older cities.

The Tax Policy Committee in its extensive recommendations for improvement of property tax administration, particularly the assessment process, included the following: (This is one of a whole series of recommendations.)

"5. The Director of the State Division of Taxation should be required to promulgate rules and regulations to:

"f. provide specific definitions of
'maintenance' vs. 'improvement' of real
property and establish necessary guidelines
for assessing improvements."

End of quote from the report.

Until this recommended action is taken, it is doubtful whether there could be uniformity of administration of the proposed Constitutional amendment. We add the reminder that exemptions have the effect of increasing the tax burden on those in the taxing district who pay taxes, often the same taxpayer who the exemption is intended to benefit.

On the other hand, anyone favoring the amendment must recognize that "blighted areas" often contain more than residential buildings. They frequently include small stores or other commercial businesses. Since only residential buildings are covered by the amendment, it would create a new special privilege property class in a blighted area, another example of property classification.

For the aforesaid reasons, the New Jersey Taxpayers Association urges that the statutory and regulatory approach as recommended by the Tax Policy Committee precede the Constitutional amendment effort.

I would like to supplement our prepared statement with a brief observation. The two amendments which were the subject of hearings today, that is, SCR 20 and SCR 5, seem to me to reflect symptoms of the failure of over-all tax reform, which had as its principal object relief of and less reliance on the real property tax to finance government in New Jersey.

SCR 20 and SCR 5 reflect one of the several alternatives of providing property tax relief, that is, exemptions from the tax, but to selected limited classes of taxpayers so as to ease their tax burden or to contribute to the solution of a social problem caused by over-reliance on the property tax.

Utilization of this exemption approach can open a Pandora's box. Some of the testimony today, in effect, seemed to be advocating even a limited homestead exemption. Tax relief approaches involving, one, transfer of functions from property tax financing to non-property tax financing;

and, two, increased State aid to local units, financed by non-property taxes, can provide a much broader approach to tax relief.

Use of the tax-exemption approach is a serious discriminatory action, benefiting select groups of property taxpayers, while shifting the burden to the remaining taxpayers.

After creating special classes of property taxpayers, it may be impossible to change them if the day of comprehensive tax reform ever comes.

I want to commend you, Senator, on your fortitude today for sitting through two long hearings and I again want to express our appreciation for having the opportunity to present our testimony.

SENATOR WOODCOCK: Thank you very much, Mr. Haines. Let me say your remarks will be brought to the attention of the full Committee because I think some of the suggestions made in there are going to have to be considered. If there is another way of approaching the problem, we had better consider that before we go to the constitutional amendment approach. But I think, as your paper points out and as everybody here today has pointed out, the problems in the bigger cities here in the State with properties that are going out of repair have to be met. If it is not going to be done by an over-all tax reform program, then we are going to have to do it in some piecemeal fashion, even if it be by changing the definitions or, let's say, defining what we mean by "improvements" and "maintenance" to give relief to those people who are maintaining their properties in the big cities. That may be the answer. But I do think we have to go to that problem because that one is growing more severe every day.

MR. HAINES: May I comment, sir? I can't help but feel that a great of the problem in many places,

not only the cities but other places, is the fact that the taxpayers don't really understand what the difference is. Part of this is because we don't have any guidelines, as I have indicated. So some taxpayers guided by, let's say, rumors or non-factual information might hold off even painting or even putting a roof on a house because they think it is automatically going to mean a higher assessment.

I saw some material sometime ago which appeared to be an effort in one of the other states - and I can't remember whether it was New York or some place else - where a citizens' group had put out a little pamphlet. It was done, of course, after having understanding with the tax officials that this was the general policy and general guidelines. It was a little pamphlet which they gave to property taxpayers that said, "If you do this to your house, the assessment should not be increased just because you did this. However, if you do this," - and this was in the category of improvements - "this can mean an increase in your assessment because in effect you have increased the value."

