REPORT

OF THE

JOINT COMMITTEE ON TAX POLICY

STATE OF NEW JERSEY
NEW JERSEY LEGISLATURE

TRENTON, NEW JERSEY
JUNE, 1979

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J. Gilbert Deardorff

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State of New Jersey

NEW JERSEY LEGISLATURE

JOINT COMMITTEE ON STATE TAX POLICY

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June 25, 1979

To the Honorable Members of the Senate and General Assembly of the State of New Jersey:

Pursuant to Senate Concurrent Resolution No. 64 of 1978, the Joint Committee on Tax Policy hereby transmits, as directed by said Resolution, the Final Report of its study to assess, evaluate and review the "Tax Reform Program of 1976," and any other laws relating to taxation.

Respectfully yours,

Senator Steven P. Perskie, Chairman

Richard Van Wagner
Assemblyman Richard Van Wagner, V.Ch.

John H. Dorsey
Senator John H. Dorsey

Walter E. Foran
Senator Walter E. Foran

Wynona M. Lipman
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Assemblyman Walter J. Kavanaugh

Barbara W. McConnell
Assemblywoman Barbara W. McConnell

THE JOINT COMMITTEE ON TAX POLICY

CREATED PURSUANT TO SENATE CONCURRENT RESOLUTION 64 OF 1978

Senator Steven P. Perskie, Chairman

Assemblyman Richard Van Wagner, Vice Chairman

Senator John H. Dorsey

Senator Walter E. Foran

Senator Wynona M. Lipman

Senator Walter N. Sheil

Senator Charles B. Yates

Assemblyman Donald J. Albanese

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ACKNOWLEDGEMENTS

In an endeavor such as that undertaken by the Joint Committee on Tax Policy, the success of such an undertaking lies to a great extent upon the assistance given by other individuals and organizations.

We would be remiss if we did not express our sincere appreciation to those who made the work of the committee easier and more meaningful. We are most fortunate in having the counsel of the Treasurer, Director of the Division of Taxation, Director of the Division of Local Government Services, Federation of Senior Citizens, New Jersey Association of Counties, New Jersey State League of Municipalities, New Jersey Taxpayers Association; the suggestions and comments of various public officials; and, by no means least, those individuals who gave of their time to appear before the committee at its public hearings and those who submitted suggestions to the committee.

Finally, we wish to thank those municipalities for providing the facilities in which our public hearings were held.

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[OFFICIAL COPY REPRINT]

SENATE CONCURRENT RESOLUTION No. 64

STATE OF NEW JERSEY

INTRODUCED JANUARY 30, 1978

By Senators MERLINO, J. RUSSO and FELDMAN

Referred to Committee on Revenue, Finance and Appropriations

A CONCURRENT RESOLUTION creating a Joint Committee on Tax Policy.

BE IT RESOLVED *by the Senate and General Assembly of the State of New Jersey:*

1. There is hereby created a Joint Committee on Tax Policy to consist of 12 members. Six members shall be appointed by the President of the Senate as follows: three members of the Senate Revenue, Finance and Appropriations Committee, no more than two of whom shall be of the same political party and three other members of the Senate, no more than two of whom shall be of the same political party. Six members shall be appointed by the Speaker of the General Assembly as follows: three members of the Assembly Taxation Committee, no more than two of whom shall be of the same political party and three other members of the General Assembly, no more than two of whom shall be of the same political party. Vacancies in the membership of the committee shall be filled in the same manner as the original appointments were made.

2. The committee shall organize as soon as may be after the appointment of its members and shall select a chairman from among its members and a secretary who need not be a member of the committee.

3. It shall be the duty of the committee to assess, evaluate and review the "tax reform program of 1976," including, but not limited to, the New Jersey Gross Income Tax Act, the Tenants' Property Tax Rebate Act, the homestead rebate law, the State Revenue Sharing Act of 1976, the laws imposing limitations on State, county and municipal expenditures, the commuter tax act, amendments and supplements to the foregoing and any other laws relating to

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

SUMMARY REPORT OF THE
JOINT COMMITTEE ON TAX POLICY

The Joint Committee on Tax Policy was created pursuant to Senate Concurrent Resolution 64 of 1978, directing the Committee to review and evaluate the Tax Reform Program of 1976 and the impact of that program in all its elements upon State, County and Municipal Government. The Joint Committee organized on April 24, 1978, and elected Senator Perskie as Chairman and Assemblyman Van Wagner as Vice Chairman. At that time the Chairman directed the staff to develop a format within which the Committee would operate and to develop a schedule for a series of public hearings throughout the State.

It was proposed to the Chairman subsequently, that the areas of study were sufficiently broad that the Committee should be divided into three subcommittees so as to allow more thorough investigation. The Committee agreed to this recommendation and the Chairman appointed three subcommittees as follows:

<u>Subcommittee #1 - State Property Tax Relief Fund</u>

Chairman - Assemblyman Karcher

Members - Assemblyman Albanese, Senators Perskie and Lipman

<u>Subcommittee #2 - State General Fund</u>

Chairman - Senator Yates

Members - Assemblyman Brown, Senators Dorsey and Foran

<u>Subcommittee #3 - Local Government</u>

Chairman - Assemblyman Kavanaugh

Members - Assemblyman Van Wagner, Assemblywoman McConnell, and Senator Sheil

The work of the Committee has been divided into two functions; that of staff research, and that of public hearings. Staff research was directed toward the analysis of the various elements represented by the three subcommittees to determine the effect of the Tax Reform Program and included the analysis of a survey conducted to measure the impact of the local "cap" law on the State's municipalities. The public hearings were directed toward receiving the testimony of both public and private individuals as to the impact of that program and their views as to what changes might be affected to improve its operation.

In the course of its deliberations the Joint Committee held eleven public hearings throughout the State attended by a very broad cross section of individuals, organizations and public officials.

This report, therefore, represents a combination of data developed as a result of staff study, and that resulting from the testimony delivered at the public hearings.

Review of the Tax Reform Program of 1976

The Tax Reform Program of 1976 was designed to meet two specific goals -- one mandated, the other deemed equitable. The mandate was in the form of court direction to provide a more equitable distribution of funds for the support of the public schools. The other was a means whereby property taxes could be substantially reduced in the State. The form taken to meet both of these was the enactment of the New Jersey Gross Income Tax.

At this point in time, after three years' experience with the results of the program, it is necessary to begin to examine whether these goals have been met. It appears to be quite obvious that the answer in both instances is that they have been accomplished.

The funding of Chapter 212, P.L.1975 -- commonly known as the "T & E" legislation -- obviated the necessity to raise local property taxes to meet the Supreme Court mandate, and State support as a percentage of the funds for the public schools has slightly exceeded the 40 percent plateau which was the goal.

General property tax relief has been accomplished in two ways; first by an outright reduction in the amount of property taxes raised throughout the State in the year following the enactment of the program, and second by the Homestead Rebate program which has distributed property tax rebates to home owners in excess of one-quarter billion dollars annually.

Thus, the combination of general tax reduction, the decrease in the reliance upon property taxes for the public schools, and the direct property tax rebates have resulted in de-emphasizing property taxes in New Jersey.

Although the funding of the T & E program and the Homestead Rebate program perhaps are the key elements in the Tax Reform Program, there were numerous other elements which have contributed both to maintaining a lesser reliance upon the property tax and to promoting the economic well-being of the State.

The Revenue Sharing Act has remained at a constant $50 million annually. However, the actual return to the municipalities is almost double that amount for, within the terms of that Act, municipalities are reimbursed for the full cost of senior citizen deductions and veteran deductions which prior to its passage were borne by the local taxpayer. Perhaps as important as the reduction in local property taxes resulting from the assumption of the senior citizen and veteran deductions by the State was an indication of the State's moving toward the assumption of costs mandated by State law, which has long been sought by local officials.

Perhaps the only element of the program which has not had much success is that of the Tenants' Property Tax Rebate. Much of the problem in this element of the program is mechanical rather than conceptual. The property tax structure and the method for assessment and collection of taxes does not lend itself readily to effectuating this type of program. It is possible that in the future a different approach may be developed to provide tenants with more direct benefits than is now the case.

Possibly the area least publicized in the Tax Reform Program, at least at this point in time, were the benefits to the business community. As a means for stimulating business growth, the repeal of the sales tax on business machinery and equipment was considered at the time of its passage a key element in the program. Similarly, a repeal of the Unincorporated Business Tax, the Retail Gross Receipts Tax, and the phasing out of the Business Personal Property Tax were additional benefits to business.

Despite the substantial benefits from the repeal of the sales tax on business machinery and equipment, the Unincorporated Business Tax, and the Retail Gross Receipts Tax, and the phasing out of the Business Personal Property Tax in terms of dollars, what is seldom considered in terms of benefits to business under the Tax Reform Program is that business in general benefits whenever property taxes are offset or reduced. Therefore, the only major element of the total program in which business does not benefit directly is the Homestead Rebate program.

During the course of its hearings, as well as through letters directed to the Committee, there have been minor complaints directed at the Homestead Rebate program. Although to an individual the complaint may not be a minor one, when one considers the magnitude of the program the difficulties are relatively minor in the overall evaluation of that program.

It is the considered opinion of this Joint Committee that the Tax Reform Program has had a salutary effect upon property taxes in the State, and at the same time has had an effect upon government expenditure. This is not to say that there are not flaws which in time must be addressed, but at this point an overall view of the program indicates that no significant changes should be made in any of its elements.

FINDINGS AND RECOMMENDATIONS OF THE JOINT COMMITTEE ON TAX POLICY

A. STATE PROPERTY TAX RELIEF FUND

- *The Property Tax Relief Fund has met its initial goals and legislative intent.*

- *The Homestead Rebate program has functioned in the manner expected upon enactment. The Committee recommends continuation of this program in its current form.*

- *The senior and disabled citizen and veterans property tax deduction programs have been successful. The Committee recommends the expansion of the senior and disabled citzen property tax deduction program as a priority claim on any future PTRF revenues.*

- *The distribution of revenue sharing funds on a per capita basis is found to be a fair and equitable method. The Committee recommends continuation of this program in its current form.*

- *The General Fund contribution to aid to education will not decrease to the 1976 level, under any reasonable income tax growth assumption, by 1985.*

- *The PTRF will not have the capacity to replace a significant portion of revenue lost as a result of repealed taxes at any time in the foreseeable future.*

- *Assuming a 13 percent growth rate in income tax revenues, the PTRF will have sufficient resources to stabilize the General Fund aid to education at the 1980 level by fiscal year 1982.*

- *Beginning in fiscal year 1983, consideration can be given to new and expanded property tax relief programs.*

- *As noted, the Committee recommends that the first priority for expanded property tax relief programs be to increase the property tax deduction for senior and disabled citizens. The Committee recommends that the second priority for property tax relief programs should be State assumption of county welfare, court and prosecutor's office costs.*

B. STATE GENERAL FUND

- *The high rate of General Fund expenditures growth experienced through the 1960s and early 1970s has moderated. Currently, General Fund expenditures as a percent of personal income are lower than they were in 1974.*

- *The State expenditure limitation law and the stabilization of the General Fund portion of aid to education will exert* *considerable influence in moderating General Fund expenditure growth through the mid 1980s.*

- *During the high expenditure growth period of the 1960s and early 1970s, General Fund revenues kept pace with expenditures through rate changes rather than inherent growth.*

- *Because of the overall inelasticity of the revenue system that supports the General Fund, it is expected that revenues will grow at a rate below that of the State's economy. An average annual revenue growth rate, in the revenues supporting the General Fund, of 6 to 7 percent is anticipated through the mid 1980s.*

- *The Committee finds that with good management, the 6 to 7 percent rate of revenue growth can maintain the current level of State services. It will not be expected, however, to provide sufficient revenues for new and expanded State services.*

C. LOCAL GOVERNMENT

- *It does not appear that the "cap" law needs any significant amendment with regard to the base on which the "cap" is imposed.*

- *The blending of restraint and flexibility found in the "cap" law is adequate to control property tax increases and take sufficient cognizance of the needs of the governing body to provide necessary services to its residents.*

- *There is substantial evidence that the "cap" law has arrested the growth in property taxes.*

- *The general consensus of local officials is that the Legislature should be aware of the following pressures or circumstances:*

  a. A rate of inflation commonly predicted to range from 7 to 9 percent through the mid 1980s;

  b. Pension, insurance and utility cost increases which consume a substantial portion of the allowable increase in expenditure or levy;

  c. Federal and State mandated costs which must be met within the "cap" limit;

  d. Loss of non-property tax revenue.

- *The Committee recommends adoption of S-3146 (OCR) concerning the "cap" referenda procedures, and the Assembly Committee Substitute for A-3227 which limits rate increases for certain State mandated costs to 5 percent.*

- *The Committee recommends amendments to the "cap" law to accomplish the following:*

a. Permit capital expenditures to be made outside the "cap."

b. Permit program expenditures which are reimbursed by Federal, State or other funds to be made outside the "cap."

c. Provide a more precise definition of the type, review and approval process for emergency appropriations which may be funded outside the "cap."

d. Delete from the statute the provision for "uncapped" municipalities.

e. Allow county governments the exemptions from the "cap" now available to municipalities for programs funded in whole or in part by Federal or State funds.

All of these amendments are intended to be a further clarification or restatement of legislative intent and are not designed or intended to relax the 5 percent limitation.

- *The Committee recommends that a study of insurance costs and methods be undertaken to determine the feasibility and advisability of municipal self-insurance.*

- *The Committee endorses the Supreme Court decision regarding binding arbitration and the "cap" law and particularly welcomes its interpretation that the arbitrator has an obligation to consider the "cap" situation.*

- *The Committee recommends that the Legislature declare a moratorium on the creation of special districts and to proceed forthwith to study special districts with a view of very severely restricting the circumstances under which a special district -- for any purpose -- may be formed.*

REPORT

ON THE

PROPERTY TAX RELIEF FUND

INTRODUCTION

The Property Tax Relief Fund (PTRF) was established pursuant to the New Jersey Gross Income Tax Act (C.54A:9-25) with the revenue generated by the income tax specifically dedicated to reduce or offset local property taxes. This fund does not, and never was intended to, provide revenue in support of State government.[1] The program was designed to use income tax revenue in substitution for increased local property taxes.

> C.54A:9-25 Property Tax Relief Fund
>
> Taxes collected under the provisions of this act shall be deposited by the State Treasurer in a special account to be known as the Property Tax Relief Fund. Moneys in the Property Tax Relief Fund shall be annually appropriated, pursuant to formulas established from time to time by the Legislature, to the several counties, municipalities and school districts of this State exclusively for the purpose of providing property tax relief and for the purpose of reducing or offsetting property taxes, including the funding of the requirement of P.L.1975, c.212, and homestead exemptions under 1976 Assembly Bill No.1330, as said acts may hereafter be amended or supplemented and provided there may be deducted the administrative costs of the collection hereof and in replacement of revenues resulting from the repeal of certain laws under this and companion legislation.

The expenditure program for the PTRF reflects this original intent and includes the following:

1. State aid to local school districts.

2. Homestead rebates.

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[1] This report is not intended to be a catalog of issues and events surrounding the enactment of the income tax or the expenditure program. For an exhaustive review see "The New Jersey Gross Income Tax: An Analysis from Background to Enactment," Richard Van Wagner, Seton Hall Legislative Journal, Vol. 2, No. 2, pp. 100-121.

3. Municipal revenue sharing.

4. State assumptions of the cost of property tax deductions for senior citizens, disabled persons and veterans.

5. Administrative costs associated with collection of the income tax and with the homestead rebate program

The focus of this report is on the expenditure elements of the program. It is not the intent of the Committee to review the income tax itself -- its structure and equity -- but rather to report upon the expenditure experience to date and to measure the capacity of the income tax to meet future expenditure demands. The extensive testimony concerning the structure and equity of the tax that was received during public hearings has been preserved for the record and will be formally transmitted to the Assembly Committee on Taxation for its review and consideration.[2] The Committee assumes continuation of the income tax in its current form for revenue and expenditure analysis and makes no specific recommendations with regard to rates or structure.

NEW JERSEY GROSS INCOME TAX

The basic features of the Gross Income Tax as it exists in 1979 are nearly the same as the features in the bill that was enacted finally by the Legislature on July 7, 1976, and signed into law on July 8, (P.L.1976, c.47). Not unexpectedly, technical amendments were necessary later to correct unforeseen administrative problems. In addition, some other changes occurred.

[2] Of particular interest is the report to the Committee from the New Jersey Bar Association which recommends several substantive policy changes and other technical changes.

Sections of the original law repealing the New York and New Jersey commuter taxes were removed -- New York residents working in New Jersey now pay the greater of the tax liabilities under the Gross Income Tax or the Emergency Transportation Tax. Proceeds from these commuters equal to the New Jersey Gross Income Tax liability are credited to the Property Tax Relief Fund. New Jersey residents working in New York, of course, receive a credit on the New Jersey tax liability for taxes paid to New York.

By agreement between the States, New Jersey and Pennsylvania residents now pay an income tax to the state of residence at the resident state's rates, without regard to the location where the income is earned. In effect, the retaliatory Transportation Benefits Tax is repealed.

Subsequent to the original enactment of the income tax, the Legislature passed amendatory legislation providing an added $1,000 personal exemption for college students under the age of 22. A special $1,000 personal exemption for private school students in the original law was declared unconstitutional by the U. S. District Court. The U. S. Court of Appeals in January, 1979, and the U. S. Supreme Court on May 29, 1979, upheld the lower court's decision.

The Legislature intended in the original statute to treat pensions similar to the Federal rules in the U. S. Internal Revenue Code -- basically, pension payments from employer contributions are subject to tax. The New Jersey State Attorney General in an advisory opinion ruled, however, that a long-standing law affecting New Jersey public employee pensions had precedence. Thus, any potential tax liability for calendar year 1976 from these pensions was lost.

Meanwhile, the Legislature was under considerable pressure to reevaluate the income tax treatment of all pensions. The result after due consideration was amendatory legislation treating all pensions fairly and equally. In addition to the existing exclusion of Social Security and Federal Railroad Retirement pensions in the calculation of income, a gross $10,000 retirement income exclusion was added for married couples and $7,500 for single taxpayers regardless of source. Also, those not participating in the Social Security program were allowed a total income exclusion of up to $6,000 for married persons or $3,000 for a single person in addition to the general $10,000 or $7,500 pension income exclusion.

Income Tax Collection Experience

The income tax was expected to have produced over the period 1977 to 1979 total revenue of $2.412 billion. It has produced (with 1979 estimates) $2.25 billion or approximately 95 percent of expected yield.

The income tax revenue was expected to support an expenditure program of $2.552 billion and has been charged through 1979 with expenditures of $2.245 billion.

On adoption, it was recognized that over the three-year period the revenue from the income tax would not match the anticipated expenditure program. It was expected that the initial year's surplus would carry the program through the second year and that in the third year, an increase in the Corporate Business Tax would replace a portion of the revenues lost as a result of tax repeals and reforms.[3]

In addition, it was understood that replacement of revenue lost through tax repeals and reform was the lowest priority expenditure item. To maintain the balance of the fund, it was expected that deferral of replacement would take place until such time as income tax proceeds exceeded other PTRF expenditures.

The actual experience has been that program balance was achieved by a one-time savings of $130 million in the Homestead Rebate program by shifting from a semi-annual payment schedule to a single annual payment, and not by charging the PTRF with the full level of revenue lost to the General Fund by reason of the several tax repeals. (See Tables I, II, and III.)

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[3] It was originally planned to increase the Corporate Business Tax from 7.5 percent to 9 percent effective in 1979 to offset lost revenue due to repealers. This plan was not carried out and in combination with expenditure restraint, the General Fund has absorbed these losses. See the report of the New Jersey Commission on Government Costs and Tax Policy, December, 1977. Page A-21.

TABLE I

COMPARISON OF GROSS INCOME TAX ESTIMATES
AT TIME OF ENACTMENT TO ACTUAL COLLECTIONS
FISCAL YEARS 1977 to 1979

(Millions of Dollars)

	1977	1978	Est. 1979	Three-Year Total
Estimates of Revenue at Time of Enactment	$754	$791	$867	$2,412
Actual Collections, FY 1977 and 1978. Rev. Est. 1979*	$656.1	$748.9	$845.0	$2,250.0
Difference: Estimated to Actual	($97.9)	($42.1)	($22.0)	($162.0)

*Excludes taxpayer designations to Gubernatorial General Elections Fund.

Source: Adopted from memoranda prepared for New Jersey Assembly, July, 1976, subsequently printed in Analysis of Executive Budget, Office of Fiscal Affairs, February, 1977, and New Jersey State Budgets.

TABLE II

COMPARISON OF ACTUAL TO
ESTIMATED COST OF EXPENDITURE PROGRAMS AND TAX REPEALS
ENACTED WITH THE INCOME TAX, JULY 1976

(Millions of Dollars)

	Fiscal Years			Three-Year
	1977	1978	1979	Total
Homestead Rebates	$130	$260	$260	$650
Senior Citizens, Veterans, Disabled Property Tax Deductions	22	44	45	111
State Revenue Sharing	25	50	50	125
Aid to Education	374	485	574	1,433
Tax Repeals and Reforms	28	85	120	233
Total Est. Cost of Income Tax Program	$579	$924	$1,049	$2,552
Actual Program Costs Charged to PTRF (See Table III for specifics)	521	766	958	2,245
Difference: Estimated to Actual	($58)	($158)	($91)	($307)

Source: Adopted from memoranda prepared for New Jersey Assembly, July, 1976, subsequently printed in Analysis of Executive Budget, Office of Fiscal Affairs, February, 1977, and New Jersey State Budgets.

TABLE III

PROPERTY TAX RELIEF FUND
REVENUES AND EXPENDITURES - FISCAL YEARS 1977 to 1980
(Millions of Dollars)

	1977 Actual	1978 Actual	1979 Revised	Three-Year Total	1980 Budgeted
Revenues					
Surplus, July 1	$ --	$135.0	$117.5		$ 4.3
Gross Income Tax Revenue*	656.1	748.9	845.0	$2,250.0	945.0
Total: Funds Available	$656.1	$883.9	$962.5		$949.3
Program Appropriations					
Homestead Rebates	$137.2	$139.5	$267.0**	$543.7	$256.0**
Senior Citizens, Veterans, Disabled Property Tax Deductions	--	50.4	54.0	104.4	53.0
State Revenue Sharing	25.0	50.0	50.0	125.0	50.0
Program Admin. Costs	6.7	7.0	6.3	20.0	7.9
Aid to Education	352.5	500.7	584.9	1,438.1	573.1
Business Personal Property Tax Replacement	--	18.8	--	18.8	--
Less: Unspecified Lapse of Appropriations	(.3)	--	(4.0)	(4.3)	--
Total: Expenditures	$521.1	$766.4	$958.2	$2,245.7	$940.0
Surplus, June 30	$135.0	$117.5	$ 4.3	$ 4.3	$ 9.3

*Excluding annual $1 million taxpayer checkoff to Gubernatorial General Elections Fund.

**$11 million in fiscal year 1979 and $17 million in fiscal year 1980 of Homestead Rebates in addition to the amount shown is charged to the Casino Revenue Fund. Several technical changes were made by the Legislature in the fall of 1978 so the State could fund the Pharmaceutical Assistance to the Aged program from casino tax revenues.

Source: New Jersey State Budgets.

Expenditure Components

Homestead Rebates. The homestead rebate system is a pioneer effort in refunding taxes to homeowners. Unlike some states with exemptions from assessments for homeowners, New Jersey provides a direct rebate to homeowners from the Property Tax Relief Fund for property taxes paid based on assessed value and effective tax rate. The State-administered system simplifies the process by avoiding local conflict over proper entitlements, eliminates the possibility of duplicate applications and greatly reduces the chance for rebates being allowed owners of single-family rental property or second home vacation structures. As many as 200,000 units fall into this latter category with a potential unintended cost of nearly $40 million.

The homestead rebate method will have a benefit considered parenthetically at the time the program was enacted. Potentially, in fiscal years 1980 or 1981 and in later years, the State and local units of government will share added funding under the Federal General Revenue Sharing program if it is extended. The formula for sharing Federal revenues includes factors for income tax collections and tax effort -- a measure comparing tax levies to personal income. By recycling property taxes -- income tax collections rebated for property taxes paid -- rather than foregoing property tax collections at the outset through a credit on tax bills, the State is projected to receive an estimated increase of $10 million to $12 million annually in Federal General Revenue Sharing allocations.

Comparing the homestead rebate experience to legislative expectations, Table II shows that expenditures were estimated to total $650 million for the three fiscal years 1977 to 1979. Actual experience for the three budget years -- including $11 million shifted to the Casino Revenue Fund in fiscal year 1979 to enable State funding of the Pharmaceutical Assistance to the Aged program -- totals $554.7 million, a difference of $95.3 million. (See Table III.)

Two reasons account for the difference. The primary reason was that the payment schedule was changed from semi-annual installments to a single annual payment. This accounting technique shifted the costs forward as far as the State's fiscal year was concerned but did not alter taxpayer receipt of the rebates in the proper calendar year. A second reason was the expansion of the Homestead Rebate program to cover co-ops, condominiums and certain other homeowner situations not contemplated initially. Overall, however, the program has functioned in a manner consistent with the intentions expressed in 1976.

Summarizing, the homestead rebate system has worked. It has provided a measurable element of property tax relief. Most non-senior citizen homeowners are guaranteed a rebate of $150 -- senior citizens $200. This amounts to a base cost of approximately $230 million to the Property Tax Relief Fund. The remaining $43 million cost, about 15 percent of the total, will decrease or increase depending on changes in local property equalized tax rates. The likelihood is that this component of the rebate will show a decline because equalized tax rates are expected to decline, due in part to expenditure limitations (5% cap law) and increases in property values. While an overall decrease in rebate costs is indicated, the individual taxpayer will experience changes from year to year most commonly in the range of $1 - $15.

The Committee finds that the Homestead Rebate Program has functioned in the manner expected upon enactment and endorses the program in its current form.

Senior and Disabled Citizens and Veterans Property Tax Deductions. This program represents both an expansion and full State assumption of a cost previously reflected in local property taxes.

By Constitutional mandate, one-half of the $160 senior and disabled citizens property tax deduction is paid for by State government. The income tax program requires State government to pay for the entire cost of the deduction. Prior to the income tax that portion of the deduction not paid by the State was reflected in the property tax levy. Now the entire cost of this program is paid for out of the Property Tax Relief Fund.

The veterans deduction of $50 had been included in the local property tax levy as well. The income tax program requires State government to pay the full cost of this deduction. The cost of this program has also been assumed by the PTRF.

The Committee recommends the continuation of this program and feels that the expansion of this program should be a first priority claim on any future PTRF resources.

Revenue Sharing. This program distributes $50 million annually to all municipalities, except those with an equalized tax rate of less than $1.00 per $100 of assessed value, on a per capita basis. By the terms of the enabling legislation (C.54A:10-7) these revenues must be anticipated in the municipal budget and applied to the reduction of the property tax levy. This budget requirement is an important feature of the program, since it is conceivable that the revenue sharing funds could have been used to fund new expenditures rather than reduce the property tax levy.

Because the program is based on population, the entitlement to any particular municipality will vary from year to year as will the per capita amount. This will be of concern to urban areas particularly but affects every municipality.

> *The Committee finds the distribution of Revenue Sharing Funds on a per capita basis to be a fair and equitable method and recommends its continuation.*

Cost of Administering the Gross Income Tax and the Homestead Rebates. Administrative costs were not addressed directly in 1976 when the legislative debate over the income tax took place. Nevertheless, it is a cost which is chargeable to the Property Tax Relief Fund.

It is estimated that the cost of collecting the Gross Income Tax in fiscal year 1980 will be $6.3 million, about seven-tenths of one percent of gross revenue. This makes the tax one of the most inexpensively administered taxes in New Jersey.

Homestead rebate administrative costs are projected to be $1.6 million in fiscal year 1980 -- less than $1.10 for each check issued to homeowners. This cost includes audit procedures that assure that homeowners receive the correct amount to which they are entitled -- one rebate per resident homeowner. Adequate auditing would be considerably more expensive if this program were a credit against property taxes rather than a direct rebate.

Aid to Education. The primary impetus behind the enactment of the Gross Income Tax was to increase the amount of funds appropriated by the State to local school districts. The spending program enacted with the tax contemplated an acceleration of aid to local education above levels already being appropriated in the State's general fund budget. As shown in Table II, 1976 estimates of additional outlays for local education totaled $1,433 million for the three fiscal years 1977 to 1979. A comparison of the anticipated spending plan with actual appropriations shows that the intent of the 1976 Legislature has been met. Actual and projected spending through the end of fiscal year 1979, detailed in Table III, totals $1,438 million, $5 million more than the 1976 projections.

The Legislature knew that initially, the level of estimated funding from the Property Tax Relief Fund would exceed the added costs due to the passage of the "T & E" law, Chapter 212, Laws of 1975 and the need to increase the State's share of total educational expenditures. General Fund appropriations for aid to education in fiscal year 1977, the year "T & E" funding started, and in the following two years, were less than the amount spent from the

General Fund in fiscal year 1976, the last year of the old "Bateman" school funding program. (See Table VII.) The Property Tax Relief Fund, by paying a portion of previously existing General Fund aid to education costs, provided a mechanism for reimbursing the General Fund for a portion of the tax losses due to the repeal of several business and individual tax levies.

Tax Repeal Costs. The complete property tax relief program included the repeal and reform of a portion of the General Fund revenue structure. The one year old tax levied on interest, capital gains and other non-wage earnings -- the Unearned Income Tax -- was superceded and replaced by the Gross Income Tax. The Unearned Income Tax produced $51.6 million of revenue in fiscal year 1976, the one full year it was operational. It was repealed effective July 1, 1976, but the State received tax payments totaling $29.0 million during fiscal year 1977 for reported tax liabilities occurring in the first six months of calendar year 1976. Thus, the General Fund experienced an absolute loss of $22.6 million in fiscal year 1977 from the level collected in fiscal year 1976 and $51.6 million in the succeeding years. (See Table IV.)

The repeal of the Sales Tax levy on the purchase of business machinery and equipment was one of four components of a reform of the New Jersey business tax structure. The repeal became effective January 1, 1978. The cost to the General Fund was estimated to be $35 million annually. It is not possible to estimate the actual effect of this repeal with any degree of reliability. Sales tax records maintained by the Department of Treasury are not organized in a manner that will support an accurate estimate. However, for the purposes of illustrating the fact that there is a real loss of revenue to the General Fund, an estimated annual loss of $35.0 million has been projected.

The remaining three components of the business tax reform package were General Fund revenue sources enacted in the late 1960s to replace local municipal revenues lost by the elimination of local property taxes on business personal property.

The Unincorporated Business Tax and the Retail Gross Receipts Tax were repealed outright, effective January 1, 1977. Tax liabilities due on the previous calendar year's business activity were payable in the spring of 1977. Therefore, the effect of the repeal was not noticed until fiscal year 1978. As indicated by Table IV, some revenue was received in fiscal year 1978 so that the full year's revenue loss of $30.6 million was not felt until fiscal year 1979.

The Business Personal Property Tax produced $81.2 million for the General Fund in fiscal year 1978, an increase over the prior year despite the fact a phased repeal started January 1, 1977. Fiscal year 1979 is the first year a drop of revenue has been noted and the amount of decline will be somewhat less than the $4 million currently expected in the State budget.

TABLE IV

ESTIMATED AND ACTUAL COST TO STATE GENERAL FUND OF TAXES LOST
DUE TO REPEAL AND REFORM OF GENERAL REVENUE STRUCTURE
FISCAL YEARS 1977 to 1980
(Millions of Dollars)

	1977	1978	1979	1980
Estimated General Fund Tax Loss at Enactment of Property Tax Relief Program				
Taxes Repealed				
Unearned Income Tax	$28.0	$55.0	$55.0	$55.0
Sales Tax on Bus. Machinery and Equipment	--	17.5	35.0	35.0
Unincorporated Business Tax	--	20.0	20.0	20.0
Retail Gross Receipts Tax	--	10.0	10.0	10.0
Business Personal Property Tax	--	4.0	12.0	20.0
Total: Estimated Cost of Repeals	$28.0	$106.5	$132.0	$140.0
Actual General Fund Tax Loss				
Unearned Income Tax	$22.6	$51.6	$51.6	$51.6
Sales Tax on Bus. Machinery and Equipment	--	23.0*	35.0*	35.0*
Unincorporated Business Tax	--	19.6	22.6	22.6
Retail Gross Receipts Tax	--	7.5	8.0	8.0
Business Personal Property Tax	--	--	4.0	8.0
Less: PTRF Appropriation	--	(18.8)	--	--
Total: Actual Loss of Revenue	$22.6	$82.9	$121.2	$125.2

Source: New Jersey State Legislature, Joint Committee on Tax Policy. The estimated losses are from memoranda prepared for the New Jersey General Assembly, July, 1976. The actual losses are derived by subtracting the revenue collected from the taxes following enactment of the repeal legislation from the total collections for each source in the fiscal year immediately preceding the time of implementation of the repeal as reported in the New Jersey State Budgets.

*It is not possible to determine the exact cost of the revenue loss due to the repeal of the Sales Tax levy on business machinery and equipment purchases as the Department of Treasury records are not programmed to provide such data. However, for the purposes of illustrating the fact that there is a real loss of revenue to the General Fund, the estimated loss of $35 million is reflected here.

Summary

The concept formulated in 1976 of an income tax for New Jersey that would both meet the need for revisions in the way the State provided aid to education and reduce the overall reliance on property taxes has worked. Income tax revenues are being expended as intended.

TABLE V

PROPERTY TAX RELIEF FUND
TOTAL REVENUES AND EXPENDITURES
FISCAL YEARS 1977 to 1979
(Millions of Dollars

	Three-Year Total
Revenues	
Gross Income Tax Revenues	$2,250.0
Expenditures	
Aid to Education	$1,438.1
Homestead Rebates*	543.7
Senior Citizens, Veterans, Disabled Persons Property Tax Deductions	104.4
State Revenue Sharing	125.0
Business Personal Property Tax Replacement	18.8
Program Administrative Costs	20.0
Less: Unspecified Lapse of Appropriation	(4.3)
Total Expenditures	$2,245.7
Estimated Surplus, June 30, 1979	$ 4.3

*An additional $11 million has been appropriated for Homestead Rebates, making a total of $554.7.

The State will have collected $2.25 billion from the Gross Income Tax in the first three years of operation. Over $1.4 billion has been appropriated to local school districts to offset local education costs. A total of $544 million has been turned back to homeowners in the form of

Homestead Rebates from the Property Tax Relief Fund -- 24.2 percent of the income tax collections. Local units of government have received nearly $250 million in revenue sharing funds, all but $18.8 million of which was for the express purpose of reducing local property tax levies. Only $10 million has been needed during the three years to administer the entire program -- less than nine-tenths of one percent.

In short, the Joint Committee on Tax Policy finds that the Property Tax Relief Fund has met its initial goals and legislative intent.

FUTURE PROPERTY TAX RELIEF FUND EXPENDITURES FOR EXISTING PROGRAMS

The projections for the 1980 fiscal year indicate that for the first time since the start of the income tax program, General Fund aid to education [4] will be above the 1976 level. As a result, none of the revenues lost through the tax repealers will be offset.

This occurrence is not the result of a sudden drop in income tax revenues or major increase in total aid to education. Rather it is the result of certain problems inherent in the program from the beginning.

As shown previously on Tables I and II, the proposed program indicated a level of expenditures approximately $140 million over anticipated receipts through the first three years. The fact that the fund was in balance at the end of

[4] Defined as the Budget Program Element 31100, General Assistance to Local Educational Agencies.

the three-year period was the result of the deferral of homestead rebate expenditures. This deferral merely postponed the deficit to the 1980 fiscal year.

The last column in Table III shows the program in 1980. The significant figure in this table is "Aid to Education" which shows a decline of $11.8 million from the 1979 level. The result of this decline is that the General Fund will be forced to pick up slightly more than the full annual increase in total aid to education.

The future role of the PTRF in financing the increased costs of aid to education is dependent on two factors. The first is the level of non-educational expenditures from the PTRF, and the second is the rate of growth in income tax revenues.

Non-education Cost Components

Homestead Rebates. The cost of this program is projected to decrease every year through the mid 1980s. Rising property values combined with the cap on local spending will likely lead to declining equalized tax rates in most municipalities. If the 1979 to 1980 trend holds, actual outlays for homestead rebates will decrease in future years even though more homeowners may become eligible for the rebate. As shown on Table VI, it is expected that the statewide cost of this program will decline an average of $4 million a year. From the viewpoint of the homeowner, the change from year to year will be slight. The basic $150 rebate will still apply -- with senior citizens at $200. The add-on to this amount, based on tax rates, is what will vary. Based on experience this year to year change will likely be in the range of increase or decrease of $1 to $15

Senior Citizens, Veterans, Disabled Property Tax Deductions. The current program cost is projected to remain stable. Historically a one percent growth rate can be identified; however, for projection purposes this is not considered significant. The cost to the PTRF will be $53 million.

Current legislative proposals to increase the deduction amount will increase the cost of this program and result in an additional expenditure demand on the PTRF.

State Revenue Sharing. Existing law specifies that $50 million shall be distributed annually to municipalities with equalized property tax rates less than $1.00 per $100 of valuation. Costs are fixed short of a legislative decision to change the funding level.

Cost of Administering the Gross Income Tax and the Homestead Rebates. These costs are projected to increase through 1985 at an average rate of 8 percent per year. This is midway between a generally accepted 7 percent to 9 percent range of the level of inflation for the forecast period.

Collectively, the non-education property tax relief expenditure programs are expected to cost $380.5 million, a 3.4 percent decrease. For analysis purposes the difference between this non-education expenditure component and total income tax revenue will be considered the amount available to meet aid to education costs or other further property tax relief programs.

Income Tax Revenue Growth

For projection purposes three growth rates are used to estimate the income tax revenue over the period 1981 to 1985.

Historic trends (1978-1980) tend to support a growth rate assumption of 13 percent. Generally accepted coefficients of elasticity for the New Jersey income tax of 1.2 to 1.3 applied to a 9 to 10 percent growth in personal income indicates a 12 to 13 percent growth range. An optimistic viewpoint on personal income growth is reflected in a 14 percent growth rate assumption.

Based on these growth rate assumptions, the income tax will yield in a range of $1,058 to $1,077 million in 1981. By 1985 the revenue yield should range between $1,665 to $1,819 million. (See Table VI.)

PTRF CAPACITY TO FUND EDUCATION STATE AID COSTS AND OTHER PROPERTY TAX RELIEF PROGRAMS

Given the relatively stable non-education PTRF expenditure program, the growth in the income tax revenue will be available for education and other property tax relief programs. The determination of whether additional property tax relief programs can be funded in the future depends largely upon the Legislature's year to year decision as to what portion of PTRF resources will be used to offset increases in the cost of aid to education expenditures and in the level of recognition of the General Fund revenue losses attributable to the repeal of taxes.

TABLE VI

PROPERTY TAX RELIEF FUND
ESTIMATED REVENUES AND NON-EDUCATION EXPENDITURES
FISCAL YEARS 1981 to 1985
(Millions of Dollars)

	1981	1982	1983	1984	1985
Current Revenues					
Gross Income Tax at a Growth Rate of 12% -	$1,058.4	$1,185.4	$1,327.7	$1,487.0	$1,665.4
13% -	1,067.9	1,206.7	1,363.5	1,540.8	1,741.1
14% -	1,077.3	1,228.1	1,400.1	1,596.1	1,819.5
Non-Education Property Tax Relief Expenditures					
Homestead Rebates*	$269.0	$265.0	$261.0	$257.0	$253.0
Senior Citizens, Veterans, Disabled Property Tax Deductions	53.0	53.0	53.0	53.0	53.0
State Revenue Sharing	50.0	50.0	50.0	50.0	50.0
Program Administrative Costs	8.5	9.2	10.2	10.8	11.6
Total: Non-Education PTRF Expenditures	$380.5	$377.2	$374.0	$370.8	$367.6
Balance Available for Education and Other Purposes Assuming an Income Tax Growth Rate of 12% -	$677.9	$808.2	$953.7	$1,116.2	$1,297.8
13% -	687.4	829.5	989.5	1,170.0	1,373.5
14% -	696.8	850.9	1,026.1	1,225.3	1,451.9

*Total cost of rebates.

Source: New Jersey State Legislature, Joint Committee on State Tax Policy.

Growth in Aid to Education Costs

The rate of growth in aid to education used in the Committee projection is 9 percent. This rate is derived in consultation with the State Department of Education. Local school expenditures are projected to rise at less than 8 percent in line within projected inflation rates of 7 to 9 percent. There should be a decline in the growth rate in the future as the effect of declining enrollments in many districts is reflected in staff and support cost reductions, but this eventuality defies quantification and is not reflected in the projections through 1985.

At a 9 percent growth rate, education State aid costs are expected to be $1,578.8 million in 1981 increasing to $2,228.6 million by 1985.

Depending on the level of income tax growth funds, available for aid to education from the PTRF will range from $677.9 million to $696.8 million in 1981 and from $1,297.8 million to $1,451.9 million by 1985.

FUTURE IMPACT OF PROPERTY TAX RELIEF FUND ON GENERAL FUND

Tables VIII, IX and X show the future impact of the PTRF on the General Fund under the three levels of income tax revenue growth previously discussed. As the Tables show, the General Fund contribution to aid to education will not return to the 1976 level, under any of the income tax growth assumptions, by 1985.

As shown on Tables IX and X, however, it will be possible to freeze the General Fund contribution to aid to education at the 1980 level. This will occur in fiscal year 1983 under the 13 percent income tax revenue growth assumption and in 1981 under the 14 percent income tax revenue growth assumption.

If the objective is to return to the 1976 level of General Fund aid to education, it will not be possible for the PTRF to replace revenue lost as a result of repealed taxes at any time in the foreseeable future.

If, however, the objective is to freeze General Fund aid to education at the 1980 level, given the 13 percent and 14 percent income tax revenue growth projection, the PTRF can begin to replace revenue lost as a result of repealed taxes as soon as fiscal year 1982. It should, however, be pointed out that full replacement of revenue lost, by the PTRF, is not in the realm of possibility within the foreseeable future.

Charts 1 and 2 graphically illustrate the PTRF's future impact on the General Fund.

They indicate that the significant contribution of the PTRF, through 1985, will not be in maintaining a particular level of General Fund aid to education or in replacing revenue lost as a result of repealed taxes, but in the fact that the General Fund contribution to aid to education will be stabilized at approximately 1980 levels. Given the 6 to 7 percent anticipated growth of General Fund revenue, this stabilization will provide the General Fund with a significant amount of relief from expenditure pressure from education programs.

TABLE VII

IMPACT OF PROPERTY TAX RELIEF FUND ON GENERAL FUND -- THROUGH 1980

(Millions of Dollars)

	1974 Actual	1975 Actual	1976 Actual	1977 Actual	1978 Actual	1979 Adj. Approp.	1980 Rec. Approp.
Total Aid to Education[1]	$599.5	$786.0	$770.7	$1081.5	$1215.8	$1340.8	$1448.4
Property Tax Relief Fund Share	--	--	--	351.7	500.7	584.9	573.1
General Fund Share	599.5	786.0	770.7	729.8	715.1	755.9	875.3
General Fund Share (over)/under 1976 General Fund Level	--	--	--	$40.9	$55.6	$14.8	($104.7)
Revenue Lost from Repealed Taxes[2]	--	--	--	(22.6)	(82.9)	(121.2)	(125.2)
Net Impact on General Fund at 1976 Level	--	--	--	18.3	(27.3)	(106.4)	(229.9)

[1] Aid to Education defined as Budget Program Element 31100. General Assistance to Local Educational Agencies.

[2] Includes actual revenue loss from repealed Unearned Income Tax, Business Personal Property Tax, Unincorporated Business Tax, and Retail Gross Receipts Tax. In addition, it reflects an estimated revenue loss of $35 million for the repeal of the Sales Tax on business machinery and services. (See Table IV for details.)

TABLE VIII

ESTIMATED IMPACT OF PROPERTY TAX RELIEF FUND ON GENERAL FUND -- THROUGH 1980 ASSUMING 12% ANNUAL GROWTH IN INCOME TAX REVENUES

(Millions of Dollars)

	1981	1982	1983	1984	1985
Total Aid to Education[1]	$1578.8	$1720.9	$1875.8	$2044.6	$2228.6
Property Tax Relief Fund Share[2]	677.9	808.2	953.7	1116.2	1297.8
General Fund Share	900.9	912.7	922.1	928.4	930.8
General Fund Share (over)/under 1976 General Fund Level	($130.2)	($142.0)	($151.4)	($157.7)	($160.1)
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1976 Level	(262.9)	(282.7)	(300.5)	(315.8)	(327.6)
General Fund Share (over)/under 1980 General Fund Level	($25.6)	($37.4)	($46.8)	($53.1)	($55.5)
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1980 Level	(158.3)	(178.1)	(195.9)	(211.2)	(223.0)

[1] Aid to Education defined as State Aid Expenditures in the Budget Program Element 31100. General Assistance to Local Education Agencies. Total Aid has been projected at an annual growth rate of 9%.

[2] See Table VI.

[3] Includes actual revenue loss from repealed Unearned Income Tax, Business Personal Property Tax, Unincorporated Business Tax, and Retail Gross Receipts Tax. In addition, it reflects an estimated revenue loss of $35 million for the repeal of the Sales Tax on business machinery and services. Lost revenue has been projected assuming that these sources would have grown at a rate of 6%.

TABLE IX

ESTIMATED IMPACT OF PROPERTY TAX RELIEF FUND ON GENERAL FUND -- THROUGH 1985
ASSUMING 13% ANNUAL GROWTH IN INCOME TAX REVENUES
(Millions of Dollars)

	1981	1982	1983	1984	1985
Total Aid to Education[1]	$1578.8	$1720.9	$1875.8	$2044.6	$2228.6
Property Tax Relief Fund Share[2]	687.4	829.5	989.5	1170.0	1373.5
General Fund Share	891.4	891.4	886.3	874.6	855.1
General Fund Share (over)/under 1976 General Fund Level	($120.7)	($120.7)	($115.6)	($103.9)	($84.4)
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1976 Level	(253.4)	(253.4)	(264.7)	(262.0)	(251.9)
General Fund Share (over)/under 1980 General Fund Level	($16.1)	($16.1)	($11.0)	$0.7	$20.2
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1980 Level	(148.8)	(156.8)	(160.1)	(157.4)	(147.3)

[1] Aid to Education defined as State Aid Expenditures in the Budget Program Element 31100. General Assistance to Local Education Agencies. Total Aid has been projected at an annual growth rate of 9%.

[2] See Table VI.

[3] Includes actual revenue loss from repealed Unearned Income Tax, Business Personal Property Tax, Unincorporated Business Tax, and Retail Gross Receipts Tax. In addition, it reflects an estimated revenue loss of $35.0 million for the repeal of the Sales Tax on business machinery and services. Lost revenue has been projected assuming that these sources would have grown at a rate of 6%.

TABLE X

ESTIMATED IMPACT OF PROPERTY TAX RELIEF FUND ON GENERAL FUND -- THROUGH 1985 ASSUMING 14% ANNUAL GROWTH IN INCOME TAX REVENUES

(Millions of Dollars)

	1981	1982	1983	1984	1985
Total Aid to Education[1]	$1578.8	$1720.9	$1875.8	$2044.6	$2228.6
Property Tax Relief Fund Share[2]	696.8	850.9	1026.1	1225.3	1451.9
General Fund Share	882.0	870.0	849.7	819.3	776.7
General Fund Share (over)/under 1976 General Fund Level	($111.3)	($99.3)	($79.0)	($42.6)	($6.0)
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1976 Level	(244.0)	(240.0)	(228.1)	(200.7)	(173.5)
General Fund Share (over)/under 1980 General Fund Level	($6.7)	$5.3	$25.6	$56.0	$98.6
Revenue Lost from Repealed Taxes[3]	(132.7)	(140.7)	(149.1)	(158.1)	(167.5)
Net Impact on General Fund at 1980 Level	(139.4)	(135.4)	(123.5)	(102.1)	(68.9)

[1] Aid to Education defined as State Aid Expenditures in the Budget Program Element 31100. General Assistance to Local Education Agencies. Total Aid has been projected at an annual growth rate of 9%.

[2] See Table VI.

[3] Includes actual revenue loss from repealed Unearned Income Tax, Business Personal Property Tax, Unincorporated Business Tax, and Retail Gross Receipts Tax. In addition, it reflects an estimated revenue loss of $35 million for the repeal of the Sales Tax on business machinery and services. Lost revenue has been projected assuming that these sources would have grown at a rate of 6%.