Because we have no guidelines and because there is no uniform policy -- and, granted, some of this may be very difficult to develop. There may be some situations where you may have the same things in both the maintenance and improvement. Until that is done, it seems to me we have a tremendous obstacle to overcome and that much of it may be just because of ignorance - and I use that word advisedly - a lack of understanding of the whole situation.

That is why I strongly urge that consideration be given to get the State to develop significant measures of criteria to differentiate between the two. I found there is no material in the assessing courses that was handed out, that I could get hold of, let's say, to develop such a list for informational purposes. I

inquired of some people in the State administration to see if there is such a thing.

This is why I felt very strongly that this is essential fairly soon, if not as a first step, certainly in concurrence with whatever you do in connection with the amendment.

SENATOR DODD: Mr. Haines, I just would like to comment on one sentence that seems to be the backbone of your appearance here today, that property tax relief would be construed as a special benefit to residential taxpayers in our older cities. This is true. It would be. I would remind you that I believe we gave Newark last year \$30 million which was paid for by all the people of the State of New Jersey; we gave Camden X millions; we gave Trenton X millions, and Elizabeth and Jersey City. There is no end in sight. There is no reason to believe we won't be doing this next year and for the next five years. I am not saying this bill will eliminate these direct grants. But it is certainly a start at eliminating the direct and indirect grants from the State and Federal governments that all the taxpayers throughout the State pay.

MR. HAINES: I think you have to do something somehow to try to reverse the downward trend in the urban centers. ---

SENATOR DODD: Get people to stay there.

MR. HAINES: (Continuing) -- and the removal of property from the rolls. Basically it is because people can't afford to pay the high taxes and walk away.

SENATOR DODD: It is all related - taxes, crime, schools.

MR. HAINES: I wish Mayor Holland had addressed himself to this today. Because I think Trenton from what I have heard has started a program to try to rehabilitate and get properties back on the rolls. It is the high tax burden that is causing a whole complex

situation.

I would hope that what you say might be true. But because of the tremendous amounts that we are talking about, I don't hold too much hope that there is much of a chance to reverse these aid programs by eliminating a little bit of the assessment at the local level. You mentioned improvements in Newark. The way to define it is the real problem. I have an idea the main concern is really maintenance.

SENATOR DODD: It is really up to the assessor and how he feels when he gets out of bed in the morning in some instances.

MR. HAINES: That's right. And when you point out that improvements are very little, it is a question of whether they aren't being done or whether they are not being assessed. That would be a question I would like to see researched, in terms of the existing policy which varies from assessor to assessor.

SENATOR WOODCOCK: Thank you, Mr. Haines.

Is there anyone else wishing to be heard with respect to SCR 20? Seeing none, I will conclude the hearing on SCR 20 and I want to thank Senator Dodd for joining the Committee at this hearing.

(Hearing Concluded)

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SUBMITTED BY SENATOR JOSEPH P. MERLINO

Revision of SCR-20's Proposed Amendment to Constitution

5. The Legislature may enact general laws under which municipalities may adopt ordinances (grant) granting exemptions from taxation on improvements to older buildings and structures (in, or intended for, residential use, in areas declared blighted within such municipalities) , as defined by law, and to the land comprising the premises upon which such buildings or structures are erected and which is necessary for the fair enjoyment thereof. Such exemptions shall be for limited periods of time as specified by law, (but not in excess of five years,) shall not be in excess of the additional value of the real property resulting from the improvement, (and) may be limited according to the nature and extent of the improvement (but shall not be granted on any improvement which increases the size of any building or structure by more than 10%.) , and may be restricted by law to buildings and structures in or intended for residential use.

Material (in parentheses) is deleted. Material underlined is added.

Widens in Lincoln Center Area

THE NEW YORK TIMES, SUNDAY, DECEMBER 24, 1972

By PRANAY GUPTA

Out of its own shell and rubble, 326 Columbus Avenue has risen again.

Three aged and deteriorating five-story buildings between 75th and 76th Streets have been converted into a modern six-story residential complex that also offers store space at street level. Close to half of the 62 apartments have been rented.

According to the owner, Robert Conrad Quinlan, the building is the "first full-scale renovation in recent years" on Columbus Avenue. It is thus an extension of housing upgrading set off by Lincoln Center.

In the last ten years, according to city housing officials, more than 1,200 brownstones and other residential buildings in the area from 59th Street to 90th Street between Central Park West and the Hudson River have been renovated.

For the most part, these renovations have been carried out by individual home buyers. There are also examples of major new construction.

For instance, one of the biggest commercial and residential complexes in the area was built opposite Lincoln Center — the 40-story One Lincoln Plaza. A few blocks north on Broadway, at One Sherman Square, a 23-story building has gone up. Another large residential building is being completed on Amsterdam Avenue, between 79th and 80th Streets.

The Mormon Church is scheduled to build a 38-story complex on Colum-

bus Avenue between 65th and 66th Streets, which will contain housing units, a commercial plaza and quarters for the church.

In addition, extensive urban renewal has been undertaken on Columbus Avenue between 87th and 97th Streets, where hundreds of low-income and moderate-income housing units have been constructed in the last four years.

Consequently, real estate developers and housing officials say, real estate values have risen in the area. The economic impact of this rise is illustrated by the Columbus Avenue project. Mr. Quinlan said that he paid \$225,000 in 1969 for the three buildings that now constitute 326 Columbus Avenue. Relocating the tenants to other apartments in the neighborhood cost \$46,000. With the help of a construction loan, Mr. Quinlan invested \$650,000 in the renovation.

Where there were 29 apartments in the previous three buildings, there are now 62. The former tenants paid about \$40,000 a year in rent. The new rent roll is expected to generate \$188,000 from residents and \$40,000 from the stores.

Mr. Quinlan said that he was taking advantage of section J 51-2.5 of the Administrative Code, under which an owner who carries out extensive renovations may claim abatement and

exemption of real estate taxes on his property.

Thus, if his application for such tax-free status is approved, tenants in No. 326 would get a rent reduction between 7 and 10 per cent when a new lease is negotiated two years hence.

The tax abatement and exemption provisions were incorporated recently into the Administrative Code to provide an incentive to owners to renovate deteriorating buildings. The length of tax abatement and exemption is generally from 9 to 12 years or sometimes even longer.

The city had long granted the 9 to 12 year tax abatement on renovated residential properties. The tax exemption for the increased assessment of that property that results from the renovation was authorized in the Administrative Code a few months ago.

As a result, while Mr. Quinlan may not have to pay real estate taxes for 9 to 12 years, once the tax exemption and abatement period has expired, the

Continued from Page 1
City would start collecting its dues.

Bruce Gould, assistant commissioner of the Housing and Development Administration, said that the city had provided for such tax abatement and exemption to encourage housing improvement and, "importantly, to help reduce rents for tenants." During the period of tax abatement, the buildings are in a rent-controlled status, he said.

In the fall of 1971, the three buildings at the site were gutted and all the floors removed. About the

only evidence of the old structures was the "outer covering—the wall."

The beams were then lowered, creating an additional floor. A public hallway was cut through the three structures parallel to the street on each of the floors. In addition, the street-level apartments were converted into three stores, each with a space 35 feet deep.

Mr. Quinlan named the building Christopher House after his young son. Rents are \$200 to \$225 a month for studios and \$285 to \$315 for one bedroom apartments.



The New York Times/Patrick A. Burns

owner, converted three old five-story buildings into a six-story renovation of the redevelopment set off by Lincoln Center. He took advantage of the abatement provision adopted to aid renovation of rundown buildings.



KENNETH A. GIBSON

MAYOR

NEWARK, NEW JERSEY

07102

January 10, 1973

Senate Judiciary Committee
State House
Trenton, New Jersey

Gentlemen:

As Mayor of the City of Newark, I would like to take this opportunity to comment on Senate Concurrent Resolution Number 20, Article VIII, Section I, of the Constitution of the State of New Jersey.