GENERAL FUND AID TO EDUCATION COMPARED TO 1976 and 1980 LEVELS

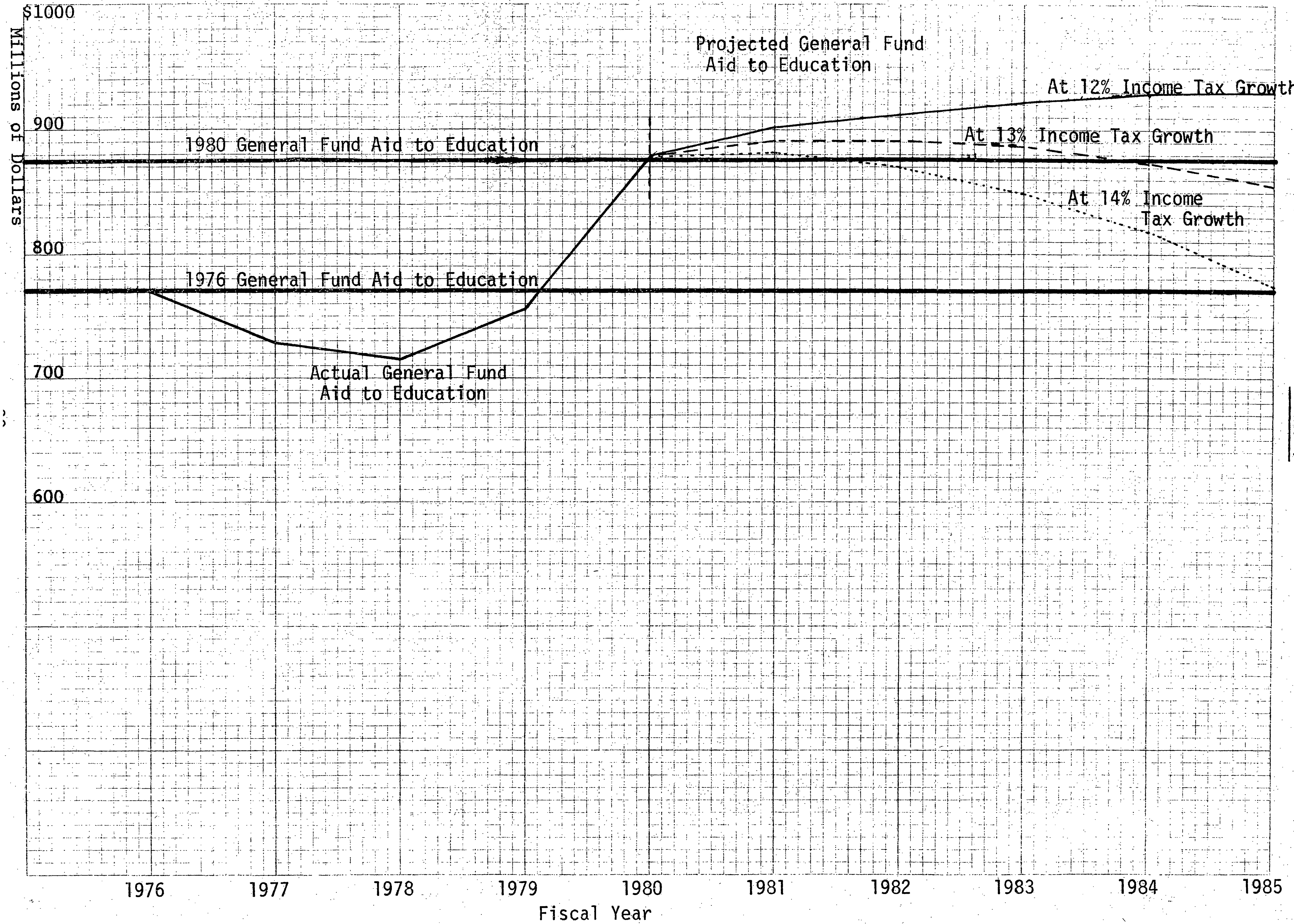

CHART 1

GENERAL FUND AID TO EDUCATION COMPARED TO 1976 and 1980 LEVELS

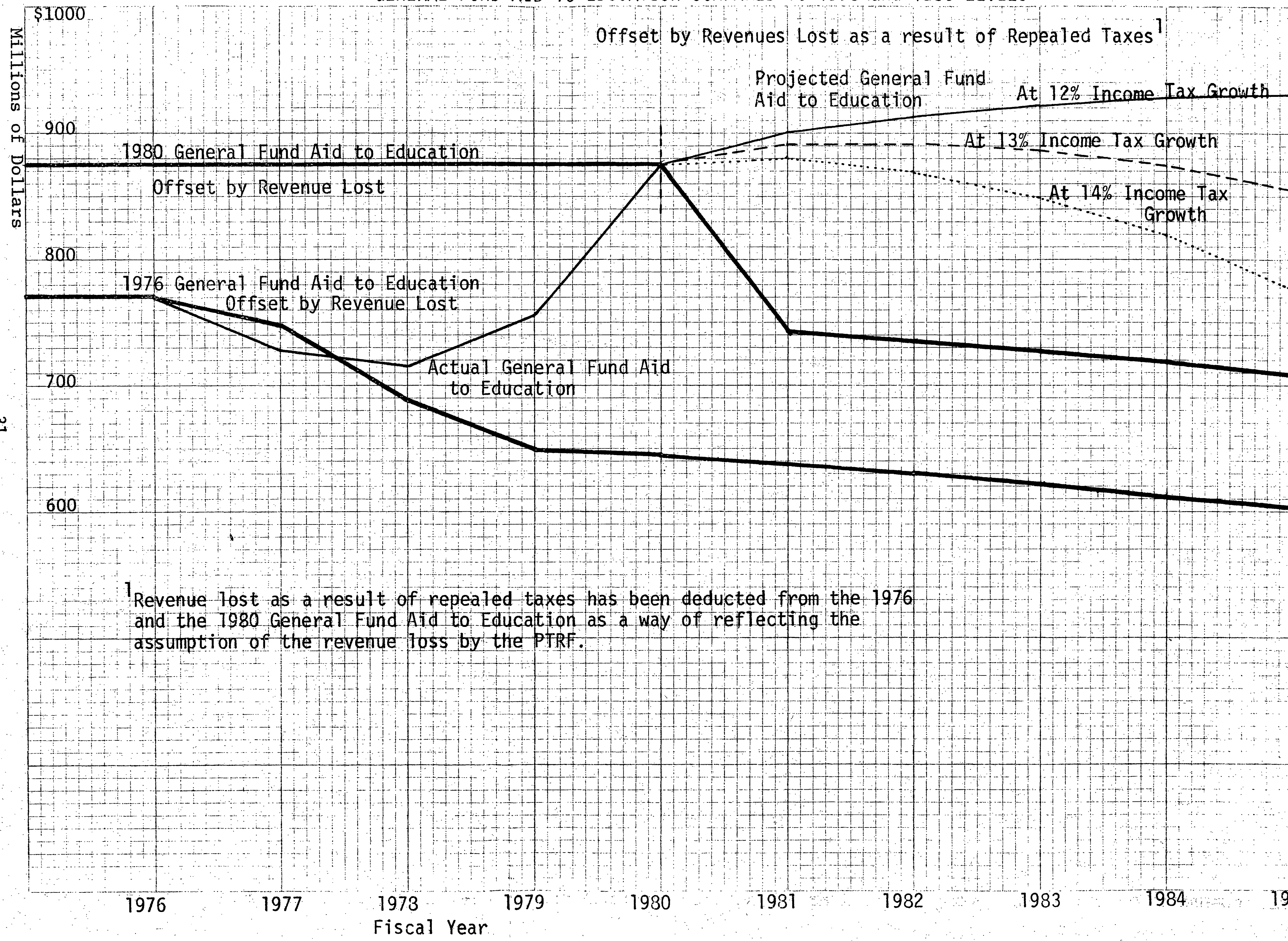

CHART 2

Summary

An overall analysis of the performance of the PTRF finds that a substantial amount of property tax relief is being provided. The PTRF's contribution to aid to education will allow the General Fund aid to education to stabilize and begin to decline. However, it is not likely that the PTRF will be in a position to replace a significant amount of revenues lost as a result of repealed taxes.

This analysis is based on the assumption that income tax revenues will grow at an average annual rate of 13 percent. The Committee's acceptance of the 13 percent income tax growth rate is based upon the projection that personal income in the State will grow at a rate of approximately 10 percent and that the coefficient of elasticity for the New Jersey Gross Income Tax is 1.3.

At the 13 percent growth rate the PTRF will have sufficient resources to stabilize the General Fund aid to education contribution by fiscal year 1982. General Fund aid to education could begin to decline slightly after fiscal year 1982.

As discussed in the General Fund report, it is anticipated that General Fund resources will grow at a 6 to 7 percent annual rate. It is also anticipated that the State expenditure limitation law and the fact that General Fund aid to education will be stabilized will keep General Fund expenditures within this range.

These facts plus the fact that the General Fund is already absorbing the current level of revenue lost as a result of the repealed taxes, indicate that the General Fund will have the continued capacity to absorb this revenue loss.

As a result, beginning in fiscal year 1983 consideration can be given to new or expanded property tax relief programs.

It is the Committee's feeling that first priority for expanded property tax relief programs should be to increase the property tax deduction for senior and disabled citizens. The second priority should be State assumption of county welfare, court and prosecutor's office costs.

REPORT

ON THE

GENERAL FUND

INTRODUCTION

With the exception of casino gambling and income tax revenues, and the proceeds of a number of miscellaneous dedicated accounts, the General Fund is the primary repository of State revenues.

Except for a portion of aid for education, homestead rebates, and the administrative costs associated with collecting the income tax, which are paid from the Property Tax Relief Fund, and expenditures from the Casino Control and Casino Revenue Funds, the major portion of State government expenditures are made from the General Fund.

Although the Tax Reform Package of 1976 was primarily a tax replacement program, it was anticipated that the General Fund would benefit indirectly by stabilizing that portion of school aid that was financed through the General Fund. With school aid held at 1977 levels, it was felt that there would be less expenditure pressure on General Fund revenue sources. It was hoped that the shifting of the allocation of General Fund resources could continue without resorting to the tax rate adjustment patterns, (i.e., nuisance tax increases) experienced over the past ten years.

To date, the indirect benefits to the General Fund have not materialized.

There are a number of reasons for this; they include: the way the total reform package was actually implemented; problems inherent to the sources of revenue that finance the General Fund; and spending pressures generated by certain State programs and operations.

The income tax has not provided sufficient revenues to stabilize the amount of aid to education coming from the General Fund; nor has it been able to replace lost revenue from repealed taxes. Although the income tax definitely increased the elasticity of the overall tax system, revenue sources available to the General Fund remain quite inelastic.[1] Spending pressures, particularly those generated by State employee salary and benefit costs, medical assistance programs and transportation programs have grown faster than the tax structures yield. Although by virtue of the State cap (P.L. 1976, c.67) and the extent to which the Property Tax Relief Fund was able to absorb much of the increased expenditures, the total increase in State spending funded by the General Fund has leveled off from the experience of prior years, as will be shown in detail in this report.

GENERAL FUND - EXPENDITURES

Expenditure Growth Since 1961

In the 1961 fiscal year, General Fund expenditures amounted to $431.78 million. This represented a per capita expenditure of $69.39 and 2.48 percent of the State's total personal income. By 1968, General Fund expenditures had climbed to $1039.086 million, a total increase of 140 percent or a 13.3 percent average annual rate of growth. In

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[1]New Jersey Tax Policy Committee. Part V, <u>Non-Property Taxes in a Fair and Equitable Tax System.</u> Table 5-10, page 12. February 23, 1972, Trenton, New Jersey.

TABLE I

GENERAL FUND EXPENDITURE BENCHMARKS
1961-1977

Year	General Fund Expenditures (Millions)	State Population	Total State Personal Income (Millions)	General Fund Expenditures Per Capita	General Fund Expenditures Per Capita 1967 Dollars[1]	General Fund Expenditures as a Percent of Personal Income (Percent)
1961	$ 431.780	6,222,160	$17,461	$ 69.39	$ 78.76	2.48%
1962	473.734	6,370,650	18,619	74.36	83.18	2.55
1963	526.326	6,503,190	19,573	80.93	88.64	2.69
1964	552.685	6,614,560	20,819	83.56	90.04	2.66
1965	576.435	6,720,300	22,486	85.77	90.97	2.57
1966	649.762	6,821,050	24,254	95.26	97.70	2.68
1967	885.202	6,917,450	26,175	127.97	127.97	3.39
1968	1,039.086	7,012,750	28,589	148.17	142.06	3.64
1969	1,249.952	7,103,310	30,930	175.97	158.82	4.05
1970	1,540.552	7,190,000	33,680	214.26	180.05	4.58
1971	1,694.458	7,290,000	36,181	232.43	184.62	4.69
1972	1,916.609	7,333,000	39,029	261.37	198.91	4.91
1973	2,129.296	7,331,000	42,528	290.45	207.91	5.01
1974	2,419.056	7,329,000	46,321	330.07	213.22	5.22
1975	2,835.542	7,333,000	49,758	386.68	232.10	5.70
1976	2,856.877	7,339,000	54,325	389.27	220.80	5.26
1977	3,034.697	7,329,000	59,999	414.07	223.21	5.06

[1] Expenditures adjusted by using the New York Area Consumer Price Index.

1968, General Fund expenditures amounted to $148.17 per capita and represented 3.64 percent of the State's total personal income. In 1978, the expenditures from the General Fund amounted to $3105.81 million, an increase of 619.3 percent from 1961 and 198.9 from 1968. The average annual growth rate between 1961 and 1977 was 12.3 percent. The average growth rate between 1968 and 1978 was 10.5 percent. In 1977, the last year for which income and population figures are available, expenditures had climbed to $414.07 per capita and represented a total of 5.06 percent of total State personal income. If per capita expenditures are adjusted to reflect the changing value of the dollar,the shift in per capita expenditure is dampened slightly from $78.76 in 1961, to $142.06 in 1968, to $223.21 in 1977. Table I shows the annual increase in expenditures between 1961 and 1977.

Shift in Expenditure Patterns

In 1961, General State Operations represented 42.2 percent of General Fund expenditures, State Aid represented 44.3 percent, Capital Construction represented 10.3 percent and Debt Service represented 3.2 percent. In 1968, State Aid had increased to 49.1 percent and General State Operations had dropped to 38.0 percent. Capital Construction and Debt Service remained essentially the same. State Aid continued to increase as a portion of General Fund expenditures to 1970 when it represented 53.2 percent of the total. By 1978, some dramatic shifts had taken place. General State Operations now represented 51.2 percent, State Aid 42.5 percent, Capital

Construction dropped to 1.5 percent and Debt Service had climbed to 4.1 percent. A major cause of the shift between General State Operations and State Aid within the General Fund is the State Income Tax. Income tax proceeds are accounted for in the Property Tax Relief Fund, not the General Fund. If school aid expenditures from the Property Tax Relief Fund were counted as State Aid, the distribution between General State Operations and State Aid would shift from the present 51.2 percent General State Operations, 42.5 percent State Aid; to 43.5 percent General State Operations, 51.2 percent State Aid. Given the slight increase in Debt Service, the dramatic shift is in Capital Construction, whose share of expenditures dropped from 10.3 percent to 1.5 percent. Although there are numerous reasons for this decline, the primary ones are increased reliance on long-term bonding, the completion of the major portion of the higher education expansion program and pressures exerted by the State's expenditure limitations law. Tables IIa and IIb show the shifts between budget category. Table III shows Bond issues since 1968.

Expenditure Shifts by Department

Between 1968 and 1978, the Departments of Higher Education and Human Services were the only two major State departments to increase their share of total General Fund spending. Although it should be noted that if aid to education financed by the Property Tax Relief Fund were included, the Department of Education would show a substantial

TABLE IIa

MAJOR BUDGET CATEGORIES AS A PERCENT
OF TOTAL GENERAL FUND
1961 to 1978

Fiscal Year	General State Operations	State Aid	Capital Construction	Debt Service
1961	42.2	44.3	10.3	3.2
1962	42.5	43.3	11.1	3.0
1963	41.3	42.8	13.3	2.6
1964	42.7	44.1	10.0	3.2
1965	45.0	43.8	7.9	3.3
1966	43.7	43.7	9.1	3.6
1967	37.6	50.1	9.8	2.5
1968	38.0	49.1	10.6	2.3
1969	36.3	53.0	8.8	1.9
1970	39.0	53.2	6.0	1.8
1971	42.1	50.8	4.7	2.3
1972	42.5	49.9	4.4	3.2
1973	44.2	48.7	3.4	3.7
1974	44.8	47.0	4.4	3.7
1975	44.3	48.9	3.3	3.5
1976	46.1	48.0	1.9	3.9
1977	48.9	44.0	3.1	4.0
1978	51.2	42.5	1.5	4.1

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE IIb

ANNUAL PERCENTAGE INCREASE IN GENERAL FUND EXPENDITURES BY MAJOR BUDGET CATEGORY

1961-1978

Fiscal Year	General State Operations	Capital Construction	Sub-Total GSO/Capital	State Aid	Debt Service	Total General Fund
1962	10.6%	18.4%	12.1%	7.1%	5.9%	9.7%
1963	7.8	33.0	13.0	10.0	(6.1)	11.1
1964	8.8	(21.2)	1.4	8.1	29.1	5.0
1965	9.8	(18.1)	4.5	3.6	10.3	4.3
1966	9.3	29.8	12.3	12.6	20.6	12.7
1967	17.3	47.7	22.5	56.0	(3.4)	36.2
1968	18.7	26.2	20.3	15.1	7.7	17.4
1969	14.8	0.2	11.6	29.9	(1.6)	20.3
1970	32.5	16.3	22.9	23.7	18.4	23.2
1971	18.9	(12.1)	14.7	5.2	38.8	10.0
1972	14.2	5.6	13.3	11.0	56.2	13.1
1973	15.6	(15.4)	12.7	8.4	28.8	11.1
1974	15.1	50.3	17.6	9.6	15.1	13.6
1975	15.7	(13.2)	13.1	22.1	9.7	17.2
1976	5.0	(41.7)	1.8	(1.1)	12.9	0.8
1977	12.6	71.0	14.9	(2.7)	9.1	6.2
1978	8.4	(48.8)	5.0	(1.0)	4.5	2.3
Total Growth Since 1961	782.9	6.8	630.3	590.6	839.8	619.3
Ave. Annual	13.7	0.4	12.4	12.0	14.1	12.3
Total Growth Since 1968	307.7	(56.6)	295.1	158.8	428.4	198.9
Ave. Annual	15.1	(5.5)	14.7	10.0	18.1	10.5

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE III

BOND FUND STATUS

Bond Issue	Authorized	Appropriated	Receipts	Net Disbursed and Obligated	Unob. Balance	Balance to be Appropriated
1968 Transportation						
. Highways	$440,000,000	$440,000,000	$ 20,871,350	$451,404,173	$ 9,467,177	$ 0
. Public Transportation	200,000,000	200,000,000	301,496,354	419,517,298	81,979,056	0
1968 Higher Education	202,500,000	202,500,000	7,536,881	208,053,055	1,983,826	0
1968 Vocational Education	27,500,000	27,500,000	0	27,500,000	0	0
1968 State Institutions						
. Human Services and Corrections	98,705,899	98,705,899	2,801,747	95,872,954	5,634,692	0
. Health	1,294,101	1,294,101	360,000	1,648,957	5,144	0
1968 Public TV	7,500,000	7,500,000	1,452,851	8,704,370	248,481	0
1969 Water Conservation	271,000,000	270,914,158	30,611,567	233,617,239	67,908,486	85,842
1971 Green Acres	80,000,000	80,000,000	11,304,223	85,534,042	5,770,181	0
1971 Higher Education	155,000,000	155,000,000	6,741,612	155,830,068	5,911,543	0
1973 Aid to Severely Handicapped	25,000,000	7,373,615	1,563,034	4,795,827	4,140,822	17,626,385
1974 Green Acres	200,000,000	150,089,893	9,149,279	106,613,913	52,625,259	49,910,107
1968 Housing Assistance	12,500,000	12,500,000	421,034	12,901,556	19,478	0
1976 Mortgage Assistance	25,000,000	17,013,628	4,487,000	21,034,318	466,310	7,986,372
1976 Institutions	80,000,000					0
. Human Services		38,500,000	0	3,204,447	35,295,553	
. Corrections		41,500,000	0	4,795,174	36,704,826	
1976 Clean Waters	120,000,000	107,651,262	2,071,170	89,691,982	20,030,450	12,348,738
1977 Beaches and Harbors	30,000,000	4,003,300	13,986	3,300	4,013,986	25,996,700
1977 Medical Education Facilities	120,000,000	-	-	-	-	25,673,073
1978 Emg. Flood Control	25,000,000	0	0	0	0	25,000,000
1978 Green Acres	200,000,000	0	0	0	0	200,000,000
1978 Institutional Const.	100,000,000	0	0	0	0	100,000,000
1978 Sports Authority Refin.	317,000,000	0	0	0	0	317,000,000

Source: New Jersey State Legislature, Office of Fiscal Affairs, Bond Fund Status Report as of 12-31-78.

increase in its share of total State spending. The portion of General Fund spending for Higher Education and Human Services increased from 11.2 percent and 16.5 percent respectively in 1968 to 13.4 percent and 25.8 percent respectively in 1978. The Department of Transportation showed the greatest drop in portion of total General Fund spending, going from 12.7 percent in 1968 to 7.6 percent in 1978. The Department of Higher Education showed major increases in State Aid and Debt Service budget categories. This reflects the expansion of the county college system and the construction program associated with the growth of the State college system.

The Department of Human Services showed major growth in both the General State Operations and the State Aid portions of the budget. Medical Assistance programs and the shift towards community-based programs account for a large part of this growth.

The Department of Transportation's drop in its share of State spending shows a much more complex picture. The actual overall drop is made even more dramatic by two facts. The first is the increase in the Department's portion of Debt Service from 3.9 percent in 1968 to 37.0 percent in 1978. The second is that although there is little shift between 1968 and 1978 in Transportation State Aid, between 1972 and 1978 there has been roughly a 60 percent drop. Tables IVa through IVd show expenditure shifts between departments between 1968 and 1978.

Expenditure Shifts by Object of Expenditure

Object of expenditure detail is available for the

TABLE IVa

SELECTED DEPARTMENTS AS A PERCENT OF GENERAL STATE OPERATIONS EXPENDITURES (GENERAL FUND ONLY) 1968-1978

Fiscal Year	Education	Higher Education	Transp.	Treasury	Law and Pub. Safety	Human Services	Corrections	All Others
1968	1.5 %	20.9 %	10.7 %	4.7 %	9.6 %	22.1 %	5.1 %	25.3 %
1969	1.5	23.0	9.6	4.7	9.9	21.3	5.1	25.0
1970	1.3	21.6	10.1	4.0	8.5	28.1	4.4	22.0
1971	1.3	22.5	8.0	3.9	8.4	31.0	4.3	20.6
1972	1.2	24.2	7.5	3.7	7.9	31.2	4.4	19.8
1973	1.5	24.6	8.0	3.6	7.2	30.5	4.3	20.3
1974	1.3	24.7	9.4	3.6	6.7	28.8	4.3	21.3
1975	1.4	23.1	10.5	3.3	6.5	29.7	4.1	21.4
1976	1.2	21.4	10.4	3.3	6.5	30.3	4.1	22.8
1977	1.2	20.7	9.4	3.3	6.1	32.5	4.1	23.1
1978	1.5	20.4	8.5	3.0	5.8	30.8	4.3	25.7

GENERAL STATE OPERATIONS EXPENDITURE INCREASES (GENERAL FUND ONLY) SELECTED DEPARTMENTS 1968-1978

									Total GSO
1969	12.9 %	26.0 %	2.4 %	13.3 %	18.4 %	10.4 %	14.2 %	13.6 %	14.8 %
1970	16.8	24.8	39.6	13.9	14.0	74.8	13.4	11.3	32.5
1971	19.0	23.9	(5.7)	15.5	17.0	31.2	17.9	11.2	18.9
1972	5.0	22.5	7.3	9.8	7.8	15.1	15.8	10.0	14.2
1973	43.9	17.8	22.9	11.9	4.4	12.9	13.6	18.5	15.6
1974	2.7	15.5	35.2	12.7	7.2	8.7	13.3	20.7	15.1
1975	22.0	7.9	29.7	8.2	12.8	19.2	12.0	16.5	15.8
1976	(6.3)	(2.5)	3.7	3.3	4.4	7.4	4.7	11.8	5.0
1977	5.9	9.1	1.8	12.7	6.4	20.5	12.9	14.0	12.6
1978	40.3	6.7	1.3	0.4	2.9	2.8	12.7	20.9	8.4
1968-1978	316.0	297.3	221.5	161.3	145.9	467.2	243.7	314.7	307.7

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE IVb

SELECTED DEPARTMENTS AS A PERCENT OF TOTAL STATE AID EXPENDITURES (GENERAL FUND ONLY)

1968-1978

Year	Education	Higher Education	Transp.	Treasury	Human Services	All Others
1968	63.8%	2.1%	1.2%	13.4%	14.8%	4.7%
1969	54.5	2.7	3.3	18.7	17.2	3.7
1970	52.1	2.9	2.7	17.7	19.0	5.6
1971	53.2	2.5	2.6	17.6	19.9	4.2
1972	50.6	2.9	3.1	17.9	20.5	5.1
1973	53.1	2.9	2.7	17.1	19.7	4.5
1974	55.0	3.0	2.6	15.9	18.2	5.4
1975	58.7	2.3	1.9	14.0	17.8	5.1
1976	58.8	2.5	1.9	13.1	19.2	4.6
1977	57.2	2.8	1.0	13.2	20.9	4.9
1978	57.6	3.8	0.9	10.2	22.5	5.0

ANNUAL PERCENTAGE INCREASES IN STATE AID EXPENDITURES (GENERAL FUND ONLY)

1968-1978

							Total State Aid
1969	10.9%	66.2%	243.1%	81.4%	51.4%	11.6%	29.9%
1970	18.4	33.3	1.6	17.4	36.4	87.2	23.7
1971	7.1	(9.1)	3.0	3.8	10.4	(20.9)	5.0
1972	5.6	26.9	29.9	13.4	10.1	34.0	12.0
1973	13.9	9.0	(4.6)	3.5	4.4	(4.5)	8.4
1974	13.4	14.0	4.2	2.0	1.4	29.5	9.6
1975	30.5	(5.9)	(9.4)	7.5	19.6	19.2	22.1
1976	(1.1)	7.6	(4.0)	(7.8)	6.3	(12.7)	(1.1)
1977	(5.3)	8.8	(47.4)	(1.7)	6.0	3.3	(2.7)
1978	(0.3)	32.0	(12.0)	(23.3)	6.4	2.6	(1.0)
1968-1978	133.8	361.7	87.0	97.6	293.8	175.0	158.8

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE IVc

SELECTED DEPARTMENTS AS A PERCENT OF TOTAL CAPITAL CONSTRUCTION EXPENDITURES (GENERAL FUND ONLY)

1968-1978

Year	Higher Education	Transportation	Human Services & Corrections	All Others
1968	12.8%	74.9%	6.1%	6.2%
1969	16.5	73.8	3.0	6.7
1970	22.3	63.3	5.1	9.3
1971	12.4	80.6	1.3	5.7
1972	15.0	71.5	2.7	10.8
1973	7.4	75.0	3.6	14.0
1974	6.6	71.1	11.9	10.4
1975	2.7	71.4	9.8	16.1
1976	7.0	82.9	5.5	4.6
1977	0.3	93.2	6.4	0.1
1978	10.7	84.6	0	4.7

ANNUAL PERCENTAGE INCREASES (DECREASES) CAPITAL CONSTRUCTION EXPENDITURES (GENERAL FUND ONLY)

1968-1978

				Total Capital Construction
1969	28.6%	(1.3)%	(49.7)%	0.2%
1970	13.4	(28.3)	38.9	16.3
1971	(51.6)	11.1	(77.4)	(12.1)
1972	28.3	(6.4)	115.6	5.6
1973	(58.2)	(11.2)	13.7	(15.4)
1974	32.9	42.5	398.7	50.3
1975	(64.6)	(12.8)	(28.3)	(13.2)
1976	52.5	(32.3)	(67.6)	(41.7)
1977	(93.5)	92.2	102.1	71.0
1978	1,930.0	(53.5)	(100.0)	(48.8)
1968-1978	(63.9)	(51.1)	(100.0)	(56.6)

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE IVd

SELECTED DEPARTMENTS AS A PERCENT OF TOTAL DEBT SERVICE EXPENDITURES (GENERAL FUND ONLY)

1968-1978

Year	Higher Education	Transportation	Human Services and Corrections	All Others
1968	37.3%	3.9%	28.1%	30.6%
1969	40.9	4.0	23.1	32.0
1970	39.1	13.9	20.4	26.6
1971	32.6	26.6	16.3	24.6
1972	30.5	33.2	14.8	21.5
1973	28.6	36.1	13.4	22.0
1974	28.2	38.0	13.3	22.5
1975	29.8	37.2	12.3	20.0
1976	26.1	38.0	11.8	24.2
1977	24.7	37.0	10.9	27.4
1978	24.9	37.0	10.8	27.2

ANNUAL PERCENTAGE INCREASES (DECREASES) DEBT SERVICE EXPENDITURES (GENERAL FUND ONLY)

1968-1978

				Total Debt Service
1969	7.9%	(0.6)%	(19.0)%	(1.6)%
1970	13.2	313.8	4.5	18.4
1971	15.7	166.1	10.5	38.8
1972	46.2	95.1	41.6	56.2
1973	20.7	40.0	16.6	28.8
1974	13.5	20.9	14.8	15.1
1975	16.4	7.4	1.2	9.7
1976	(1.3)	15.3	7.7	12.9
1977	3.3	6.2	1.8	9.1
1978	5.5	4.6	3.3	4.5
1968-1978	253.4	4,868.3	103.2	428.4

Source: New Jersey Department of Treasury, percentages calculated by Committee.

years 1973 to 1979. Within the General State Operations category, Employee Benefits, Public Transportation and Medical Assistance programs have grown faster than other programs. In 1968, Public Transportation and Medical Assistance accounted for 2.6 percent and 15.4 percent of the General State Operations budget, respectively. By 1978, these portions had grown to 3.5 percent and 17.5 percent, respectively.

However, by far the most important component of General State Operations spending has been, and it appears as though it will be in the future, Salaries and Employee Benefits. Their combined share of General State Operations spending in fiscal year 1979 is 48.8 percent, up from 47.2 percent in 1973. As the table below shows, the number of State employees is growing at a rate of roughly 2,000 per year and the average rate of compensation per employee is growing at an average annual rate of 7.3 percent.

	Total Salary and Benefits	Total Number of Employees	Average Salary & Benefits	Benefits As a Percent of Total
1968	$251,443,000	39,939	$ 6,296	15.2
1978	783,199,000	61,537	12,727	23.8
Total Increase	211.5%	21,598	102.1%	
Average Annual	12.0%	2,160	7.3%	

The major shift in state aid expenditures has been in the locally-shared taxes program which increased from 5.5 percent in 1973 to 11.6 percent in 1979. The drop in the Highways category from 3.0 percent to 1.0 percent has had a very real impact on the Transportation budget but does not involve the same large sums of money that other programs do. Other than these shifts, the program distribution with State aid has remained quite constant. Tables Va through Vd show the shift in object of expenditures between 1973 and 1979.

GENERAL FUND - REVENUES

Because of the Constitutional requirement for a balanced State budget, State revenues have, of necessity, increased at a rate commensurate with State spending. However, revenues have kept pace with spending only by raising taxes. In the ten-year period between 1968 and 1978, there have been five major tax increases.[2]

Since State spending was increasing at a rate considerably faster than the State's economy was growing, many

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[2]

1968	P.L.1968, c. 51	- Cigarette Tax increase from 11¢ to 14¢ per pack.
	P.L.1968, c.112	- Corporation Business Tax increase from $3\frac{1}{4}$ to $4\frac{1}{4}$ percent.
	P.L.1968, c.111	- Motor Fuels Tax increase from 6¢ to 7¢ per gallon.
1969	P.L.1969, c. 52	- Alcoholic Beverages Tax increase from $1.80 to $2.30 per gallon.
1970	P.L.1970, c. 7	- Sales Tax increase from 3 percent to 5 percent.
1972	P.L.1972, c. 53	- Alcoholic Beverages Tax increase from $2.30 to $2.80 per gallon.
	P.L.1972, c. 24	- Cigarette Tax increase from 14¢ to 19¢ per pack.
	P.L.1972, c. 25	- Corporation Business Tax increase from $4\frac{1}{4}$ to $5\frac{1}{2}$ percent.
	P.L.1972, c. 26	- Motor Fuels Tax increase from 7¢ to 8¢ per gallon.
1975	P.L.1975, c.172	- New Capital Gains and Unearned Income Tax instituted.
	P.L.1975, c.162	- Corporation Business Tax increase from $5\frac{1}{2}$ to $7\frac{1}{2}$ percent.

TABLE Va

OBJECT OF EXPENDITURE AS A PERCENT OF TOTAL
GENERAL STATE OPERATIONS
1973-1979

	FY 1973 Expend.	FY 1974 Expend.	FY 1975 Expend.	FY 1976 Expend.	FY 1977 Expend.	FY 1978 Est. Expend.	FY 1979 Appropriated
Salaries	39.2%	38.4%	37.5%	37.3%	36.5%	36.0%	36.3%
Employee Benefits	8.0	8.8	9.0	10.4	10.9	11.3	12.5
Materials and Supplies	3.9	4.1	4.4	4.7	4.6	4.4	4.3
Services Other Than Personal	5.6	5.1	5.8	6.2	5.5	5.6	5.5
Maintenance	2.0	1.8	1.7	1.7	2.0	2.1	1.8
Additions and Improvements	0.7	0.7	0.5	0.4	0.5	0.7	0.3
Rutgers	6.7	6.5	6.2	6.3	6.1	6.1	5.8
College of Medicine and Dentistry	3.4	3.5	3.4	3.2	3.1	3.1	3.0
Adjusted Scholarships and Loans	3.4	2.6	2.3	2.1	2.0	2.1	2.2
Aid to Independent Colleges	0.8	0.9	0.8	0.6	0.7	0.7	0.7
Higher Education by Contract	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Public Transportation	2.6	3.9	5.6	5.7	4.5	3.7	3.5
Medical Assistance	15.4	15.8	15.9	17.1	18.0	17.3	17.5
Other, Adjusted	7.9	7.4	6.3	3.6	4.8	6.2	5.9

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE Vb

ANNUAL PERCENTAGE INCREASES - GENERAL STATE OPERATIONS, OBJECT OF EXPENDITURE
1973-1979

	1974 Expend.	1975 Expend.	1976 Expend.	1977 Expend.	1978 Est. Expend.	1979 Approp.	1973-1979
Salaries	13.1%	12.2%	(0.3)%	8.5%	11.7%	9.3%	67.6%
Employee Benefits	26.3	17.9	15.0	17.1	16.8	20.3	181.5
Materials and Supplies	22.5	21.7	6.8	9.5	8.5	4.7	98.1
Services Other Than Personal	3.9	31.9	7.5	(1.6)	14.7	7.6	78.8
Maintenance	6.6	6.5	(0.8)	30.8	22.9	(10.0)	62.9
Additions and Improvements	15.8	(11.6)	(22.2)	37.4	48.6	(47.6)	(14.8)
Rutgers	12.3	8.9	2.1	6.7	12.7	3.1	54.9
College of Medicine and Dentistry	18.9	12.4	(5.2)	7.4	13.3	4.0	61.7
Adjusted Scholarships and Loans	(0.7)	(1.0)	(8.7)	9.8	14.9	13.5	28.7
Aid to Independent Colleges	25.9	(1.3)	(24.3)	24.6	27.3	7.5	60.3
Higher Education by Contract	18.2	5.6	7.1	9.2	20.0	5.0	83.6
Public Transportation	78.5	63.1	2.1	(12.7)	(7.4)	3.5	149.0
Medical Assistance	18.6	15.7	8.2	16.6	8.7	9.9	106.0
Other Adjusted	9.4	(3.5)	(42.8)	48.8	46.9	2.8	35.7
TOTAL	15.1	15.7	5.0	12.6	8.4	8.4	81.2

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE Vc

OBJECT OF EXPENDITURE AS A PERCENT OF TOTAL STATE AID
1973-1979

	FY 1973 Expend.	FY 1974 Expend.	FY 1975 Expend.	FY 1976 Expend.	FY 1977 Expend	FY 1978 Est. Expend.	FY 1979 Appropriated
Education	59.5%	61.7%	65.2%	66.1%	65.1%	57.0%	56.8%
Higher Education	3.2	3.4	2.7	2.8	3.1	3.7	3.5
Welfare	20.2	18.5	18.1	18.9	20.7	20.2	18.6
Highways	3.0	2.9	2.1	2.1	1.3	0.9	1.0
Health	2.5	2.4	2.1	2.9	2.2	3.2	2.8
Locally Shared Taxes	5.5	5.1	4.2	1.8	1.8	8.7	11.6
Other	6.0	6.0	5.6	5.4	5.8	6.3	5.6

Source: New Jersey Department of Treasury, percentages calculated by Committee.

TABLE Vd

ANNUAL PERCENTAGE INCREASES - STATE AID, OBJECT OF EXPENDITURE
1973-1979

	1974	1975	1976	1977	1978 Est. Expend.	1979 Approp.	1973-1979
Education	13.1%	30.5%	(1.1)%	(5.4)%	(0.4)%	6.9%	47.1%
Higher Education	14.0	(2.6)	4.0	4.0	38.1	1.1	67.6
Welfare	0.3	20.4	2.0	5.1	11.0	(0.9)	42.4
Highways	4.2	(9.2)	(4.0)	(40.5)	21.7	16.1	(50.8)
Health	3.7	11.5	31.8	(26.3)	63.3	(5.0)	74.2
Locally Shared Taxes	0.5	2.2	(58.8)	(1.5)	444.5	42.9	222.9
Other	8.5	16.1	(7.1)	3.9	23.7	(4.4)	43.7
TOTAL STATE AID	9.6	22.1	(1.1)	(2.7)	(1.0)	7.2	54.1

Source: New Jersey Department of Treasury, percentages calculated by Committee.

of these tax increases were unavoidable. However, as State expenditure increases begin to more closely follow the growth in State personal income, there are indications that rate increases may still be necessary for revenues to keep pace with expenditures. Ironically, this is true even as the total State revenue system has become more elastic with the imposition of the State Gross Income Tax.

The problem with the State tax system is its relative inelasticity. In 1968, three taxes, the Alcoholic Beverages Tax, the Cigarette Tax and the Motor Fuels Tax accounted for 30.4 percent of State revenues. By 1974, these taxes had dropped to 24.1 percent of State revenue and by 1977 they accounted for only 16.0 percent of State revenue. Further, between 1974 and 1978, the total revenue yield from these sources grew by 5.6 percent or about 1.4 percent annually. As noted previously, the imposition of the income tax has increased the elasticity of the State's tax systems. However, income tax revenues are not available for General Fund purposes. The General Fund revenue picture becomes even bleaker if the Business Personal Property Tax and Motor Vehicle fees are included. Since new purchases of equipment and machinery are not included in the Business Personal Property Tax base, revenue from this source will slowly decline and the shift to smaller and lighter cars means that Motor Vehicle fees, which are based on gross vehicle weight, will exhibit minimal growth.[3]

[3]It should be noted that P.L.1979, c.3 changed the automobile registration fee schedule to lessen the fee differential between lighter and heavier vehicles. The impact of this legislation will be to prevent an actual decline in motor vehicle revenues as more people switch to smaller and lighter cars.

The significance of this to the General Fund is illustrated by the fact that these five revenue sources represent about 28 percent of total General Fund revenues.

Table VI shows major State revenue sources between 1968 and 1978. As the table indicates, even those revenue sources that do demonstrate a degree of elasticity such as, the Sales and Use Tax, the Corporate Business Tax and the Transfer Inheritance Tax, do not demonstrate sufficient growth to offset those sources of revenue whose growth has basically stagnated.

In the 1968 to 1978 period, federal aid has been a significant source of funds for program expansion. As Table VII showsfederal aid is decreasing as a percent of total revenue. The limited growth of federal aid and the possibility that State government will no longer receive General Revenue Sharing funds will further complicate the problem of total revenue growth.

INTERSTATE COMPARISONS

Expenditures

Between 1961 and 1977, General Fund expenditures in New Jersey grew from \$69.39 per capita and 2.5 percent of total State personal income to \$414.07 per capita and 5.1 percent of total State personal income. For the nation as a whole during the comparable period, (1961 to 1976 actually), State government expenditures went from \$155 per capita and 6.8 percent of total national personal income to \$630 per capita and 9.8 percent of total national personal income.

TABLE VI

MAJOR STATE REVENUE SOURCES
1968-1978

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978 Est.
Alcoholic Beverages Tax ($000s)	33,608.1	36,033.3	42,474.5	43,512.9	45,371.9	49,914.1[1]	56,780.7	54,663.3	55,355.5	53,825.4	54,927.4
% of Total Revenue	3.5%	3.1%	3.2%	2.9%	2.8%	2.6%	2.8%	2.6%	2.3%	1.7%	
% Increase Over Prior Year		7.2	17.9	2.4	4.3	10.0	13.8	(3.7)	1.3	(2.8)	2.0
Business Personal Property Tax ($000s)	21,734.2	41,950.3	45,842.5	50,843.8	53,449.3	57,777.9	64,273.8	70,522.3	77,979.5	80,491.1[1]	81,176.2
% of Total Revenue	2.3%	3.6%	3.5%	3.4%	3.3%	3.0%	3.1%	3.3%	3.2%	2.5%	
% Increase Over Prior Year		93.0	9.3	11.0	5.1	8.1	11.2	9.7	10.6	3.2	0.8
Cigarette Tax ($000s)	100,620.8	116,940.5	117,921.9	123,500.9	134,274.8	165,047.3[1]	167,754.4	167,006.7	168,002.3	168,841.3	170,088.4
% of Total Revenue	10.5%	10.0%	8.9%	8.3%	8.4%	8.7%	8.2%	7.9%	6.9%	5.3%	
% Increase Over Prior Year		16.2	0.8	5.0	8.7	22.9	1.6	(0.4)	0.6	0.5	0.7
Corporation Business Tax ($000s)	123,479.6	207,223.4[1]	221,812.9	162,293.1	174,243.0	249,642.0	281,999.2	313,757.1	399,036.6[1]	462,368.2	497,850.8
% of Total Revenue	13.0%	17.7%	16.7%	10.9%	10.8%	13.1%	13.8%	14.8%	16.4%	14.4%	
% Increase Over Prior Year		67.8	7.0	(25.2)	7.4	43.3	13.0	11.3	27.2	15.9	7.7
Insurance Premiums Tax ($000s)	31,440.7	33,545.4	34,690.2	43,283.8	46,486.1	48,441.3	49,459.6	51,799.5	57,769.1	70,593.5	71,715.5
% of Total Revenue	3.3%	2.9%	2.6%	2.9%	2.9%	2.5%	2.4%	2.5%	2.4%	2.2%	
% Increase Over Prior Year		6.7	3.4	24.8	7.4	4.2	2.1	4.7	11.5	22.2	1.6
Motor Fuels Tax ($000s)	156,136.9	187,392.3[1]	199,599.1	210,755.3	224,914.6	268,354.0[1]	268,488.2	272,474.7	281,501.5	288,817.8	295,743.2
% of Total Revenue	16.4%	16.0%	15.1%	14.2%	14.0%	14.1%	13.1%	12.9%	11.6%	9.0%	
% Increase Over Prior Year		20.0	6.5	5.8	6.7	19.3	0.1	1.5	3.3	2.6	2.4
Motor Vehicle Fees ($000s)	99,860.0	122,229.5	130,232.4	134,880.1	141,290.7	156,832.0	160,195.2	162,332.5	194,659.5	223,058.9	236,179.9
% of Total Revenue	10.5%	10.4%	9.8%	9.1%	8.8%	8.2%	7.8%	7.7%	8.0%	7.0%	
% Increase Over Prior Year		22.4	6.5	3.6	4.8	11.0	2.1	1.3	19.9	14.6	5.9
Public Utilities Excise Tax ($000s)	16,410.2	17,445.9	18,822.2	30,648.2[1]	24,624.5	27,147.3	30,319.7	37,720.4	44,171.8	50,014.5	55,315.3
% of Total Revenue	1.7%	1.5%	1.4%	2.1%	1.5%	1.4%	1.5%	1.8%	1.8%	1.6%	
% Increase Over Prior Year		6.3	7.9	62.9	(19.7)	10.2	11.7	24.4	17.1	13.6	10.6
Sales and Use Tax ($000s)	238,208.4	264,902.2	355,613.5[1]	521,686.0[1]	579,552.2	681,937.9[1]	735,064.6	770,380.7	829,483.1	905,149.4	1,003,034.3
% of Total Revenue	25.0%	22.6%	26.8%	35.2%	36.0%	35.1%	36.0%	36.4%	34.2%	28.3%	
% Increase Over Prior Year		11.2	34.2	46.7	11.1	17.7	7.8	4.8	7.7	9.1	10.8
Transfer Inheritance Tax ($000s)	55,790.6	63,176.3	66,651.0	65,061.7	75,673.1	75,426.0	87,159.7	81,359.7	79,933.8	85,497.2	96,056.9
% of Total Revenue	6.3%	5.3%	5.0%	4.4%	4.7%	4.0%	4.3%	3.9%	3.3%	2.7%	
% Increase Over Prior Year		13.2	5.5	(2.4)	16.3	(0.3)	15.6	(6.7)	(1.8)	7.0	12.4
All Other ($000s)	75,539.7	82,245.7	91,687.1	104,638.2	109,906.2	128,029.1	140,643.0	133,556.8	238,796.4[2]	813,702.8[2]	-
% of Total Revenue	7.9%	7.0%	6.9%	7.0%	6.8%	6.7%	6.9%	6.3%	9.8%	25.4%	-
% Increase Over Prior Year		8.9	11.5	14.1	5.3	16.5	9.9	(5.0)	78.8	240.8	-
Total Major State Revenue Sources ($000s)	952,829.2	1,173,084.8	1,325,347.3	1,491,104.0	1,609,786.4	1,908,548.9	2,042,138.1	2,115,573.7	2,426,689.1	3,202,360.1	-
% Increase Over Prior Year		23.1%	13.0%	12.5%	8.0%	18.6%	7.0%	3.6%	14.7%	32.0%	-
Total State Revenue ($000s) (Budget Document, General Revenues Anticipated and Budgeted-Consolidated Summary Exhibit "B")	967,297.5	1,170,962.3	1,331,138.1	1,511,301.5	1,627,347.4	1,941,070.2	2,100,604.6	2,141,199.3	2,429,882.3	3,239,852.3	-
% Increase Over Prior Year		21.1%	13.7%	13.5%	7.7%	19.3%	8.2%	1.9%	13.5%	33.3%	-
Fiscal Year	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978

1 - Reflects change in Tax Rate or Tax Base.
2 - Major Increases Resulting From the Capital Gains and Unearned Income Tax-1976 and Gross Income Tax-1977.

Source: Annual Reports of the Division of Taxation, 1968-1977.

TABLE VII

FEDERAL AID RECEIVED BY NEW JERSEY STATE GOVERNMENT
1970-1979

	Actual 1970	Actual 1971	Actual 1972	Actual 1973	Actual 1974	Actual 1975	Actual 1976	Actual 1977	Estimated 1978	Estimated 1979	Percent Change 1970-1979
General State Fund (000s)											
Total Revenues	$1,937,997	$2,287,374	$2,421,890	$2,968,226	$3,238,155	$3,460,867	$3,945,204	$5,072,237	$5,327,251	$5,639,420	
% Change		18.0	5.9	22.6	9.1	6.9	14.0	28.6	5.0	5.7	191.0
Total Expenditures[1]	1,958,505	2,307,742	2,687,215	2,950,611	3,396,937	3,880,615	4,060,323	4,888,923	5,507,589	5,893,897	
% Change		17.8	16.4	9.8	15.1	14.2	4.6	20.4	12.7	7.0	200.9
Federal Aid											
Budgeted	19,896	34,795	37,150	40,195	58,786	52,171	(2)	(2)	(2)	(2)	
Non-Budgeted	428,682	566,140	568,741	790,601	832,211	1,002,307					
Total	$ 448,578	$ 600,935	$ 605,891	$ 830,796	$ 890,997	$1,054,478	$1,014,173	$1,291,491	$1,292,425	1,334,517	
% Change											197.5
Major Federal Aid Categories											
Education	$ 71,348	$ 90,457	$ 106,869	$ 117,343	$ 120,214	$ 148,581	$ 152,856	$ 197,059	$ 193,686	$ 233,002	226.6
Transportation	146,791	137,004	4,340	143,717	137,249	162,103	53,543	203,254	170,649	170,952	16.5
I & A	193,914	327,480	414,505	430,192	453,389	554,360	584,391[3]	642,363[3]	664,170[3]	708,091[3]	265.2
L & I	12,008	13,680	25,110	80,391	86,183	88,565	102,436	109,635	127,565	105,425	778.0
Major Categories as % of Total Federal Aid	94.5									91.2	
Federal Aid as a % of Total Revenue	23.1	26.3	25.0	28.0	30.0	29.0	30.5	25.7	24.3	23.7	

Notes:

[1]When total expenditures exceed total revenues for a given year, inter-fund transfers and other adjustments make up the difference.

[2]Beginning in FY 1976, Federal Aid was provided as a total figure, not broken out into budgeted, non-budgeted.

[3]Beginning in FY 1976, Institutions and Agencies was split into Human Services and Corrections, the figure given is the combined Human Services, Corrections total.

Source: New Jersey State Legislature, Office of Fiscal Affairs.

Although State expenditures in New Jersey grew at a faster rate than did State government, nationwide, New Jersey State Government remained considerably below the national average.

A more detailed comparison of expenditure patterns between selected states has been drawn together for the 1976 fiscal year. As Table VIII shows, New Jersey remains below the national average for all items of expenditure. Only in the area of long-term full faith and credit debt per capita is New Jersey above the national average. And if New Jersey's debt is related to State personal income or assessed value of its real property, New Jersey is below the national average.[4]

If expenditures are related to State personal income, New Jersey drops even further below national expenditure norms. An interesting point is illustrated when total State expenditure measures are related to total State and local expenditure measures. Although New Jersey is below the national average in both categories, New Jersey State and local expenditure totals are much closer to the national average than are the State totals alone.

When the comparisons are limited to the more industrialized states, particularly those in the Northeast, New Jersey's frugality stands out even more. Of the industrialized states, only Ohio and Connecticut spend less per capita for State and local government combined. None of the industrialized states spends less as a percent of personal income on State

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[4] The Governor's Commission to Evaluate the Capital Needs of New Jersey. Pages 60 and 61. April 1975, Trenton, New Jersey.

TABLE VIII

INTERSTATE EXPENDITURE COMPARISONS
SELECTED ITEMS, SELECTED STATES - 1976

	California	Connecticut	Georgia	Massa-chusetts	Michigan	New Jersey	New York	North Carolina	Ohio	Pennsylvania	Texas	National
State Population-July 1, 1976 (prov.) 000s	21,520	3,117	4,970	5,809	9,104	7,336	18,084	5,469	10,690	11,862	12,487	213,957
State Personal Income 1976 ($ Millions)	153,892	22,929	27,576	38,272	61,485	54,152	126,925	29,821	68,541	76,385	77,436	1,367,849
Per Capita Personal Income	7,151	7,356	5,548	6,588	6,754	7,381	7,019	5,453	6,412	6,439	6,201	6,393
Total State General Expenditures ($ Millions)	17,062.8	2,003.4	2,857.6	4,436.6	6,819.1	4,509.9	17,719.2	3,718.9	5,886.6	8,696.7	6,830.9	153,689.9
Per Capita	792.88	647.73	574.96	763.74	749.03	614.76	979.83	680.00	550.66	733.16	547.04	718.32
As a Percent of Personal Income	11.1	8.7	10.4	11.6	11.1	8.3	14.0	12.5	8.6	11.4	8.8	11.2
Direct General Expenditure of State and Local Government ($ Millions)	30,733.6	3,403.2	4,825.4	7,309.8	11,903.7	8,800.8	31,383.1	5,062.4	11,029.8	13,205.1	11,982.2	255,551.3
Per Capita	1,428.14	1,091.82	970.90	1,258.36	1,307.52	1,199.67	1,735.41	925.65	1,031.79	1,113.23	959.57	1,194.41
As a Percent of Personal Income	20.0	14.8	17.5	19.1	19.4	16.3	24.7	17.0	16.1	17.3	15.5	18.7
State General Expenditures for:												
Education ($ Millions)	6,401.7	633.8	1,229.1	1,262.3	2,533.3	1,360.5	5,342.8	1,832.3	2,305.8	3,137.2	3,577.2	59,630.0
Per Capita	297.48	203.35	247.30	217.30	278.27	185.45	295.45	335.03	215.69	264.47	286.48	278.70
Public Welfare ($ Millions)	4,490.4	394.5	480.8	1,292.6	1,891.6	1,059.5	4,255.5	388.8	1,109.7	1,981.7	1,058.1	29,633.3
Per Capita	208.66	126.55	96.74	222.51	207.78	144.42	235.32	71.10	103.81	167.06	84.74	138.50
Highways ($ Millions)	1,159.5	190.6	384.2	342.7	738.9	357.5	781.5	503.9	696.1	1,150.3	753.6	18,100.5
Per Capita	53.88	61.14	77.30	58.99	81.16	48.73	43.21	92.14	65.12	96.98	60.35	84.60
Health and Hospitals ($ Millions)	866.7	168.0	247.2	324.9	474.4	300.6	1,625.6	306.5	418.6	699.6	549.8	11,110.7
Per Capita	40.27	53.91	49.73	55.93	52.11	40.97	89.89	56.04	39.16	58.98	44.03	51.93
Long Term Full Faith and Credit Debt ($ Millions)	5,621.6	2,415.5	327.6	2,993.4	573.5	1,523.3	3,572.0	564.4	1,946.6	3,455.4	826.4	38,421.3
Per Capita	261.23	774.95	65.91	515.30	62.99	207.64	197.52	103.20	182.09	291.30	66.18	179.58
Full Time Equivalent Employees	221,726	40,267	74,129	68,257	109,493	71,401	185,376	84,300	99,431	129,986	159,243	2,799,095
Per 10,000 Population	103	129	149	118	120	97	103	154	93	110	128	130

Source: Facts and Figures on Government Finance, 19th Biannual Edition 1977. The Tax Foundation Inc.

general expenditures than does New Jersey. Although the imposition of the income tax changes the picture slightly, New Jersey still remains below the national average for State expenditures and falls just behind Ohio and Connecticut among the industrialized states.

Revenues

The National Institute of Education conducted a follow-up study to the Advisory Commission on Intergovernmental Relations' study, "Measures of State and Local Fiscal Capacity." The Institute's study entitled, "Tax Wealth in Fifty States" compared the economies of each state to a model national tax structure. By doing this, they were able to obtain a measure of each state's revenue raising potential, both in total and by specific revenue source. They then compared actual revenue collections in each state to get a measure of tax effort. Although any attempt to conduct such a study is fraught with problems of data adequacy and definition, it does provide a basis by which to compare New Jersey tax system to other states.

Table IX shows this comparison with selected other states. Since the study was conducted in 1975, New Jersey figures had to be adjusted to reflect the income tax. The adjusted figures indicate that New Jersey is collecting about 107 percent of its revenue potential. This is compared to the 99 percent figure in the pre-income tax year of 1975. If, however, the homestead rebate is netted out, the percentage of potential collected drops to 102 percent.