The City of Newark has long been the victim of one of the highest property tax rates in the Country. A homeowner in Newark today, whose home is assessed at twenty thousand dollars, must pay almost two thousand dollars in taxes annually. This tremendous confiscatory tax burden has worked to discourage Newark taxpayers from improving their homes for fear that these improvements would raise their already large tax bills even higher.

The consequences of this process can be seen throughout the City. Once proud residential communities have wasted away. Blight has spread and continues to spread. Abandonment has resulted and is one of the most serious problems we in Newark face today.

We believe that homeowners should be given this incentive to encourage them to return their homes to the standards of which they were once so proud. Delayed assessments on these improvements are one significant way in which the Newark homeowner can improve his home and thus his community without committing himself to an even greater tax burden than he must presently bare.

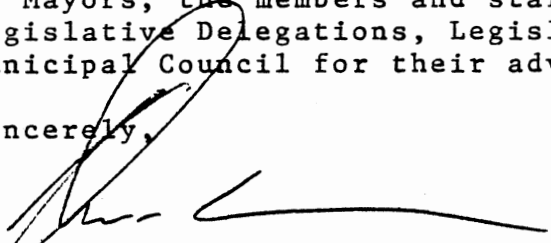
Therefore, I support the principal which Senator Dodd has encompassed in this resolution. I feel, however, that some important questions still remain which will require more time to analyze in order to determine the full ramifications of this resolution.

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Because this resolution as a Constitutional Amendment would require approval by the electorate and because of the very nature of the subject matter itself, I would like to pursue a more in-depth analysis of the specifics and return in writing to this committee within a short period of time whatever amendments might be feasible.

In the course of this analysis, I will confer with the New Jersey League of Municipalities, my colleagues in the New Jersey Conference of Mayors, the members and staff of this committee, the Essex County Legislative Delegations, Legislative Leaders and members of the Newark Municipal Council for their advice and recommendations.

Sincerely,



Kenneth A. Gibson
MAYOR

KAG:sh



TOWN OF WEST ORANGE, NEW JERSEY

HARRY BONNET
COUNCILMAN

January 9, 1973

Senator Joseph C. Woodcock, Jr.
Chairman, House Judiciary Committee
State House
Trenton, New Jersey 08625

Dear Senator Woodcock:

I will not be able to attend the public hearing relative to real estate tax moratorium on property improvements. However, I want to express my feelings in support of this bill, which is known as SCR 20.

After doing considerable research in the area of real estate tax, concerning property improvements, I am happy that the Senate is introducing legislation that would assist many of our citizens who take pride in their property, only to be penalized by an added tax assessment. Through the years the majority of home owners attempt to keep their property in better than average condition. When an improvement is made, the Tax Assessor is generally on the spot to pick up the additional taxes which develop from the improvement and the person doing a reevaluation appraisal always includes this in his report. It seems extremely unfair to penalize someone who keeps his property in good condition, and, at the same time, know that the man next door will be given a reduction for allowing his property to run down.

Over the years, the incentive system has been the backbone of America's success. The constant striving for improvement has been a tremendous asset in building our Country to great heights and achievements. This type of legislation would accomplish the following:

1. Encourage citizens to improve the community by upgrading their homes
2. To avoid further need for urban renewal projects
3. To assist the overburdened real estate taxpayer
4. To protect the environment by self-preservation, as opposed to doing it by condemnation and reconstruction.

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Senator Woodcock (cont'd.)

January 9, 1973

It is imperative that we do everything in our power to move this legislation, as it vitally affects all of us. We have many older areas where this amendment of the law will go a long way in making our State a more desirable place in which to live.

In conclusion, I am asking our Senators to vote "yes" on this bill, thus affording New Jersey property owners a long awaited tax break. Real estate tax has supported much of our governmental operation and this bill is a step in the right direction towards revising this trend.

Very truly yours,

A handwritten signature in cursive script, reading "Harry Bonnet".

Harry Bonnet
Councilman

HB:ms

cc: Town Council

JUN 27 1985