New Jersey percentage is considerably below California

TABLE IX

INTERSTATE COMPARISONS
STATE AND LOCAL TAX COLLECTIONS
PERCENT OF REVENUE BY SOURCE, CAPACITY AND EFFORT BY SOURCE
SELECTED STATES - 1975

		General Sales	Selective Sales and Gross Receipts	Licenses	Individual Income	Corporation Net Income	Property	Death and Gift	Severance	Total
California	% of Revenue	22.9%	8.9%	2.1%	13.7%	7.0%	44.0%	1.3%	0.1%	
	Capacity/Effort	110-129	103-81	99-69	107-107	99-191	119-130	138-123	48-4	110-120
Connecticut	% of Revenue	19.9%	16.8%	2.8%	0.6%	6.6%	51.0%	2.2%	0	
	Capacity/Effort	95-106	91-140	105-69	132-3	142-102	123-118	179-126	4-0	113-95
Georgia	% of Revenue	25.2%	19.4%	2.3%	15.3%	4.9%	32.8%	0.2%	0	
	Capacity/Effort	94-97	103-102	99-43	77-98	60-130	89-75	78-19	22-0	88-87
Massachusetts	% of Revenue	5.5%	10.3%	1.4%	21.3%	5.8%	54.3%	1.3%	0	
	Capacity/Effort	94-34	96-93	91-46	102-166	76-194	95-188	134-118	3-0	94-131
Michigan	% of Revenue	19.0%	11.7%	5.8%	16.1%	3.6%	43.2%	0.6%	0.1%	
	Capacity/Effort	95-100	103-85	95-153	104-104	97-81	106-114	71-83	47-13	101-105
New Jersey	% of Revenue	14.8%	16.0%	4.9%	0.9%	3.9%	58.0%	1.6%	0	
	Capacity/Effort	96-80	103-121	104-124	125-5	105-85	123-139	119-143	6-0	111-99
New York	% of Revenue	19.4%	10.0%	2.1%	25.0%	5.4%	37.3%	0.8%	0	
	Capacity/Effort	93-152	93-117	87-87	109-226	157-109	104-147	111-109	7-0	102-152
North Carolina	% of Revenue	21.0%	20.4%	4.9%	21.3%	6.5%	24.9%	1.1%	0	
	Capacity/Effort	85-86	105-102	99-87	73-138	67-146	83-59	65-118	10-0	84-88
Ohio	% of Revenue	17.5%	15.6%	6.3%	16.9%	4.7%	38.5%	0.4%	0.1%	
	Capacity/Effort	101-67	97-93	102-120	103-85	100-80	107-78	95-36	37-12	102-80
Pennsylvania	% of Revenue	18.4%	16.5%	6.1%	20.6%	8.7%	27.9%	1.8%	0	
	Capacity/Effort	92-85	90-118	96-138	100-119	108-151	94-72	81-198	80-0	94-96
Texas	% of Revenue	24.9%	16.8%	7.5%	0	0	38.9%	0.8%	11.1%	
	Capacity/Effort	104-87	106-86	101-136	103-0	185-0	105-75	90-65	452-147	113-68
United States - Total	% of Revenue	35.2%		6.3%	15.2%	4.7%	36.4%	1.0%	1.2%	
New Jersey Adjusted for Income Tax[1]										
	% of Revenue	13.7%	14.8%	4.5%	9.5%	3.3%	52.8%	1.5%	0	
	Capacity/Effort	96-80	103-121	104-124	125-58	105-76	123-136	119-143	6-0	111-107

[1] To relate the current New Jersey Revenue Structure, which now includes a Gross Income Tax, to the National Institute of Education Study, which used Fiscal Year 1975 as a base year for the interstate comparison, New Jersey Tax Collections were adjusted for the estimated impact that 1976 Income Tax package would have had on 1975 tax receipts.

Source: Tax Wealth in Fifty States. The National Institute of Education. 1978, Washington, D.C.

(pre-proposition 13), Massachusetts and New York; about the same as Connecticut and Pennsylvania; and higher than Texas, Ohio, North Carolina and Georgia.

When individual taxes are examined, it is found that New Jersey collects less than its potential from corporation net income taxes, the general sales tax and the individual income tax. It collects more than its defined potential from the property tax, selective sales and gross receipts taxes, license fees, and death and gift taxes.

Among the states selected for comparison, New Jersey no longer demonstrates the greatest reliance on property taxes, as Massachusetts now leads that category. New Jersey does, however, have the lowest reliance on corporation net income taxes as a source of revenue.

GENERAL FUND - PROJECTIONS THROUGH THE MID 1980s

Expenditures

Projecting expenditures with any degree of reliability is virtually impossible. Although public finance literature contains a number of econometric models that purport to predict levels of government expendture, none of these models has any practical value to those who must face the realities of budget decision making. For the most part, the models attempt to relate government expenditures to some economic indicator. In actuality, the factors that determine State government expenditures are so complex and dynamic that attempts to project a rate of growth or a future dollar demand are futile.

However, an examination of current activities, the demand for future government action and the state of the economy can provide clues as to where the pressures for expenditures may come.

Salaries and Employee Benefits. Salaries and employee benefits make up to 48.8 percent of General State Operations expenditures, or apparently 25 percent of all General Fund Expenditures. Over the past ten years, total salaries and benefits have increased at an average annual rate of 12 percent, although the average per employee salary and benefit total has only increased by an average annual rate of 7.3 percent.

Controlling salary and employee benefits will be a major factor in the State's efforts to keep expenditures within available revenues.

State Aid Accounts. State aid totals about 42.5 percent of all General Fund expenditures. Although State aid has grown at an average annual rate of 10 percent over the past ten years, the growth has been negative in the past few years.

To some extent, State aid is totally controllable. The State merely has to shift the cost to subordinate units of government. However, local cap legislation has made local units of government acutely aware of the costs of State mandates. As these mandates consume increasingly greater portions of the local cap leeway, considerable pressure will be generated for the State to expand State aid accounts.

When coupled with the stated desire for less reliance on property taxes, the pressure for more State aid may be the largest problem facing the General Fund.

<u>Medical Assistance.</u> Medical assistance payments consume 17.5 percent of General State Operations expenditures. They are one of the fastest growing segments of the General Fund having increased by 106 percent over the past ten years.

Controlling medical costs is the key to controlling medical assistance payments. Although in general, New Jersey appears to be controlling these costs better than most states, it is anticipated that rising medical costs will place considerable expenditure pressure on the General Fund through the mid 1980s.

<u>Public Transportation.</u> Although public transportation expenditures make up only 3.5 percent of General State operations, behind employee benefits, they are the fastest growing object of expenditure category. Over the past ten years, expenditures for public transportation have increased by 149 percent. With the "gas crisis" predicted to continue and even worsen, pressure for continued expansion of public transportaion expenditures will be great.

<u>Commodity Prices.</u> Materials and supplies will be subject to inflationary pressures. However, the fact that they make up only 4.4 percent of General State Operations expenditures indicates that these pressures should not place an inordinate burden on the General Fund.

Other Expenditure Items. Maintenance and current capital expenditures are not a significant portion of the General Fund. However, it may be decided that the past practice of deferring these expenditures in order to free up funds to maintain and expand other programs is no longer desirable. If this decision is made, maintenance and current capital items will place an increasing burden on available General Fund revenues.

Revenues

Through the mid 1980s the present General Fund revenue structure can be expected to grow at an average annual rate of 6 to 7 percent.

This projection is based on the following assumptions:

> *The current General Fund revenue structure will remain fundamentally the same as it currently exists; and*
>
> *Inflation will continue, but there will be no dramatic upturns or downturns in the State's economy.*

An examination of specific revenue categories indicates that it is reasonable to expect the following levels of growth through the mid 1980s.

Price/Demand Sensitive Taxes. This category consists of the Sales and Use Tax, Transfer Inheritance Tax, Insurance Premiums Tax, Public Utility Excise Tax, Realty Transfer Tax and the Emergency Transportation Tax. It constitutes about 42 percent of all General Fund revenues.

These taxes are grouped together because they have common characteristics. Each tax is affected by the amount consumers spend for various goods and services and the frequency of these expenditures.

Historically, the annual growth of revenue from the group as a whole accelerates or decreases in line with general economic conditions, employment and consumer income in the State. From 1971 to 1978, the average annual rate of growth of the revenue -- adjusted for statutory changes -- was 9.3 percent per year. This period, however, is marked by three very slow growth years corresponding to the deep recession during the period.

A recession of the magnitude of the 1973-1975 period is not foreseen for New Jersey in the aggregate through the mid 1980s. Therefore, it appears likely that the average rate of increase of tax revenues from the group will be slightly above the historic trend of the recent past. An expected average growth rate of 9.5 percent per year is anticipated.

Business Taxes. The business taxes included are the Corporate Business Tax and the Savings Institutions Tax. They are grouped together because most of the revenue yield is determined by the level of business profitability.

These taxes, constituting about 17 percent of all General Fund revenues, are expected to grow about 9.0 percent per year through the mid 1980s. This rate of growth is in line with longer term projections of corporate profits modified by new entities in Atlantic City and possible business expansion due to oil exploration activities in the Baltimore Canyon.

Miscellaneous Taxes, Licenses and Other Revenues. This category consists of departmental fees and revenues including license fees, tuition, charges for services, etc., and constitutes more than 8 percent of all General Fund revenues. It is anticipated that these revenues will grow at an average annual rate of 9.5 percent in the next few years in line with past trends.

Most of these revenues are related to direct activities of State government. Department of Human Services reimbursement fees, for example, are related to the cost of providing institutional and other services. It is assumed that the myriad fees, taxes and other charges comprising the entire category will be modified over time in line with changes in the cost of State government and the addition or deletion of governmental activities.

Excise Taxes. The taxes grouped together include the Alcoholic Beverages Tax, the Cigarette Tax, the Motor Fuels and Use Tax, and Motor Vehicle fees. The tax base of each tax is a function of unit consumption and the tax rate is a flat per unit charge.

These taxes constitute more than 22 percent of all

General Fund revenues. It is anticipated that these taxes will grow at an average annual rate of less than 1 percent due solely to potential increases in revenue from Motor Vehicle fees.

Alcoholic Beverages and Cigarette Tax revenues combined over the last five years have fluctuated between $221.3 million and $225.4 million each year, averaging $223.5 million per year. There is no discernible past trend and there is nothing on the horizon that suggests there will be a net upsurge of consumption of the items.

The per vehicle consumption of motor fuel in the future is expected to decline as the automobile downsizing process continues. At best, it appears unlikely that any further growth of fuel sales can be predicted over the long term despite the potential for increased numbers of vehicles being operated in the State. The present rapid change of prices coupled with supply controls suggest a possible reduction of revenue in the short run, although this possible action is not clear at this time.

<u>Non-Casino Gambling Revenues</u>. The two components are the Pari-Mutuel Tax and State lottery profits. These revenues constitute about 5 percent of all General Fund revenues, and they are not expected to show significant growth over time.

Lottery proceeds are expected to show a spurt of growth in the next fiscal year, but it is not anticipated that this source of revenue will show appreciable levels of growth through the mid 1980s except as existing games are expanded or new ones developed.

Pari-Mutuel Tax revenue has been declining for several years for a variety of reasons. Given the levels of interstate competition, it is likely that Pari-Mutuel Tax revenues will remain stable and possibly decline.

Miscellaneous Revenue Items. These revenues consist of Miscellaneous Interfund Transfers, General Revenue Sharing, the Business Personal Property Tax, and payments from the New Jersey Sports and Exposition Authority.

These revenue items constitute about 5 percent of all General Fund revenues. It is anticipated that these revenue sources will remain at current levels or possibly decline. Of particular concern in this revenue grouping is the very real possibility that General Revenue Sharing ($76 million in fiscal year 1980), will no longer be available for State government use after the first quarter of fiscal year 1981.

Table X shows anticipated growth rates through the mid 1980s by revenue category grouping.

TABLE X

ANTICIPATED GROWTH RATES THROUGH THE MID 1980s
by
REVENUE CATEGORY GROUPING

Category	Category as a Percent of all General Fund Revenue	Anticipated Growth Rate
Price Sensitive Taxes	42%	9.5%
Business Taxes	17	9
Miscellaneous Taxes, Licenses and Other Revenues	8	9.5
Excise	22	less than 1.0
Non-Casino Gambling Revenues	5	0
Miscellaneous Revenue Items	5	0
Composite	99%*	6-7%

*Difference in total due to rounding.

SUMMARY

Expenditure Growth. Between 1961 and 1978, State government expenditures grew at an average annual rate of 12.3 percent. State expenditures now consume twice as much State personal income as they did in 1961. However, over the past three or four years, the rate of expenditure increase has been sharply reduced. General Fund expenditures as a percent of personal income are currently lower than they were in 1974. New Jersey State Government expenditures reamin considerably below the national average on both a per capita basis and as a percent of personal income. When compared to industrialized states and the Northeast, in particular, New Jersey spends even less. Three major items of expenditure appear to be placing the most pressure on State expenditures: Salary and Employee Benefits; Public Transportation; and Medical Assistance. Highway expenditures have decreased over the years but are a potential source of considerable pressure for future expenditure growth.

Revenues. Although revenues kept pace with expenditures over this time period, they did so through rate changes rather than inherent growth. Currently, the General Fund revenues are provided by a tax structure of which almost one-third of its base is essentially stagnant. As a result, it is expected that General Fund revenues will grow at a rate considerably less than the State's overall economy. It is anticipated that General Fund revenue will grow at an average rate of 6 to 7 percent. There are indications that New Jersey is deriving its full potential revenue in relation to the State economy; however, the distribution by tax source is uneven. Property taxes are still considerably higher than the national average, as are selected excise taxes and license fees.

The Income Tax Package. There is no question that the State income tax has improved the total State tax structure. Initially property taxes were reduced. The first three years' experience under the State income tax indicates that property taxes have been stabilized or the rate of increase sharply curtailed and that on a Statewide basis, there is less reliance on the property tax as a revenue source. It has provided more State aid for schools and it has improved the equitability of school aid distribution. However, it has not provided the anticipated level of assistance to the General Fund. Because it has not been able to provide the funds necessary for all of the increased school aid during the 1980 fiscal year, the General Fund will be forced to provide about $100 million more in school aid than anticipated. In addition, it has not been able to replace revenue from repealed taxes as originally planned.[5] The General Fund has also felt the fact that the corporation net income tax was not raised from 7½ percent to 9 percent as envisioned in the original 1976 income tax package. It should be noted that such an increase in the corporation net income tax would bring corporate income taxes to just slightly below their potential for New Jersey as defined in the National Institute for Education Study.

<u>State Expenditure Limitations Act.</u> The State Expenditure Limitations Act (P.L. 1976, c.67) will act to hold future State expenditures below what was experienced during the 1961 to 1978 period. In fact, over a period of time, the effect should be to maintain the percent of State personal income

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[5] A more complete discussion of the impact of the income tax package on the General Fund is contained on pages 24 through 31 in the Property Tax Relief Fund Section.

being devoted to State government at a constant level. However, certainly in the short run future, revenue base limitations will probably exert even greater pressure to hold down State government spending.

Over a longer period of time, the State expenditure limitations working in concern with the more stringent expenditure limitations on school districts, municipal and county governments should have the effect of increasing the State share of total government spending in New Jersey. As this occurs, New Jersey will be more in line with State/local expenditure relationships found nationwide.

<u>The General Fund's Future - Through the Mid 1980s.</u> Given the moderation of expenditure growth that has prevailed over the past three or four years, the generally inelastic tax structure that supports the General Fund may not create the problems it has in the past.

It is the Committee's feeling that the State can expect a General Fund revenue growth rate of 6 to 7 percent annually.

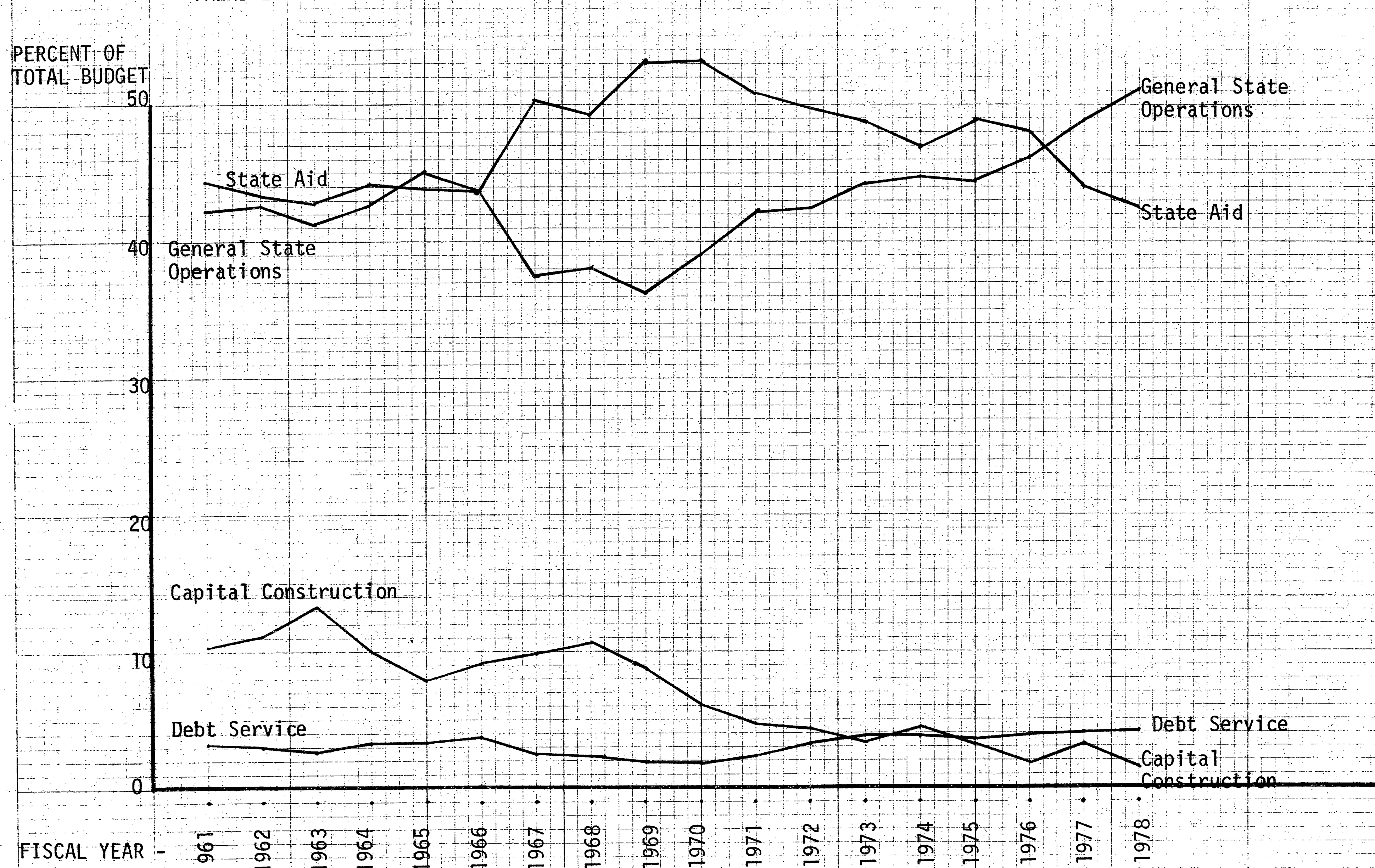
The Committee generally feels that with good management this growth rate can maintain the current level of State services.

It will, however, not provide funds for the expansion of current programs or the instituting of any new programs.

CHART 1

MAJOR BUDGET CATEGORIES AS A PERCENT OF TOTAL GENERAL FUND (1961-1978)

TREND LINE DOES NOT TAKE INTO ACCOUNT PTRF STATE AID EXPENDITURES (See Below)



If PTRF State Aid expenditures are taken into account, State Aid percentages would rise from 44.0 and 42.5 in 1977 and 1978 respectively, to 50.9 and 52.5. Correspondingly, GSO percentages would decrease from 48.9 and 51.2 in 1977 and 1978 respectively to 43.9 and 41.7.

R E P O R T

ON

LOCAL GOVERNMENT

INTRODUCTION

One portion of the Joint Tax Policy Committee's overall responsibility was to review the provisions, implementation and impact of the local government expenditure limitation law. While there are many local government finance issues which might reasonably be reviewed by a committee on tax policy, the Committee's review focused on the expenditure limitations law (C.40A:4-45 et seq.) for the following reasons:

1. <u>The Legislature instituted the program on an experimental basis and called for a review at the end of the period to adjust the program based on experience (C.40A:4-45.1)</u>. Originally set for December 31, 1979, the expiration date of the law has been extended to December 31, 1982. This report provides an interim review of the law; and

2. <u>The concept of imposing financial limitations on local government is a novel approach to controlling increases in the local property tax</u>. During the income tax debate, many legislators felt that, to insure tax reform, a statutory constraint was required to insure a reduced dependency on the property tax to finance local government services.

To avoid duplication of effort, the Committee deferred to the Joint Committee on Public Schools for the review and evaluation of educational spending. The Committee is looking forward to the Joint Committee on Public School's reports and recommendations on the cap law affecting educational spending.

The entire area of property tax administration (e.g. assessment practices, tax collection, the appeals process and like matters dealing with property tax administration), was considered as a topic for review. However, the Committee recognized the work and efforts of two other committees of the Legislature. In the first instance, the Assembly Committee on Taxation is engaged in a continuing review of assessment practices; and secondly, the Senate County and Municipal Government Committee has recently made available to the Legislature a study of the tax appeals process in New Jersey. With regard to the tax appeals process, the new Tax Court will become operational July 1, 1979, and any review of the appeals structure at this time would be premature.

The goal of this Committee report is twofold: first, to provide the Legislature with evaluative information as a basis for reviewing spending caps on local government; and second, to review specific provisions of the local cap law (40A:4-45.1 et seq.) to determine reasonableness and impact, and to recommend specific changes in those provisions as necessary.

METHODOLOGY

The Committee took a three-pronged approach to an evaluation of the cap law. Public hearings were held, an analysis of cap statistics and a review of cap literature was conducted, and "round table" discussions were held with selected groups.

Public Hearings. A total of seven public hearings on the cap law were held by this Committee, at locations throughout the State, to afford maximum participation by elected officials, professional organizations and the general public.

June 27, 1978	Hunterdon County Agricultural Building, Flemington, NJ
July 11, 1978	County Administration Building, Somerville, NJ
July 12, 1978	Willingboro Municipal Complex, Willingboro, NJ (Jointly with Subcommittee on the General Fund)
July 13, 1978	Newark City Hall, Newark, NJ (Part I)
July 25, 1978	Brookdale Community College, Lincroft, NJ
August 3, 1978	Newark City Hall, Newark, NJ (Part II)
August 10, 1978	Council Chambers, City Hall, Jersey City, NJ
November 9, 1978	Assembly Chamber, State House, Trenton, NJ (Full Committee hearing)

<u>Statistical Analysis.</u> In an attempt to measure the impact of the cap on local governments, basic information was collected on both revenue sources and expenditure patterns. A survey questionnaire was sent to all municipalities and counties requesting expenditure and revenue information for the calendar years 1976, 1977 and 1978. The Committee received responses from 352 (62 percent) of the 567 municipalities and from 20 of the 21 counties.

To facilitate an order review of these responses, a random sample was designed based upon population groups.

Population Group Range	State Number	State % of Total	Sample Number	Population % of Total
less than 5,000	236	42%	38	39.6%
5,001 - 15,000	199	35	32	33.3
15,001 - 30,000	87	15	17	17.7
30,001 - 75,000	34	6	7	7.3
more than 75,000	11	2	2	2.1
	567	100%	96	100.0%

The resulting sample of the municipalities was then reordered based on intensity of urbanization, a classification system developed by DCA.[1] This classification system was used because it reflects factors other than population and density, and includes land use patterns, housing conditions, community patterns and measures of central tendency with respect to socioeconomic considerations. It includes the following categories:

UC	Urban Center	Densely populated with extensive development.
U-S	Urban-Suburban	Near an urban center but not as highly-developed with larger residential areas.
UC-R	Urban Center-Rural	Densely populated core area surrounded by rural areas.
S	Suburban	Predominantly single-family residential within a short distance of an urban area.
S-R	Suburban-Rural	Rapidly developing area but still large tracts of open land available for development.
R	Rural	Scattered small communities and isolated single-family dwellings.
RC	Rural Center	High density core area with surrounding rural municipalities.
RC-R	Rural Center-Rural	Small developed core area surrounded by rural areas.

Source Data: Division of Local Government Services and Bureau of Financial Regulation and Assistance (Department of the Treasury).

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[1] New Jersey Municipal Profiles, Intensity of Urbanization (Pt-6, January, 1972) Division of State and Regional Planning, Department of Community Affairs.

Data limitation problems are inherent in any study of this kind. Major limitations in this study include:

1. The survey used for 1977 and 1978 data are limited to the accuracy of the individual local governments responding. Official data on municipal and county revenues and expenditures beyond 1976 is unavailable. The Division of Local Government Services annual report, "Statements of Financial Conditions of Counties and Municipalities" is a valuable document but printed only after audit reports are completed. All 1977 and 1978 data on municipal and county revenue and expenditure is unaudited.

2. The intensity of urbanization data is based on the 1970 U. S. Census data. The classification of certain municipalities will have changed by 1979.

3. The reordering of population groups into intensity of urbanization groups was accomplished using only those 96 municipalities in the sample and assigning each to a category. Therefore, the intensity of urbanization group will not necessarily reflect a percentage sampling of 567 municipalities arranged by intensity of urbanization. The reordering was accomplished to check observations made from the population based sample.

<u>Round Table Discussions.</u> Round table discussions were utilized to promote a freer exchange of ideas, observations, discussion of problems and suggestions for changes than is afforded by the formality of a public hearing. Participants were:

Association of Counties
County and Municipal Government Study Commission
Division of Local Government Services
New Jersey Conference of Mayors
New Jersey State League of Municipalities
New Jersey Taxpayers Association
Small Community Mayors Association
(Selected Staff Personnel)

LOCAL CAP LAW - ITS STRUCTURE AND RATIONALE

During the income tax debate, the decision was made to establish some type of statutory control over increases in the local property tax. Once this decision had been made, specific bill provisions had to be developed. Many ideas were considered, and various proposals were made either in bill form or through conversations in meetings.

Suggestions included:

A limitation on the basis of tax rate increases and limiting those rate increases by stated percentage from year to year;

limiting the actual expenditure level;

limiting the property tax levy;

establishing expenditure limitations on the basis of changes in personal income; and,

establishing expenditure limits based on changes in assessed valuation or changes in equalized valuation, either totally or valuation per capita, or some other measure based on changes in property value.

What finally gained approval was the imposition of a 5 percent limitation imposed on municipal expenditures and the county property tax levy. This proposal (A-1738) had been part of Governor Byrne's tax reform program and had been ignored until the concept of limiting local government spending was made a part of the legislative leadership's tax reform program.

One of the most frequently asked questions about the cap law is why the cap is placed on municipal expenditures, but in the case of counties on the county tax levy. Essentially, county governments are more uniformly dependent on the property tax than are municipalities. A review of the revenue structure of county governments indicates that the property tax constitutes between 50 and 70 percent of total county revenue. In the case of municipalities, the property tax ranges from zero to 90 percent of total revenue.

Given the uniformity dependence on the property tax by county government and the desire for a cap which would effect each unit of county government more or less equally, a cap on the levy is reasonable. Given the dramatic difference in the dependence on the property tax among municipalities, a cap placed on the levy would be found to be extremely harsh in some instances and without effect in others and, therefore, inequitable and inappropriate. It follows that capping municipal expenditures is more appropriate.

The expenditure limitation is not a rigid 5 percent cap. In the case of both counties and municipalities, the 5 percent is applied to a prescribed base after a number of modifications are made. The observation can be made that in the case of municipalities, the level of appropriation which is subject to the 5 percent limitation approximates 70 percent of the total appropriation and ranges from 50 to 90 percent.

A review of Exhibits I and II serves to identify the type and nature of expenditure or revenue items which are either subtracted from the previous year's appropriation to derive the base to which the 5 percent limitation is applied, or added on outside the cap.

County governments also are entitled to calculate a cap after certain items are excluded (See Exhibit III).

In the case of counties, after these exclusions are allowed, it can be seen that the total levy is not capped, but rather the cap approximates 82 percent of levy with a range of 68 percent to 99 percent.

For the most part, those expenditures and revenue items which are outside the cap represent non-local resources (Federal and State aid), non-local mandates (Federal and State law), or are in protection of fiscal integrity (debt service, deficits, emergencies, contractual obligations). Further, outside-the-cap items reflect service level requirements (added assessments), tax collection experience (reserve for uncollected taxes), or non-property tax revenue (service fees, sale of assets). Restated, the base on which the cap is calculated and the items which are, as a group, capped represents the local government's spending to maintain current service levels and programs.

The cap law recognizes the principle of home rule as it applies to municipalities. Any municipality can increase expenditures beyond the cap limit with the approval of the voters. If the cap is found too restrictive, the governing body need only to take its case to the voters in the form of a referendum. If the referendum is approved, the cap limit does not apply. This has been done successfully in seven municipalities and unsuccessfully in ten municipalities for the 1977 and 1978 budget years. In 1979, thirty-two went to referendum and thirteen were approved.

The cap law does provide for some local units to be completely exempt from the cap law. In the case of county governments, every county is subject to the cap -- none are exempt, or uncapped. In theory, a county government which imposed no property tax levy would be uncapped. However, the probability of that occurring is extremely low because of the dependence counties have on the property tax.

In the case of municipalities, the cap law specifically provides that where the municipal purpose tax rate is $ .10 or less per $100 of assessed value, the municipality is not subject to the cap. The type of municipalities which meet this test are, generally speaking, rural in character and enjoy large amounts of non-property tax revenue, primarily public utility franchise and gross receipts taxes, or provide minimal services and, therefore, require very little in the way of property tax income to support its budget, or a combination of the two. Additionally, there were situations observed where municipalities otherwise levying a municipal purpose tax well above $.10 per $100 of assessed value were able, for one particular year, to reduce the municipal purposes rate below the $.10 per $100 of assessed value and, therefore, enjoy an exemption from the cap. These cases are the exception rather than the rule.

The cap law is structured to attain two objectives. The cap is restrictive in nature and should have the effect over time of controlling increases in property tax levies both by county and municipal governments. At the same time it recognizes that local governments cannot be constrained to the point where it is impossible to provide necessary services to its residents, (a concern expressed in the legislative policy section of the local cap law). Therefore, there are flexibility provisions.

It does not appear that the cap law needs any significant amendment with regard to the base on which the cap is imposed. In general the blending of restraint and flexibility found in the cap law is adequate to control property tax increases and takes sufficient congizance of the needs of the governing body to provide necessary services to its residents.

However, there are certain changes which the Legislature should consider. These can be viewed as "fine tuning" a sound and rational program of retraining property tax increases.

EXHIBIT I

EXPENDITURE OR REVENUE ITEMS
NOT "CAPPED" - MUNICIPALITIES *
(Exceptions to Limitations - 40A:45.3)

Expenditure	Revenue
1. Capital expenditures funded other than from the local property tax.	1. Assessed value of new construction or improvements multiplied by preceding year's municipal purposes tax rate.
2. Emergency by ordinance up to 3 percent of current and utility operating appropriations, when approved by 2/3 vote and the Local Finance Board.	2. Programs funded wholly or in part by Federal or State funds.
3. All debt service (including Type I school district).	3. Reserve for uncollected taxes.
4. Funding of preceding year's deficit.	4. New or increased service fees imposed by ordinance.
5. Expenditures mandated by Federal or State law after August 18, 1976.	5. Sale of municipal assets.
6. Amounts paid, pursuant to a contract for water, sewer, solid waste, parking on senior citizen housing.	
7. Approved by referendum.	

* Similar for county government where applicable.

EXHIBIT II

STATE OF NEW JERSEY

DEPARTMENT OF COMMUNITY AFFAIRS
DEPARTMENT OF TREASURY
BUREAU OF FINANCIAL REGULATION AND ASSISTANCE
CAPS: FOR 1979 BUDGET

MUNICIPALITY ______ COUNTY ______

Total General Appropriations for 1978

Modifications:
Less:
Total All Other Operations-Excluded from 5% CAPS
Total State and Federal Programs Off-Set by Revenues - Excluded from 5% CAPS
Total Capital Improvements - State and Federal Programs Off-Set by Revenues - Excluded from 5% CAPS
Total Municipal Debt Service - Excluded from 5% CAPS
Deferred Charges to Future Taxation-Unfunded

Emergency Authorizations-Excluded from 5% CAPS:
By Ordinance
By Resolution
Transferred to Board of Education for the Use of Local Schools (R.S. 40:48-17.1 and 17.3)

Cash Deficit of Preceeding Year

Anticipated Deficit ______ Utility
Anticipated Deficit ______ Utility
Anticipated Deficit ______ Utility

Deficit in Dedicated Assessment Budget

Amount to be Raised by Taxation - Funded by Assessment Bonds

______

Total of Type I District School Debt Service - Excluded from 5% CAPS
Total of Deferred Charges and Statutory Expenditures-Local School - Excluded from 5% CAPS
Reserve for Uncollected Taxes
Other:
Expenditures Mandated per 40A:4-45.3g per certifications on file. See attached sheet for detail

______
______
______

Total Modifications
Amount on which 5% CAP is applied
5% CAP
Allowable Operating Appropriations before additional Modifications per (N.J.S. 40A:4-45.3)

EXHIBIT III

COUNTY CAP CALCULATION SHEET

COUNTY: ______________

County Purpose Tax (Sheet 11)		
Less: Modification allowed:		
Vocational School (sheet 22-L)		
Out-of-County Vocational School (sheet 22-L)		
County Debt Service (sheet 30)		
Revenue Sharing: Payment of Bond Principal (sheet 30A) ...		
Deferred Charges to Future Taxation Unfunded (sheet 31)....................		
Emergency Authorizations (sheet 31A)		
Amount to which 5% "Cap" is applied		
5% Cap		
Allowable Tax Levy Before Modification		

IMPACT OF LOCAL CAP LAW - A STATISTICAL EVALUATION

Indicators of Success

Evidence indicates that the historic level of increases in property tax levies has been moderated. In the period 1968 to 1976, the property tax levy increased between 6 and 15 percent, annually. If the advent of Federal Revenue Sharing in 1973 is discounted, the range would be 9.5 to 15 percent. Since 1976, in reflection of the impact of the "tax reform program," property tax levies, Statewide, have decreased. For 1977, property tax collections decreased Statewide by $88.5 million when compared to 1976. Although in 1978 the increase was $65.8 million, there was still a two-year decrease from 1976 of $22.6 million. This represents a 2.6 percent decrease over the two-year period. (See Table I.)

Control of the property tax levy is also reflected in a review of the property tax levy by purpose. The Statewide school purpose levy registered increases in each year from 1968 to 1976 between 4.7 and 16.2 percent. In 1977, the school levy decreased 2.4 percent, and in 1978 it increased 1.2 percent. The Statewide municipal purposes levy, which increased between 3 and 17 percent during the 1968 to 1976 period, registered a 6.2 percent decrease in 1977 and an increase of 1.3 percent in 1978. The Statewide county purpose levy reflects a similar pattern with 6 to 18 percent increases from 1968 to 1976, an increase of 5.7 percent in 1977 and a further decline in rate of growth in 1978 of 4.6 percent.

<u>TABLE I</u>

FUNCTIONAL PROPERTY TAX LEVIES[1]

1968 - 1978

Year	School[2]	Municipal	County[3]	Veterans & Sr. Citizens	Total
1968	$ 839,145,343	$372,714,208	$307,389,161	$33,771,834	$1,553,020,546
1969	956,672,342	384,583,403	335,411,230	33,864,716	1,710,531,691
1970	1,111,248,145	453,837,828	368,679,057	33,853,040	1,967,617,070
1971	1,288,150,618	465,713,295	434,410,915	33,981,319	2,222,256,147
1972	1,404,171,924	525,351,851	477,209,731	34,839,440	2,441,572,946
1973	1,518,783,129	526,003,821[4]	504,843,592[4]	35,260,847	2,584,891,389
1974	1,589,947,109[5]	583,719,724	552,202,467	35,686,746	2,761,556,046
1975	1,692,772,040	670,606,611	621,465,318	36,205,891	3,021,049,860
1976	1,825,927,728	783,479,526	699,572,710	36,566,753	3,345,546,717
1977	1,783,375,277[5]	735,100,661[6]	739,589,162	-0-[7]	3,257,073,667
1978	1,804,578,746	744,766,122	773,565,298*	-0-	3,322,910,166*
			[778,229,479]*		[3,327,574,347]*
Increase 1968-69					
Amt.	117,526,999	11,869,195	28,022,069	92,882	157,511,145
%	14.0%	3.2%	9.1%	.3%	10.1%
Increase 1969-70					
Amt.	154,575,803	69,254,425	33,267,827	(11,676)	257,086,379
%	16.2%	18.0%	9.9%	--	15.0%
Increase 1970-71					
Amt.	176,902,473	11,875,467	65,731,858	128,279	254,638,077
%	15.9%	2.6%	17.8%	.4%	12.9%
Increase 1971-72					
Amt.	116,021,306	59,638,556	42,798,816	858,121	219,316,799
%	9.0%	12.8%	9.9%	2.5%	9.9%
Increase 1972-73					
Amt.	114,611,205	651,970[4]	27,633,861[4]	421,407	143,318,443
%	8.2%	.1%	5.8%	1.2%	5.9%
Increase 1973-74					
Amt.	71,163,980[5]	57,715,903	47,358,875	425,899	176,664,657
%	4.7%	11.0%	9.4%	1.2%	6.8%
Increase 1974-75					
Amt.	102,824,931	86,886,887	69,262,851	519,145	259,493,814
%	6.5%	14.9%	12.5%	1.5%	9.4%
Increase 1975-76					
Amt.	133,155,688	112,872,915	78,107,392	360,863	324,496,858
%	7.9%	16.8%	12.6%	1.0%	10.7%
Increase 1976-77					
Amt.	(43,543,884)[5]	(48,378,865)[6]	40,016,452	(36,566,753)	(88,473,050)
%	(2.4%)	(6.2%)	5.7%	--[7]	(2.6%)
Increase 1977-78					
Amt.	21,203,469	9,665,461	33,976,136*	--	65,836,499*
%	1.19%	1.31%	4.59%	--	2.02%
[With Local Health Service Tax Levy]*			[38,640,317]*		[70,500,680]*
			[5.2%]		[2.16%]
Increase 1968-1978					
Amt.	965,433,403	372,051,914	466,176,137	(33,771,834)	1,769,889,620
%	115.05%	99.82%	151.66%	--	113.96%

FOOTNOTES

TABLE I

*1978 County Purpose does not include Local Health Service Tax to facilitate historical comparison.
(Total = $4,664,181)
Amount in brackets [ ] includes Local Health Service Tax

[1] Excluding special district taxes (e.g. fire, light, garbage).

[2] Includes school purpose carried in municipal budget as follows:

1968	$15,949,672.97
1969	$14,814,590.92
1970	$20,490,834.02
1971	$37,483,017.55
1972	$27,916,628.60
1973	$26,091,660.46
1974	$27,082,793.21
1975	$25,567,251.45
1976	$27,975,448.81
1977	$24,410,726.38
1978	$24,572,091.96

[3] Includes County Library Taxes.

[4] Reflects budgeting of Federal Revenue Sharing

Counties	$44,793,758
Municipalities	$99,729,769

[5] Reflects significant increases in State school aid.

[6] Reflects State Revenue Sharing (P.L. 1976, c.73).

[7] State assumed full costs of veterans and senior citizens deductions (State Revenue Sharing Act - P.L. 1976, c.73).

Source: Abstract of Ratables and Exemptions in the State of New Jersey Division of Taxation Annual Report for applicable year.

Year to year change and percentage increase calculated by Subcommittee.

It is clear that the "tax reform package" has had an impact in controlling property tax levies. There is evidence that the role the cap laws play in this control is significant. While the property tax levy decreases in 1977 reflect increased State aid for schools, the $50 million revenue sharing program and the State assumption of 100 percent of the cost of the veterans and senior citizens deductions, the observation can be made that without the cap laws this increased funding may have fostered incremental spending rather than a reduction in property tax levies. The most direct evidence of the impact of the cap law is found in the change in property tax levies in 1978. The indications are that the cap laws do directly control increases in property tax levies. (See Table I.)

Control of the property tax levy is reflected in tax rates. Table II identifies the changes in Statewide tax rates in total and by purpose. Table III identifies the changes in Statewide net valuation taxable. Combining these two tables with Table I (Functional Property Tax Levies), to produce Table IV provides a further indication that the cap affects tax rates.

A tax rate is an expression of the relationship between a levy and the value base against which that levy is made. In the case of property taxes, this base is net valuation taxable - the aggregate assessed value of all property. Changes in either, or both, the levy and net valuation will be reflected in a change in the tax rate. Referring to Table IV and examining the years 1971-1974, it appears as though property taxes as indicated by tax rate, have decreased.

TABLE II

AVERAGE FUNCTIONAL RATES 1968 - 1978

(Actual Rates per $100)

Year	County Purpose	County Library	School Purposes*	Municipal Purposes	Deductions Sr. Citizens & Veterans	Total
1968	$1.00	$.01	$2.74	$1.22	$0.11	$5.08
1969	1.02	.01	2.93	1.18	0.10	5.24
1970	1.00	.01	3.05	1.24	.09	5.40
1971	1.02	.01	3.06	1.11	.08	5.28
1972	0.92	.01	2.73	1.02	.07	4.75
1973	0.83	.01	2.54	0.88	.06	4.32
1974	0.82	.01	2.38	0.87	.05	4.13
1975	0.84	.01	2.32	0.92	.05	4.14
1976	0.88	.01	2.33	1.00	.05	4.26
1977	0.88	.01	2.13	0.88	-	3.90
1978	0.85	.01	2.01	0.829	-	3.708

* Includes School District costs required to be included in the municipal budget.

TABLE III

CHANGES IN NET VALUATION TAXABLE

1968 - 1978

Year	Net Valuation Taxable	Change Over Prior Year Amount	%
1968	$30,592,367,714	$2,434,774,974	8.6%
1969	32,617,042,321	2,024,674,607	6.6
1970	36,467,674,758	3,850,632,437	11.8
1971	42,069,725,528	5,602,050,770	15.4
1972	51,446,431,110	9,376,705,582	22.3
1973	59,885,223,994	8,438,792,884	16.4
1974	66,821,522,181	6,936,298,187	11.6
1975	72,940,756,787	6,119,234,606	9.2
1976	78,444,350,671	5,503,593,884	7.5
1977	83,529,378,044	5,085,027,373	6.5
1978	89,724,637,362	6,195,259,318	7.4

TABLE IV

A COMPARISON OF CHANGES IN NET VALUATION TAXABLE, PROPERTY TAX LEVIES, AND PROPERTY TAX RATES

1968 - 1978

Year	Net Valuation Taxable	Levy	Tax Rate
	Percentage Changes		
1968	8.6%	7.5%	4.5%
1969	6.6	10.1	3.2
1970	11.81	15.0	3.1
1971	15.36	12.9	(2.2)
1972	22.29	9.9	(10.0)
1973	16.40	5.9	(9.1)
1974	11.58	6.8	(4.4)
1975	9.16	9.4	0.24
1976	7.55	10.7	2.9
1977	6.48	(2.6)	(8.5)
1978	7.42	2.16	(4.9)

It is obvious by examing the changes in value and levy that this is not the case. The unusual changes in valuation in those years account for the tax rate decreases. The tax levy increases in those same years were among the highest in the period studied. Examination of these same data for 1977 and 1978 shows a relatively stable growth rate in value and an unusually low growth rate in the levy, reflected in a decrease in the tax rate. The stable value growth and the controlled levy reflect a real decrease in tax rate. The 1971-1974 tax rate decrease is attributable to a value growth, not a decrease in levies.

The Municipal Government Experience

Performance Under the "Cap." If a cap on expenditures is going to be effective, the restriction must extend to all but a few items of expenditure. To the extent that items are not under the cap, effectiveness is reduced.

The municipal governments are capped by a 5 percent limitation on expenditure increases. There are exceptions or "non-capped" expenditures as discussed earlier; and, after these are considered, the 5 percent limitation is found to apply, on average, to 70 percent of expenditures. This finding is based on a sample of municipalities representing a cross section of population sizes and characteristics as discussed in the methodology section of this report. (See (Table V.)

Municipality type rather than simple population groupings facilitates an identification of differences among municipalities. The sampled municipalities were grouped by intensity of urbanization and the percentage of total appropriations within the cap were measured overall and by each group. Table V shows the results of this exercise. The validity of these findings as an indication of the actual situation Statewide is uncertain but, given the wide range of municipality types included in the sample, it is likely that it is representative.

While an average of 70 percent of expenditures is found subject to the cap, in 1977 this average varied among the sample group from a high of 75.3 percent for the Urban-Suburban group to a low of 63.9 percent for the Urban Center group. The range among all the municipalities in the sample group was between 53.0 percent and 89.5 percent. A similar pattern repeated in 1978 with a high of 72.8 percent in the Urban-Suburban group and a low of 62.5 percent in the Urban Center group, and a range among all the municipalities in the sample group between 45.5 percent and 88.3 percent.

The wide differences are explained by examining the exceptions (the amounts subtracted thus not within the cap to base to which the 5 percent limitation is applied. The differences are accounted for primarily in the exclusions for, reserve for uncollected taxes, debt service, and Federal and State aid revenues.

Other exclusions include, cash deficits and emergency appropriations. In only 10 percent of the cases in the sample were the two items - reserve for uncollected taxes and debt service - found to represent less than 50 percent of the exceptions and 73 percent of the time these two items comprise 71 percent or more of the exceptions.

RESERVE FOR UNCOLLECTED TAXES AND DEBT SERVICE AS A PERCENT OF TOTAL EXCEPTIONS

Percentage Range	Frequency
Less than 50%	9.9%
51% - 70%	17.5%
71% - 90%	66.0%
91% - 100%	6.6%

The balance of exceptions were, in great measure, especially in the more heavily populated municipalities, found to be Federal and State aid exceptions.

As might be expected, in many cases the allowable increases in total appropriations were found to be in excess of 5 percent. This is due to the provisions of the cap law which allows for increases beyond the 5 percent limitation to include revenue generated by new construction, sale of assets, increases in fees and penalties by ordinance, cash deficits from the prior year and costs mandated by Federal and State law after the effective date of the cap law.

Table VI identifies the percentage increase allowable under the cap law after the additional increases mentioned above are added. This table then discloses what might be termed the "effective cap" identified in the column headed

TABLE V

MUNICIPALITIES

PERCENT OF APPROPRIATION WITHIN THE CAP

(N = 96)

	1977		1978	
	Average	Range	Average	Range
Urban Center (n=6)	63.9%	53.8%-69.7%	62.5%	57.7%-66.3%
Urban-Suburban (n=26)	75.3	49.2-89.5	72.8	61.1-88.3
Suburban (n=35)	69.5	53.7-88.4	68.9	49.6-86.0
Suburban-Rural (n=9)	66.1	58.1-74.9	64.6	49.7-74.9
Rural Center (n=10)	65.5	53.0-75.2	63.9	45.5-76.0
Rural (n=10)	66.6	53.0-83.9	67.8	55.5-82.1
Overall	70.6		68.5	

TABLE VI

ALLOWABLE VERSUS ACTUAL INCREASES IN CAPPED APPROPRIATIONS
1977 and 1978
(Sample Group - N=96)

	1977		1978	
	Allowable	Actual	Allowable	Actual
Urban Center	7.7%	7.0%	6.5%	4.0%
Urban-Suburban	6.1	5.0	6.2	6.0
Suburban	7.1	5.7	8.1	7.9
Suburban-Rural	8.2	5.2	8.5	8.5
Rural Center	6.4	5.9	7.6	7.3
Rural	6.0	5.0	7.7	6.1
Population Groups				
Under 5,000	6.9	4.9	6.8	6.1
5,000-15,000	7.5	6.5	8.0	7.6
15,000-30,000	6.2	4.3	6.7	6.8
30,000-75,000	6.4	6.1		
Over 75,000	5.4	4.8	5.6	5.0

"Allowable" for 1977 and 1978. The utilization of the cap is also disclosed in Table VI in the column headed "Actual" for 1977 and 1978. This is provided both by intensity of urbanization groups and by population groups and represents findings based on the sample.

The information in Table VI should be interpreted cautiously because it represents the sample, not all 567 municipalities. Further, the municipalities within each group show "Allowable" and "Actual" increases over a wide range. The "Allowable" range for the sample group in 1977 is 5.0 to 24.5 percent and in 1978 is 5.0 to 14.7 percent. The "Actual" range for the sample group in 1977 is from actual decreases to increases ranges from 0.7 to 13.9 percent.

The unexptected observation which can be made from a review of Table VI is that in many cases the full increase allowable under the cap is not utilized. This observation must be carefully considered, however, because it is based upon a sample and examines percentage increases and percentage changes. The actual dollar amounts involved may be minimal or substantial depending on the size of the base. It is, nonetheless, true that many municipalities did not utilize the full increase allowable under the cap.

<u>The Municipal Purpose Levy.</u> The municipal purpose levy increased Statewide by 9.7 percent, 14.9 percent and 16.8 percent for the years 1974 to 1976, respectively, and declined in 1977 by 6.2 percent. In 1978 it increased 1.3 percent.

This experience varies from municipality to municipality and among municipalities within a given county.

PERCENTAGE CHANGES IN MUNICIPAL PURPOSE LEVY BY COUNTY
1974 - 1978

County	1974	1975	1976	1977	1978
Atlantic	28.2%	5.0%	25.2%	(0.9%)	(8.0%)
Bergen	7.2	9.2	18.4	(4.4)	7.1
Burlington	15.6	27.2	32.5	(21.0)	7.3
Camden	5.2	10.9	31.4	(23.3)	(3.2)
Cape May	3.7	9.3	23.8	(3.9)	5.0
Cumberland	38.3	20.7	4.0	(12.6)	3.4
Essex	11.4	30.7	11.9	(8.2)	5.1
Gloucester	5.1	8.6	19.1	(12.6)	5.7
Hudson	12.7	13.4	23.8	0.5	(6.7)
Hunterdon	(4.8)	9.3	(1.3)	(31.9)	(23.1)
Mercer	12.1	39.2	(8.9)	(6.1)	2.3
Middlesex	16.0	3.5	23.9	(11.5)	10.0
Monmouth	6.3	7.6	24.7	(3.0)	14.3
Morris	17.2	7.8	15.1	(6.0)	3.3
Ocean	13.0	21.2	19.5	3.8	2.6
Passaic	9.5	13.7	16.3	(0.3)	(5.4)
Salem	14.1	26.6	28.8	(28.7)	3.6
Somerset	11.7	8.4	13.4	(5.6)	17.3
Sussex	12.9	11.7	14.4	(9.3)	2.9
Union	7.5	9.1	8.6	(6.2)	4.5
Warren	4.8	(.47)	16.8	(25.0)	4.3
Statewide Average	9.7	14.9	16.8	(6.2)	1.3

Grouping municipalities by county and discussing changes in levy does not indicate what occurs in any particular municipality or types of municipalities. What is indicated is the direction in which tax levy levels are heading and the indications are favorable. In the period 1974 to 1976, municipal purpose levies were moving upward; whereas, in 1977 and 1978 that trend is reversed. In 1977, in every county except two, the municipal purpose levy was reduced, and in 1978 the overall increase was 1.3 percent.

NUMBER, FREQUENCY AND RANGE OF CHANGES IN

MUNICIPAL PURPOSE LEVY

AVERAGE FOR MUNICIPALITIES WITHIN EACH COUNTY 1974-1978

	1974	1975	1976	1977	1978
Average	9.7%	14.9%	16.8%	(6.2%)	1.3%
Increases					
Number	20	20	19	2	16
Range	5.1%-28.2%	5.0%-39.2%	4.0%-32.5%	0.5%-3.8%	2.6%-17.3%
Decreases					
Number	1	1	2	19	5
Range	4.8%	0.47%	1.3%-8.9%	0.9%-31.9%	3.2%-23.1%

The County Government Experience

If a cap on levy or expenditure is to have an effect all or a substantial portion of the levy or expenditure should be controlled. To the extent that items are not under the cap the effectiveness is reduced.

The county governments are capped by a 5 percent limitation on the increase in the county purpose levy. There are exceptions allowed before the 5 percent limitation is applied. These exceptions include, vocational school costs, debt service and emergency appropriations.

PERCENT OF COUNTY PURPOSE LEVY WITHIN THE CAP
1977 and 1978

County	1977	1978
Atlantic	86.7%	88.0%
Bergen	76.6	76.4
Burlington	88.6	82.3
Camden	84.9	86.9
Cape May	91.1	87.1
Cumberland	88.6	87.1
Essex	85.4	85.7
Gloucester	88.1	90.0
Hudson	90.1	89.3
Hunterdon	97.5	99.8
Mercer	83.1	85.3
Middlesex	80.7	78.2
Monmouth	86.6	85.6
Morris	83.7	84.6
Ocean	83.7	80.3
Passaic	89.0	86.3
Salem	89.3	93.4
Somerset	72.3	70.5
Sussex	79.0	68.4
Union	91.7	90.6
Warren	90.6	91.7
Average	81.9	85.1
Range	72.3%-97.5%	68.4%-99.8%

When all of these are accounted for the 5 percent limitation is found to apply to 82 percent of the aggregate county purpose levy for 1977 and 85 percent for 1978. This results in a reasonably restrictive cap that will control increases in the county purpose levy and, therefore, property tax rates.

During the period 1968 to 1976, the county purpose levy increased between 5.8 and 17.8 percent annually. In 1977 and 1978 the increases were 5.7 and 5.2 percent respectively. Table VIIa identifies the changes in county purpose levy for the period 1969-1978. While these are Statewide statistics and the experience varies when each county is considered separately, this data does indicate the significant effect that the cap on the county purpose levy has had overall. It reflects a favorable trend.

Table VIIb identifies the changes in the county purpose levy for each county between 1974 and 1978. The 1977 and 1978 levy reflects the impact of the cap. Significant downward trends in the rate of increase in the county purpose levy are apparent by review of this table.

A percentage increase above 5 percent is not an indication that a county has increased levies above that allowable under the law. There are certain costs which are added after the 5 percent limitation is calculated; the major most important being debt service, vocational schools and assessed value of new construction.

Table VIIa

CHANGES IN COUNTY PURPOSE LEVY

1969 - 1978

Year	Levy	Increase Amount	Increase Percentage	Tax Rate* (Per $100)
1969	$335,411,230	$28,022,069	9.1%	$1.02
1970	368,679,057	33,267,827	9.9	1.00
1971	434,410,915	65,731,858	17.8	1.02
1972	477,209,731	42,798,816	9.9	0.92
1973	504,843,592	27,633,861	5.8	0.83
1974	552,202,467	47,358,875	9.4	0.82
1975	621,465,318	69,262,851	12.5	0.84
1976	699,572,710	78,107,392	12.6	0.88
1977	739,589,162	40,016,452	5.7	0.88
1978	778,229,479	38,640,317	5.2	0.85

Source: Abstract of Ratables for Applicable Year.

* Tax Rate computed by Committee. County Purpose Levy ÷ Net Valuation Taxable (exclusive of County Library Tax.)

Table VIIb

PERCENTAGE CHANGES IN COUNTY PURPOSE LEVY BY COUNTY

1974 - 1978

	1974	1975	1976	1977	1978
Statewide	9.4%	12.5%	12.6%	5.7%	5.2%
Atlantic	11.9	20.5	15.1	2.4	7.4
Bergen	14.3	11.4	4.4	6.1	8.7
Burlington	6.0	18.3	17.5	7.5	7.9
Camden	14.8	25.1	18.2	4.6	3.4
Cape May	14.2	13.2	24.9	6.6	11.1
Cumberland	6.9	16.0	6.9	3.4	4.8
Essex	6.0	9.3	9.7	5.1	(0.55)
Gloucester	11.4	21.0	17.4	5.4	8.5
Hudson	0.4	1.7	12.2	6.7	3.1
Hunterdon	15.8	15.9	10.7	4.8	10.4
Mercer	9.2	13.8	13.8	4.3	9.3
Middlesex	14.9	16.8	16.7	7.3	6.1
Monmouth	10.4	13.5	10.5	6.7	7.2
Morris	10.8	13.7	13.8	5.2	4.2
Ocean	15.6	18.4	11.7	9.1	10.7
Passaic	(2.4)	17.1	15.1	3.5	5.1
Salem	12.1	17.9	12.5	3.3	12.3
Somerset	15.7	10.6	17.1	4.7	8.7
Sussex	7.8	7.4	8.0	2.3	1.9
Union	14.0	2.3	13.5	6.9	6.2
Warren	12.6	(2.1)	5.7	6.4	14.1

Perspectives and Problems

While the cap law has had the effect of restraining property tax levy growth, there are indications that local governments are experiencing difficulties in maintaining services within the 5 percent restriction, even with the permitted add-ons and exceptions. These difficulties were mentioned frequently in the testimony of local officials during public hearings and during round table discussions with representatives of local government organizations and associations.

There were no instances where a local government official, elected or appointed, took exception with the concept of a State-imposed limitation on spending or tax levy. In every case, however, exception was taken to the implementation of that concept in the current cap law.

The most frequently mentioned alternative is to impose the same cap on local government as is imposed on State government. This argument is based on the level of allowable percentage increase, however, not on the concept of controlling spending based on changes in personal income.

Once that statement is made, most officials turned to the cap law in place and proceeded to point out the pressures and circumstances which make the 5 percent limitation unrealistic.

The general consensus of local officials is that the following circumstances create the greatest difficulty:

a. A rate of inflation commonly predicted to range from 7 to 9 percent through the mid 1980s;

b. Pension, insurance and utility cost increases which consume a substantial portion of the allowable increase;

c. Federal and State mandated costs which must be met within the cap; and

d. Loss of non-property tax revenue.

Little can be said about the toll inflation has taken. The pressures of inflation present a serious probmen given a 5 percent limitation. It will require careful allocation of resources to maintain present services and will seriously limit consideration of expanded or new services and facilities. Perhaps most importantly, continued inflation will be felt in the form of higher employee wage demands.

Pension and insurance cost increases are consuming a significant portion of allowable increases. Using the sample group (as explained in the Methodology section), pension and insurance cost increases were specifically examined to determine the magnitude of the problem. When intensity of urbanization groupings are used, pension cost increases in 1978 ranged from 5.5 percent to 22.8 percent and insurance cost increases ranged from 10.5 percent to 25.1 percent. (See Table VIIIb.) When population groupings are used, 1978 pension costs increased between 5.5 and 20.0 percent with insurance cost increases ranging from 12.1 percent to 20.6 percent. Using the intensity of urbanization

TABLE VIIIa

MUNICIPAL GOVERNMENT PENSIONS and INSURANCE COSTS[1]
SHOWN AS % CHANGE and PERCENTAGE OF ALLOWABLE INCREASES

Intensity of Urbanization	Pension Costs ($000)				Insurance Costs ($000)				
Groupings	1977	1978	% Change	% of Leeway	1977	1978	% Change	% of Leeway	Combined[2] % of Leeway
Urban-Suburban	$5,255.1	$5,895.7	12.2	19.6	$4,320.6	$5,382.6	24.6	32.5	52.1
Suburban	2,804.6	3,173.7	13.2	13.1	3,854.5	4,258.5	10.5	14.4	27.5
Rural Centers	270.1	311.3	15.3	11.4	586.1	666.7	13.8	22.3	33.7
Suburban-Rural	753.4	925.1	22.8	20.5	1,181.1	1,424.5	20.6	29.1	49.6
Rural	331.4	364.4	10.0	7.9	422.9	529.2	25.1	31.4	39.3
Urban-Center	18,483.2	19,495.7	5.5	10.7	12,018.1	13,482.0	12.2	15.5	26.2

Population	Pension Costs ($000)				Insurance Costs ($000)				
Groupings	1977	1978	% Change	% of Leeway	1977	1978	% Change	% of Leeway	Combined[2] % of Leeway
Under 5,000	$ 745.2	$ 859.8	15.4	9.8	$1,355.2	$1,593.6	17.6	20.5	30.3
5,000 to 15,000	2,743.1	3,291.7	20.0	19.4	3,498.1	4,218.3	20.6	26.1	45.5
15,000 to 30,000	3,811.5	4,266.7	11.9	14.7	4,387.6	5,283.1	20.4	32.1	46.8
30,000 to 75,000	4,033.9	4,563.8	13.1	20.3	3,392.9	4,005.1	18.0	20.9	41.2
Over 75,000	18,483.2	19,495.7	5.5	10.7	12,018.1	13,482.0	12.2	15.5	26.2

[1]Based on appropriation data extracted from a survey of 96 municipalities developed by subcommittee staff.

[2]Pension and Insurance Costs as % of Leeway.

TABLE VIIIb

COUNTY GOVERNMENT
PERCENTAGE CHANGE IN PENSION AND INSURANCE COST[1]
1977 and 1978

	Pension Cost Increases		Insurance Cost Increases	
	1977	1978	1977	1978
Atlantic	22.6%	16.1%	21.7%	25.0%
Bergen	11.3	19.2	10.1	10.0
Burlington	30.5	3.2	31.7	17.0
Camden	44.6	6.6	15.8	22.0
Cape May	31.6	32.0	24.2	18.7
Cumberland	16.1	25.7	28.0	11.8
Essex	4.9	12.1	31.9	2.0
Gloucester	23.1	26.9	9.4	37.1
Hudson	40.0	15.9	45.0	15.8
Hunterdon	33.9	23.3	54.7	8.3
Mercer	46.3	26.0	32.3	26.0
Middlesex	31.5	24.9	30.8	5.4
Monmouth	28.6	42.3	15.4	33.6
Morris	19.2	23.5	8.0	77.8
Ocean	37.1	34.7	17.3	.01
Passaic	15.9	5.6	36.1	16.5
Salem	92.7	19.8	9.5	38.5
Somerset	25.0	53.6	28.6	16.4
Sussex	55.4	20.1	34.8	43.5
Union	54.6	15.5	16.9	27.2
Warren	29.8	-.2	8.6	11.3

[1] Based on appropriation data extracted from a survey of counties by the Subcommittee.

grouping, in 1978 combined pension and insurance cost increases consumed between 26.2 percent and 52.1 percent of the cap leeway. When population groupings are used, in 1978 pension and insurance cost increases consumer 26.2 percent to 46.8 percent of the cap leeway. (See Table VIIIa.)

These figures represent the averages of experiences in selected municipalities. There are wide ranges of experience from municipality to municipality and there are extremes when individual municipalities are examined. There were increases for pension and insurance costs ranging from as low as 5 percent to as high as 127.9 percent of cap leeway.

Insurance cost increases are, to some extent, controllable. This can be accomplished by raising deductibles, reduced coverage supplemented by self-insurance, or outright self-insurance, particularly for property damage. The entire area of insurance should be carefully studied to determine levels and types of coverage and the feasibility of intermunicipal self-incurance plans.

The consideration of insurance alternatives by local governments is recognized as having at least two major obstacles. First, the study to determine the feasibility of self-insurance or higher co-insurance (deductibles) or intermunicipal self-insurance pools requires financing, whether done by a municipality or with the cooperation of the Departments of Community Affairs and Insurance. Secondly, the capitalization of self-insurance plan or insurance pools may be prohibitively high for some municipalities. This is nonetheless an alternative which should be explored before an outright exception for current insurance costs is provided in the cap law.

The study should examine the type and nature of insurance plans currently in place, looking for a "common denominator" among municipality types. The study should also make a careful analysis of capitalization of self-insurance (singly and intermunicipal). The study cannot be general in nature and should be conducted under competent direction. Insurance methods expertise is required, including a perspective that objectively evaluates the need of any kind of insurance plan to begin with. A balanced study group should include the insurance industry, the State regulatory agencies, the business community, and government finance experts. The finished report should survey existing plans, explore the feasibility of alternatives, including specific references to the needs of different municipalities by type, and make recommendations for any required legislation.

Pension cost increases are somewhat uncontrollable and represent, in most cases, a substantial portion of the cap leeway. They are, however, reasonably predictable and are likely to increase within limits. It should be noted that these cost increases are considered by local officials to be costs mandated by State law and beyond local control.

As an offset to the cost increases resulting from inflation, consideration might be given to excluding, from the cap, some portion of pension and insurance cost increases. This might take the form of excluding the first 5 percent of increases in pension and insurance costs, or it might exclude the entire cost of increases as suggested in pending legislation. If the entire increase in pension and insurance costs were excluded from the cap in 1978, the sample group would have had a $5.6 million cap exclusion representing 1.7 percent of the actual capped appropriation.

The loss of non-property tax revenue, e.g., Federal or State aid, poses a problem under the cap law. Because Federal and State aid is a non-capped expenditure, the item on which these funds are expended is not in the cap base. As a result, the loss or reduction of these funds is not only a revenue replacement problem but an expenditure limitation problem. This was demonstrated in the 1979 budgets with the loss of anti-receeesion funds and a cutback in CETA funding.

A hypothetical example serves to illustrate the point. Assuming that Municipality X has been funding 30 percent of its police and fire expenditures with anti-recession funds, this funding is not in the expenditure base under the cap. If the anti-recession funding is lost, 30 percent of the fire and police budget must be cut or other line items severely reduced in order to allocate from the cap allowance, sufficient funding to maintain the fire and police services. If, on the other hand, a loss in the funding source was allowed to be added to the cap base in the year the loss occurred, the service level could be retained. This is not explicitly permitted under the current cap law.

In 1979, the loss of anti-recession aid has been offset to some extent by legislation which provides every municipality in the State which experienced a loss in anti-recession aid over that which was anticipated in the 1978 budget with some State funding. This State aid can be expended outside the cap. Over the long run, the loss of Federal funds is going to prove a significant problem for most municipalities and counties.

One way in which the Legislature can provide some relief for this problem is to allow local governments to retain the expenditure level as part of the base on which the cap is calculated for the first year following the loss of such funds. Although this has the obvious drawback of shifting the loss in aid to the property tax, it may be preferrable to the service reductions that would occur otherwise.

While on the subject of Federal and State aid, the Committee calls to the attention of the Legislature a problem identified by the Home Health Agency Assembly of New Jersey, Incorporated. This problem is the treatment of third party reimbursements.

Home Health Agencies fall into three categories:

1. Municipal agencies under a municipal health department.

2. County agencies under a county health department.

3. County agencies where there is a county board of health.

The services provided by these agencies, while important, are not the subject of the Committee's concern. What is the Committee's concern is the funding mechansim. These agencies, and there are likely other services to which the same funding mechanism applies, are reimbursed for home health services by Medicare, Medicaid, Blue Cross and private insurers. Because this is a reimbursement rather than a grant, the appropriation is capped. With the 5 percent limitation, local governments are reluctant to increase appropriations for these types of services even though reimbursement is virtually assured. Matching grant programs are excluded from the cap limitation under current interpretations of the law. It appears to the Committee that these reimbursement programs should also be excluded from the cap limitation. There is an ". . . underlying legislative policy to encourage and enable local governments to participate fully in . . . in Federal and State aid programs, and it is . . . legislative intent . . . to exclude from the local government spending limitation . . . all local matching expenditures . . . ." These words are borrowed (liberally) from an Attorney General Opinion (Formal Opinion No. 3 - 1977) in declaring all expenditures of Federal and State aid money as well as all local matching expenditures necessary to secure Federal or State aid to be excluded from the cap. This same underlying legislative policy is implicit in the case of reimbursed expenditures. It is recommended that the Division of Local Government Services seek an Attorney General Opinion in this regard, and failing a favorable opinion, that the Legislature provide for such an exclusion by explicit provision in the cap law.

The issue of Federal or State mandated costs which must be met within the cap is one where the parameters and magnitudes are not clear. Any cost mandated by Federal or State law after the effective date of the cap law is an exception from the cap. The problem arises in the interpretation of that provision. For an interpretation of what specific costs are excepted from the cap, the Division of Local Government Services turned to the Attorney General. The opinion given (Formal Opinion No. 3 - 1977) was that a literal interpretation allowed only those costs expressly mandated by law, subsequent to the adoption of the cap law, to be excepted from the 5 percent limitation. Administrative agency action which results in a cost increase, where the authority of the administrative agency pre-exists the cap law, are costs which must be met within the cap. This opinion was in answer to the question as to whether expenditures due to the increase in rates allowed by the Public Utilities Commission caused by the decontrol of fuel oil prices by the Federal government, the increase in Workmen's Compensation Insurance rates, the increase in pension costs due to higher actuarial projections or the cost of court judgments should be excluded from the "limitations on local government spending." The opinion notes further that the cap law

> . . . provisions must be interpreted strictly to exclude only those expenditures for mandatory programs enacted after the effective date of the Cap Law. (See page 11.)

The Attorney General's opinion is a strict construction of the provisions of the law. While the observation can be made that legislative intent was to exclude any costs mandated by law, the opinion stands and represents an accurate literal interpretation of the law. If the Legislature intends that all costs mandated by Federal or State law are to be excluded from the cap, a change in the language of the cap law is required.

The Supreme Court has followed a similar course of strict construction in its decision concerning binding arbitration. In New Jersey State Policemen's Benevolent Ass'n, Local 29 v. Town of Irvington (A-188, decided June 12, 1979) the Court found that the cost of binding arbitration decisions are not "mandated costs" in the sense that phrase is used in the Local Government Cap Law.

In handing down its decision the Court stated that:

> Chapter 85 [the 1977 Amendments to the Employer-Employee Relations Act] does not require municipalities to provide a new service or engage in a new activity, the costs of which were not reflected in pre-1977 budgets. Rather, its provisions merely establish a mechanism for the resolution of disputes concerning the level of benefits which must be provided for services that were funded before the Local Government Cap Law came into existence.

Further, the Court stated,

> . . . the compulsory arbitration award which is here challenged will not necessarily require the Town to increase its overall amount of police "expenditures" . . . . The arbitrator's decision merely sets the terms and conditions of employment for those patrolmen whom the municipality desires to hire or retain on its force. As such, the amount of "expenditures" which must be incurred to implement the award are within the township's control.

To do so the Court ruled,

> . . . would severely undermine the goals sought to be furthered by . . . the Local Government Cap Law . . .effectively render meaningless the 5 percent ceiling on municipal appropriations.

The Court did, however, rule that the arbitrator must take into consideration the municipality's cap situation. Although Chapter 85 does not specifically mention the cap legislation, it does require that the arbitrator consider the interests and welfare of the public and the financial impact of the award on the governing unit, its residents and the taxpayers. The Court stated that,

> . . . the arbitrator in rendering an award must take into account "the public interest and the impact of his decision on the public welfare". . . . Clearly, an arbitrator would breach this duty were he not to take cognizance of a town's CAP constraints.

The Committee endorses the Court's decision and particularly welcomes its interpretation that the arbitrator has an obligation to consider the cap situation.

THE "UNCAPPED" MUNICIPALITIES - THREE YEARS OF EXPERIENCE

Low Tax Rate, No "Cap"

When the 5 percent limitations law was first discussed in the Legislature, the most frequently mentioned objective was to control government spending. The proposals to attain this objective suggested controlling: (1) expenditure levels; (2) increases in property tax levies; (3) increases in tax rates; (4) increases in spending based on changes in personal income; and (5) variations or combinations of the above.

What finally gained approval was a control of government spending by placing a 5 percent limitation on expenditure increases in the case of municipal governments, and a 5 percent limitation on the general purpose levy in the case of county governments. However, there were certain exemptions written into the law. The exemption applies to any municipality which has a municipal purposes tax rate of $.10 or less per $100 of assessed value for the year preceding the year for which the budget is being prepared. There is no explicit provision for exemption from the cap in the case of county government. However, because the cap is placed on the levy in the case of county government, if there is no levy, there is no cap.

The county exemption may never be realized because county government is highly dependent on the property tax levy as a revenue source, (more so than municipalities). There are municipalities which do not levy a property tax (74 in 1978). However, every county government in the State is dependent on the property tax for 50 to 70 percent of its total revenue.

The Three-Year Experience

In the first year for which the 5 percent cap was effective, (tax year 1977), there were 54 municipalities which were not subject to the cap. This number doubled to 108 for tax year 1978, and will be 113 for tax year 1979. (See Tables IXa, X, XI, and XII for detail.)

The jump from 54 to 108 municipalities (1977 to 1978) is accounted for, in large measure, by the method used in determining municipal purposes tax rates. The levy for senior citizen and veteran tax deductions was included when the 1976 municipal purposes tax rates were calculated. These rates were the ones used to determine whether or not a municipality would be subject to the 5 percent cap. The full cost of senior citizen and veteran tax deductions is funded by State government beginning with tax year 1977. (In 1976 and prior years, the State reimbursed municipalities for one-half the cost of senior citizen deductions, and the full cost of the veteran deductions.) As a result, this cost is not reflected in the tax rate after 1976. Were the senior citizen and veteran tax rates not included in the calculation of municipal purposes rates, the number of municipalities exempt from the 5 percent cap in 1977 would have been 80 rather than 54. (See Tables Xa and Xb.)

The tax rate calculation is important. In 1976 there were 58 municipalities which did not levy a property tax to support the municipal budget, but when the senior citizen and veteran tax deduction is included in the rate calculation, this number drops to one. In fact, 10 of the municipalities which did not levy a property tax to support the municipal budget in 1976 found themselves subject to the 5 percent cap after the senior citizen and veteran tax deduction was taken

TABLE IXa

COUNTY	NUMBER OF MUNICIPALITY	NUMBER OF MUNICIPALITIES NOT SUBJECT TO "CAP" FOR TAX YEAR 1977 NO RATE*	1977 UNCAPPED	1978 NO RATE*	1978 UNCAPPED	1979 NO RATE*	1979 UNCAPPED
Atlantic	23	3	3	5	6	3	5
Bergen	70	1	2	1	4	3	3
Burlington	40	7	7	7	17	8	14
Camden	37	2	2	2	2	2	3
Cape May	16	2	2	2	3	2	3
Cumberland	14	5	3	7	9	7	9
Essex	22	-	-	-	-	-	-
Gloucester	24	5	3	5	6	4	7
Hudson	12	1	1	1	1	2	2
Hunterdon	26	6	6	6	12	7	12
Mercer	13	-	-	1	2	1	2
Middlesex	25	3	3	2	5	2	5
Monmouth	53	1	1	2	2	3	4
Morris	39	-	-	-	-	-	1
Ocean	33	2	2	2	2	2	3
Passaic	16	-	-	-	-	-	-
Salem	15	7	8	8	10	8	10
Somerset	21	1	2	1	4	1	4
Sussex	24	3	2	4	5	6	8
Union	21	-	-	-	1	-	1
Warren	23	9	7	13	17	13	17
TOTAL		58	54	69	108	74	113

*No Rate means that a property tax was not levied to support the municipal budget.

TABLE IXb

MUNICIPALITIES EXEMPT FROM "5% CAP" FOR THREE YEARS SINCE IMPOSITION

COUNTY	MUNICIPALITY	MUNICIPAL PURPOSE TAX RATE 1976*		1977	1978
Atlantic	Egg Harbor Township	-0-	.03	None	None
	Port Republic City	-0-	.09	None	None
Bergen	East Rutherford	.004	.04	.01	None
	Ridgefield Boro	-0-	.04	None	None
Burlington	Bass River Township	.044	.10	.04	.02
	Mansfield Township	-0-	.07	None	None
	New Hanover Township	-0-	.03	None	None
	North Hanover Township	-0-	.03	None	None
	Shamong Township	-0-	.03	None	None
	Washington Township	-0-	.04	None	None
	Westhampton Township	.051	.10	.05	.06
Camden	Berlin	-0-	.06	None	None
	Winslow	-0-	.03	None	None
Cape May	Dennis Township	-0-	.06	None	None
	Upper Township	-0-	.06	None	None
Cumberland	Hopewell Township	-0-	.08	None	None
	Stow Creek Township	-0-	.06	None	None
	Upper Deerfield Twp.	.011	.06	.01	.01
Gloucester	East Greenwich Twp.	-0-	.06	None	None
	Harrison Township	-0-	.05	None	None
	South Harrison Twp.	-0-	.04	None	None
Hudson	Harrison Town	-0-	.05	None	None
Hunterdon	Alexandria Township	-0-	.05	None	None
	Holland Township	-0-	.05	None	None
	Lebanon Township	-0-	.04	None	None
	Milford Township	-0-	.05	None	None
	Union Township	-0-	.03	None	None
Middlesex	Plainsboro	-0-	.01	None	None
	Sayreville	-0-	.05	None	None
	South Amboy City	-0-	.07	.06	.06
Monmouth	Colts Neck Township	-0-	.02	None	None
Ocean	Lacey Township	-0-	.06	None	None
	Plumsted Township	-0-	.06	None	None

TABLE IXb (cont'd)

COUNTY	MUNICIPALITY	MUNICIPAL PURPOSE TAX RATE 1976*		1977	1978
Salem	Alloway Township	-0-	.07	None	None
	Mannington Township	.019	.06	None	None
	Oldmans Township	-0-	.04	None	None
	Pennsville Township	-0-	.07	None	None
	Pilesgrove Township	-0-	.04	None	None
	Pittsgrove Township	-0-	.09	None	None
	Quinton Township	.030	.09	.03	.02
	Upper Pittsgrove Twp.	-0-	.08	None	None
Somerset	Branchburg Township	-0-	.04	None	None
	Bridgewater Township	.051	.08	.02	.04
Sussex	Branchville Boro	-0-	.05	None	None
Warren	Allamuchy Township	-0-	.03	.08	.07
	Blairstown Township	-0-	.02	None	None
	Franklin Township	-0-	.05	None	None
	Hardwick Township	-0-	.03	None	None
	Hope Township	-0-	.07	None	None
	Knowlton Township	-0-	.05	None	None
	Mansfield Township	-0-	.02	None	None

TOTAL = 51

*The 1976 Rate Column indicates first the rate before senior citizen's and veteran's deduction and then with those deductions. This facilitates a more accurate comparison of rate changes over the three year period.

TABLE IXc

MUNICIPALITIES WHICH
WOULD HAVE BEEN "UNCAPPED" EACH YEAR EXCEPT
FOR INCLUSION OF SENIOR CITIZENS AND VETERAN'S
DEDUCTION COST CONSIDERED FOR 1976 TAX RATES

NO MUNICIPAL PURPOSE RATE		Municipal Purpose Tax Rate			
		1976		1977	1978
Burlington	Burlington City	-0-	.14	None	None
	Fieldsboro Boro	-0-	.12	None	None
Cumberland	Commercial Township	-0-	.14	None	None
	Downe Township	-0-	.22	None	None
	Shiloh Boro	-0-	.11	None	None
Gloucester	Elk Township	-0-	.12	None	None
	National Park Boro*	-0-	.26	None	.06
Salem	Lower Alloways Creek	-0-	.13	None	None
Sussex	Walpack Township	-0-	.13	None	None
Warren	Harmony Township	-0-	.13	None	None
TOTAL = 10					

*All except National Park have not imposed a municipal purpose levy.

WITH MUNICIPAL PURPOSE RATE					
Atlantic	Buena Vista Township	.08	.14	None	.03
	Weymouth Township	.03	.12	.05	.03
Burlington	Southampton Township	.04	.11	.03	.01
	Woodland Township	.10	.12	.08	.09
Cape May	Middle Township	.05	.12	.03	.03
Cumberland	Fairfield Township	.05	.13	.05	.05
	Greenwich	.06	.12	None	None
Gloucester	Monroe Township	.07	.12	.04	.04
Somerset	Millstone Boro	.09	.14	.06	.04
Sussex	Sandyston Township	.08	.12	None	None
Warren	Alpha	.03	.14	.06	.07
	White	.08	.11	None	None
TOTAL = 12					

TABLE Xa

MUNICIPALITIES "UNCAPPED" FOR 1977 BUDGET

(Total=55)

Atlantic (3)
Egg Harbor
Port Republic
Folsom

Bergen (2)
East Rutherford
Ridgefield

Burlington (7)
Bass River
Mansfield
New Hanover
North Hanover
Shamong
Washington
Westampton

Camden (2)
Berlin
Winslow

Cape May (2)
Dennis
Upper

Cumberland (3)
Hopewell
Stow Creek
Upper Deerfield

Essex (0)
None

Gloucester (3)
East Greenwich
Harrison
South Harrison

Hudson (1)
Harrison

Hunterdon (6)
Alexandria
Holland
Labanon
Milford
Raritan
Union

Mercer (0)
None

Middlesex (3)
Plainsboro
Sayreville
South Amboy

Monmouth (1)
Colts Neck

Morris (0)
None

Ocean (2)
Lacey
Plumsted

Passaic (0)
None

Salem (8)
Alloway
Mannington
Oldmans
Pennsville
Pilesgrove
Pittsgrove
Quinton
Upper Pittsgrove

Somerset (2)
Branchburg
Bridgewater

Sussex (2)
Branchville
Hamburg

Union (0)
None

Warren (8)
Allamuchy
Blairstown
Franklin
Hardwick
Hope
Knowlton
Mansfield
Pahaquarry

Note: "Cap" sheets indicate Shiloh in Cumberland and Greenwich in Warren are "uncapped" Shiloh's MPR in 1976 was $0.113 and Greenwich, $0.103

TABLE Xb

IMPACT OF SENIOR CITIZEN AND VETERAN DEDUCTION ON "CAP" INCLUSION

I. No MPR* in 1976 but "capped" in 1977 after S/C & Vets

Burlington	Burlington City, Fieldsboro	2
Cumberland	Commercial, Downe, Shiloh	3
Gloucester	Elk, National Park	2
Salem	Lower Alloway's Creek	1
Sussex	Walpack	1
Warren	Harmony	1
	Total	10

II. 1976 MPR* Below 10¢ before S/C & Vets and Higher After and Therefore "Capped"

Atlantic	Buena Vista Township, Weymouth	2
Burlington	Southampton, Woodland	2
Cape May	Middle Township	1
Cumberland	Fairfield, Greenwich	2
Gloucester	Monroe Township	1
Middlesex	South Brunswick	1
Somerset	Millstone Boro	1
Sussex	Sandyston	1
Warren	Alpha, Greenwich, Washington, White	4
		15

III. Had MPR* in 1976 Before S/C & V and After S/C & V were Exempt

Bergen	East Rutherford	1
Burlington	Bass River, Westhampton	2
Cumberland	Upper Deerfield	1
Salem	Quinton, Mannington	2
Somerset	Bridgewater	1
	Total	7

*Municipal Purpose Rate

TABLE XIa

MUNICIPALITIES NOT SUBJECT TO LOCAL "CAP" LAW
FOR 1978 BUDGET
(Total 108)

Atlantic (6)
Buena Vista
Egg Harbor Twp.
Estelle Manor
Folsom
Port Republic
Weymouth

Bergen (4)
East Rutherford
Old Tappan
Ridgefield Boro
Rockleigh

Burlington (17)
Bass River
Burlington City
Burlington Twp.
Chesterfield
Eastampton
Fieldsboro
Hainesport
Lumberton
Mansfield
New Hanover
North Hanover
Shamong
Southampton
Tabernacle
Washington Twp.
Westampton
Woodland

Camden (2)
Berlin
Winslow

Cape May (3)
Dennis
Middle Twp.
Upper Twp.

Cumberland (9)
Commercial
Deerfield
Downe
Fairfield
Greenwich
Hopewell
Shiloh
Stow Creek
Upper Deerfield

Essex
None

Gloucester (6)
East Greenwich
Elk
Harrison
Monroe
National Park
South Harrison

Hudson (1)
Harrison Town

Hunterdon (12)
Alexandria
Bethlehem
Clinton
East Amwell
Franklin
Holland
Lebanon
Milford
Readington
Tewksbury
Union
West Amwell

Mercer (2)
Hamilton
Washington

Middlesex (5)
Edison
Monroe
Plainsboro
Sayreville
South Amboy

Monmouth (2)
Colts Neck
Millstone

Morris
None

Ocean (2)
Lacey
Plumsted

Passaic
None

Salem (10)
Alloway
Elsinboro
Lower Alloway Creek
Mannington
Oldmans
Pennsville
Pilesgrove
Pittsgrove
Quinton
Upper Pittsgrove

Somerset (4)
Branchburg
Bridgewater
Millstone
Montgomery

Sussex (5)
Andover Boro
Branchville
Hampton
Sandyston
Walpack

Union (1)
Linden City

Warren (17)
Allamuchy
Alpha
Belvidere
Blairstown
Franklin
Freylinghuysen
Hardwick
Harmony
Hope
Independence
Knowlton
Liberty
Mansfield
Oxford
Pahaquarry
Washington
White

TABLE XIb

MUNICIPALITIES
NEWLY EXEMPT FOR 1978

County	Municipality	MUNICIPAL PURPOSES RATE 1976 Net	1976 Full	1977
Atlantic	Buena Vista Township	.076	.14	None
	Estelle Manor City	.204	.24	None
	Weymouth Township	.03	.12	.05
Bergen	Old Tappan Borough	.55	.59	.04
	Rockleigh Borough	.117	.12	.09
Burlington	Burlington City	-0-	.14	None
	Burlington Township	.194	.23	.08
	Chesterfield Township	.117	.14	.07
	Easthampton Township	.264	.29	.09
	Fieldsboro Borough	-0-	.12	None
	Hainesport Township	.11	.19	.05
	Lumberton Township	.164	.20	.09
	Southampton Township	.037	.11	.03
	Tabernacle Township	.395	.43	.04
	Woodland Township	.098	.12	.08
Cape May	Middle Township	.047	.12	.03
Cumberland	Commercial Township	-0-	.14	None
	Deerfield Township	.15	.25	None
	Downe Township	-0-	.22	None
	Fairfield Township	.046	.13	.05
	Greenwich Township	.06	.12	None
	Shiloh Borough	-0-	.11	None
Gloucester	Elk Township	-0-	.12	None
	Monroe Township	.07	.12	.04
	National Park Borough	-0-	.26	None
Hunterdon	Bethlehem Township	.32	.35	.09
	Clinton Township	.15	.18	None
	East Amwell Township	.22	.24	.03
	Franklin Township	.11	.14	.06
	Readington Township	.125	.16	.03
	Tewkesbury Township	.12	.14	.01
	West Amwell Township	.29	.33	.06
Mercer	Hamilton Township	.28	.42	.09
	Washington Township	.28	.31	None
Middlesex	Edison Township	.295	.33	.10
	Monroe Township	.41	.44	.10
Monmouth	Millstone Township	.378	.42	None
Salem	Elsinboro Township	.14	.24	.03
	Lower Alloways Creek	-0-	.13	None

TABLE XIb, cont'd.

		MUNICIPAL PURPOSES RATE		
		1976		
		Net	Full	1977
Somerset	Millstone Borough	.085	.14	.06
	Montgomery Township	.148	.16	.10
Sussex	Andover Borough	.319	.42	None
	Hampton Township	.35	.40	.01
	Sandyston Township	.08	.12	None
	Walpack Township	-0-	.13	None
Union	Linden City	.28	.30	.01
Warren	Alpha Borough	.03	.14	.06
	Belvidere Township	.675	.74	None
	Freylinghuysen Township	.26	.30	None
	Harmony Township	-0-	.13	None
	Independence Township	.35	.41	.03
	Liberty Township	.41	.47	None
	Oxford Township	.914	1.04	None
	Pahaquarry Township	-0-	-0-	None
	Washington Township	.069	.13	.08
	White Township	.078	.11	None

TOTAL = 56

EXEMPTION LOST FOR 1978 BUDGET

Hunterdon	Raritan	-0-	.04	.18
Sussex	Hamburg	-0-	.05	.31

(Both regained exemptions for 1979 budget)

TABLE XIIa

MUNICIPALITIES NOT SUBJECT TO LOCAL "CAP" LAW FOR 1979 BUDGET

Total 113

ATLANTIC
Buena Vista
Egg Harbor
Estelle Manor
Port Republic
Weymouth

BERGEN
East Rutherford
Old Tappan
Ridgefield

BURLINGTON
Bass River
Burlington City
Burlington Township
Chesterfield
Fieldsboro
Lumberton
Mansfield
New Hanover
North Hanover
Shamong
Southampton
Washington
Westampton
Woodland

CAMDEN
Berlin
Gibbsboro
Winslow

CAPE MAY
Dennis
Middle Township
Upper Township

CUMBERLAND
Commercial
Deerfield
Downe
Fairfield
Greenwich
Hopewell
Shiloh
Stow Creek
Upper Deerfield

ESSEX
None

GLOUCESTER
East Greewich
Elk
Harrison
Logan
Monroe
National Park
South Harrison

HUDSON
Harrison
Kearny

HUNTERDON
Alexandria
Bethlehem
Clinton
East Amwell
Franklin
Hampton
Holland
Lebanon
Milford
Raritan
Tewksbury
Union

MERCER
Hamilton
Washington

MIDDLESEX
Plainsboro
Sayreville
South Amboy
South Brunswick
Woodbridge

MONMOUTH
Colts Neck
Holmdel
Millstone
Upper Freehold

MORRIS
East Hanover

OCEAN
Lacey
Manchester Township
Plumsted

PASSAIC
None

SALEM
Alloway
Elsinboro
Lower Alloway Creek
Mannington
Oldmans
Pennsville
Pilesgrove
Pittsgrove
Quinton
Upper Pittsgrove

SOMERSET
Branchburg
Bridgewater
Millstone
Montgomery

SUSSEX
Andover
Branchville
Fredon Township
Hamburg
Hampton
Lafayette
Sandyston
Walpack

UNION
Linden City

WARREN
Allamuchy
Alpha
Belvidere
Blairstown
Franklin
Freylinghuysen
Greenwich Township
Hardwick
Harmony
Hope
Independence
Knowlton
Liberty
Mansfield
Oxford
Pahaquarry
White

TABLE XIIb

MUNICIPALITIES
NEWLY EXEMPT FOR 1979 BUDGET
15

COUNTY	MUNICIPALITY	Municipal Purpose Tax Rate 1977	1978
Camden	Gibbsboro	.18	.09
Gloucester	Logan	.25	.10
Hudson	Kearny	.22	-0-
Hunterdon	Hampton	.58	.09
	Raritan	.18	.08
Middlesex	South Brunswick	.15	.02
	Woodbridge	.19	.10
Monmouth	Holmdel	.22	.09
	Upper Freehold Twp.	.16	-0-
Morris	East Hanover	.11	.09
Ocean	Manchester	.29	.10
Sussex	Fredon	.49	.09
	Hamburg	.31	.08
	Lafayette	.11	-0-
Warren	Greenwich	.11	.05

EXEMPTION LOST FOR 1979 BUDGET
10

COUNTY	MUNICIPALITY	1977	1978
Atlantic	Folsom	-0-	.32
Bergen	Rockleigh	.09	.44
Burlington	Easthampton	.09	.39
	Hainesport	.05	.25
	Tabernacle	.4	.11
Hunterdon	Readington	.03	.18
	West Amwell	.06	.11
Middlesex	Edison	.10	.16
	Monroe	.10	.21
Warren	Washington	.08	.20

into consideration (Table IX). The other 48 municipalities were exempt even after the senior citizen and veteran deduction costs were considered. It is interesting to note that while 10 municipalities (which do not levy a property tax to support the municipal budget) were subject to the "cap" for the 1977 tax year, there were 7 municipalities which did levy a property tax to support the municipal budget and in combination with the senior citizen and veteran deduction cost still had a municipal purpose tax rate low enough to be exempt from the "cap" (Table Xb).

In the second year under the "cap" law, 1978, the number of exempt municipalities increased from 54 to 108 (Table XIa). This included 24 of the 26 municipalities which would have been exempt from the "cap" in the first year had the senior citizen and veteran deduction not been included in the tax rate calculation that year. The remaining 30 includes 32 newly exempt municipalities less 2 municipalities which were exempt in 1977 but not in 1978 because of an increase in tax rates above $.10 per $100 of value (Table XIb).

Based on the 1978 municipal purposes tax rate, there will be 113 municipalities not subject to the "5 percent cap" for the 1979 budget. This increase of five exempt municipalities, includes 15 municipalities newly exempt less 10 municipalities which were exempt for 1978 but lost the exemption for 1979 budgets (Tables XIIa and XIIb).

Over the three-year period for which the 5 percent cap is applicable, 51 municipalities will not have prepared a municipal budget subject to the cap. An additional 10 did not for 1978, will not for 1979, and would not have for 1977 had the senior citizen and veteran deductions not been considered (Table IXc). There are an additional 12 municipalities which have municipal purposes tax rates of $.10 or less per $100 of assessed value for 1976, 1977, and 1978 and are in a similar situation (Table IXc). Thus, there is a base of 73 municipalities that have not, and with the exception of one or two, will not, be preparing municipal budgets subject to the "5 percent expenditure limitations" for the foreseeable future.

THE BASIS FOR EXEMPTION

An Apparent Contradiction

A review of the changes in municipal purpose tax rates for municipalities exempt from the cap for a given year shows the changes in those rates to be sharp. The property tax rate expresses the relationship between property value and expenditure levels. Changes in either factor affects a change in the tax rate. Yet, while the 5 percent limitation is on expenditures the qualification for exemption is based on tax rate. (The latter was once suggested as the basis for limitation and rejected, a seemingly contradictory situation.)

The exemption from the 5 percent cap on the basis of a municipal purposes tax rate of $.10 or less per $100 of assessed value is a residual provision from a proposal to place a limitation on tax rates.

If the factors determining property tax rates were solely related to expenditure rates, then this exemption should be retained. But expenditure rates are not solely the determinates of property tax rates, and property tax rate control is not the primary objective of the expenditure limitations law. The primary objective of the expenditure limitations law is to control the rate of increased spending by local governments and by doing so the property owner is less likely to pay additional property taxes. Because the control of increased spending is the objective of the expenditure limitations law, the exemption from that law by reason of a tax rate level is contradictory and should be deleted.

The Volatile Nature of Tax Rates

The consideration of tax rates as a basis of a limitation on local government spending must necessarily address four factors:

- Source and use of surplus.
- Property values, changes in value based on assessment practices and actual growth or decline in number of ratables.
- Revenue mix. The source, proportion, change and predictability of all revenue sources.
- Revenue collection experience.

All of these factors, in a given budget year affect the property tax rate. A positive change in property tax collection experience together with other unanticipated or unbudgeted revenue could result in a large surplus and have the effect of reducing a property tax rate while expenditures increase. A revaluation, and in some cases a reassessment, can have the effect of reducing tax rates with no reduction in expenditures.

Table Xb and XIIb show the fluctuations in property tax rates among those municipalities which are newly exempt from the cap for a given year, or among those for which the exemption was lost because of changes in tax rates. For the 1979 budget year the 15 newly exempt municipalities show property tax rate decreases averaging 17 points. This average includes a range of 2 to 49 point reductions with a median 13 point reduction. Those municipalities losing the exemption by reason of a tax rate increase show an increase of 17 points with a range of 5 to 35, and a median 18 point increase. A similar pattern is found when examining the municipalities which were newly exempt from the cap in the 1978 budget year. Tax rates are so volatile, due to the wide range of factors contributing to rate changes, that using the rate as the basis for determining exemption from the existing limitations law is not justified. Some municipalities may be able to avoid the cap occasionally by careful use of non-property tax revenue. Other municipalities have such unstable non-property tax revenue sources that the tax rate continually fluctuates from year to year above and below $.10 per $100 of assessed value, and there are municipalities which may use accounting techniques in a given year for the sole purpose of avoiding the cap in the ensuing year.

A Change in Approach to Exemption

It is left for future study to determine whether there are particular expenditure patterns in municipalities which reflect "minimal services." From that information a formula may be developed which recognizes these "minimal services" costs as a fixed base with a cap imposed on expenditures over that fixed base. It seems reasonable to speculate that there is a "core" of minimal services which meet a ". . . pressing need for public expenditure to protect or promote the public health, safety, morals or welfare." (To use the Local Budget Law language regarding emergencies.) While these costs might vary depending on a number of factors, there are likely some common denominators to be found through research and "number juggling" and, if determinable, could be the basis for an "exemption."

If, in fact, an exemption mechanism is to be retained in any form, it seems that a different approach to exempting a municipality from the 5 percent cap is necessary. <u>If the control of local government spending is the intent of the Legislature in imposing the 5 percent cap, there are no</u>

circumstances where a municipality should be exempt from limitations because there are no situations where a local government has no expenditure.

"CAPPED" VERSUS "UNCAPPED" MUNICIPALITIES

Appropriation Level Differences

One measure of the difference in spending levels and practices between "capped" and "uncapped" municipalities is to compare appropriation changes from year to year. When this comparison is made for the sample group used throughout this report, a significant difference in appropriation levels is disclosed.

Percentage Increases in Appropriations
(Selected Items)

Capped vs. Uncapped Municipalities
1977 and 1978

	UNCAPPED		CAPPED			
			Population Groups		Urbanization Intensity	
	1977	1978	1977	1978	1977	1978
General Govt.	13.5%	17.7%	7.3%	5.2%	11.8%	2.8%
Judiciary	10.2	21.7	7.5	9.8	7.4	11.0
Police	15.2	84.5	7.5	6.6	9.3	8.8
Fire	14.2	19.2	7.5	4.7	4.6	7.4
Public Works	18.5	39.0	1.7	8.4	4.6	9.2
Health & Welfare	16.4	11.0	6.4	12.3	7.7	15.6
Recreation & Conservation	35.3	30.5	5.6	5.1	7.1	3.6
P.E.R.S.	26.2	31.8	17.9	14.1	23.2	12.4
Social Security	12.9	21.1	5.9	8.8	8.9	7.5
Capital (Current Revenue)	136.1	53.7	36.7	30.0	21.5	35.6
Workers Comp. & Insurance	24.6	49.7	27.8	24.7	26.0	24.6
CETA	22.6	18.0	(only < 5,000)		--	--
Other	21.8	116.5	36.7	78.2	12.8	65.0
AVERAGE PERCENT	27.5%	39.6%	14.4%	17.4%	12.1%	16.9%

The percent increase in appropriations from 1976 to 1977 among uncapped municipalities is almost two times that of capped municipalities. For 1977 to 1978 the difference expanded to almost two and one half times. Uncapped municipalities show a 27.5 percent increase in 1977 and a 39.6 percent increase in 1978. Capped municipalities, using population groupings, show a 14.4 percent increase in 1977 and a 17.4 percent increase in 1978. Grouped by urbanization intensity, capped municipalities show a 12.1 percent increase in 1977 and a 16.9 percent increase in 1978. Clearly the uncapped municipalities increased appropriations at a significantly faster rate of increase than did capped municipalities.

It must be recalled that these findings are based on a sample and do not necessarily reflect what is occurring Statewide. However, this sample is a reasonable cross section and is likely to be reflective of the situation Statewide.

Expenditure Pressures

With 113 of the 567 municipalities in New Jersey uncapped for 1979, there may be a problem of expenditure pressures crossing municipal borders. This is most likely to be felt by capped municipalities contiguous to one or more uncapped municipality. This is most likely to be felt in employee wage demands. How long it will take for municipalities A and B who are capped and trying to control wage and salary increases to really feel pressure from organized employee groups, when three other municipalities in the county are uncapped and can afford more liberal salary and fringe benefit increases is a question that cannot be answered. However, there are indications that this pressure is being felt already.

SPECIAL DISTRICTS - A SPECIAL PROBLEM

The statutes provide for the creation of "special districts" such as fire, garbage and lighting districts. When these are created, their budgets are not prepared and reviewed through the regular budget process. As such, any expenditure for special district purposes would not be subject to the cap law.

The Committee finds this to be a dangerous situation. Each one of those special districts costs money -- money which comes from the property tax. Each one of those districts is controlled other than by the municipal governing body. This circumvention of the cap law, and more importantly, the decentralization of municipal services, must be recognized by the Legislature. The cap law should not be structured to encourage the "splintering" of local governments.

An example serves to make the point. The governing body of Municipality A, being knowledgeable, diligent and creative, finds that the 5 percent limitation on expenditure increases is too restrictive, even with the exceptions, add-ons, and referendum provisions. They have already used surplus funds or the revenue from sale of assets to reduce the tax rate below $.10 per $100 of assessed value and escaped the cap law for one year. The expenditure base, for the year the municipality was uncapped has been expanded and they can "get by" the next year under the cap. The second year under the cap starts to restrict spending plans and a new approach has to be found to ease the restrictiveness of the cap law.

The municipality decides to create special districts. This time for fire protection. By doing so the expenditure for the service provided in the special district is not in the budget. However, the expenditure base is not changed to reflect the cost shift. As a result these funds are "freed up" for spending on other services or programs in addition to the 5 percent additional funding which the cap allows.

In the next year other special districts are created -- perhaps garbage districts. The same pattern is repeated. Again, funds are "freed up" in the budget for spending on other services or programs. There is also the possibility that the creation of the fire and garbage district has reduced the tax rate so that another totally uncapped year is realized.

Through the creation of special districts, spending controls are lost and municipal control of services is foregone, yet property taxes are used to fund the services provided by special districts.

The Committee strongly recommends that the Legislature proceed immediately with a study of special districts with a view to severely restricting the circumstances under which special districts -- for any purpose -- may be created. In the interim, legislation should be adopted precluding the establishment of special districts until such time as a study of the problem can be completed.

SUGGESTED LEGISLATION -- A FINE-TUNING REQUIREMENT

While the local government cap law is found to be reasonably structured and rational, there needs to be some "fine-tuning." The legislation suggested in this section, other than the uncapped municipality provisions, is substative but serves to clarify legislative intent rather than expand or vary the basis or structure of the cap law.

The amendments to the cap law suggested in this section which recommend that there be no uncapped municipalities represents a change in legislative policy.

The Committee recommends adoption of two bills pending before the Legislature. These bills represent an adjustment to the cap program and do not vary the basis or structure of the cap law.

The first is Senate Bill No. 3146 (OCR). This bill sets a specific time, the last Tuesday in February, for a referendum proposing to permit a municipal budget to be adopted which exceeds the cap limit. Further, it prescribes the time requirements for introduction, approval and publication of a municipal budget affected by such a referendum. This proposal would, by law, establish a uniform procedure. The bill also serves to reduce the costs incurred by the county boards of election when several municipalities conduct referenda at different times.

The second recommended bill is the Assembly Committee Substitute for Assembly Bill No. 3227. While not a change in the cap law, it addresses a cap-related issue. The proposal, in essence, places a 5 percent limitation on increases in rates for the AFDC, SSI, and county payments for maintenance of patients in State institutions. State government would be responsible for any costs associated with rate increases in these three programs which are in excess of 5 percent. The distinction between rate increases and actual expenditure increases attributable to rate increases is important to the understanding of this proposal. This bill limits county expenditure liability to that attributable to a <u>rate</u> change. It <u>does</u> <u>not</u> limit the expenditure directly; that is, it <u>does</u> <u>not</u> impose a 5 percent limitation on the appropriation for these programs. (See Assembly Committee on Taxation, Subcommittee on A-3227 report and the committee substitute bill for further analysis and reasoning.)

The Committee also notes Senate Bill No. 180 as amended. The Committee recommendation on emergency appropriations (see below) is based on this bill and represents a refinement of that proposal.

Upon review of the specific provisions of the cap law, the interpretation of the cap law, and discussion of the specific provisions during public hearings and at "round-table" discussions, it is the Committee's opinion that the cap law should be amended to adjust the legislative "experiment" in restraining local government expenditure.

In summary, the changes recommended by the Committee accomplish the following:

1. Permit capital expenditures to be made outside the cap, to encourage pay-as-you-go capital financing;

2. Permit program expenditures which are reimbursed by Federal or State funds to be made outside the cap;

3. More carefully defines the type of, and the review and approval process for, emergency appropriaions which may be funded outside the cap;

4. Delete the provisions that allow for uncapped municipalities; and

5. Extends to county government the exclusion from the cap for programs funded in whole or in part by Federal or State funds.

The Committee recommends exclusing from the cap law all capital expenditures. This is a matter of prudent fiscal policy. The cap law should not be constructed to force municipalities to borrow funding for capital improvements to circumvent the cap restrictions. Decisions regarding borrowed capital financing versus current, or pay-as-you-go, financing should be based on the prudency of the financing mechanism. The irony is that including capital appropriations in the cap does not contain expenditure levels. It may even have the effect of increasing costs. Costs may be incurred in the form of neglected maintenance, repair and replacement as current capital expenditures are deferred in order to produce a budget within the cap. Additional costs may also be incurred if the municipality or county decides to finance projects through borrowing rather than pay for them with a direct appropriation. The "pay-as-you-go" alternative must be preserved, not discouraged.

The Committee recommends amending the cap law to permit reimbursable expenditures to be outside the cap. (See page 118 for further discussion of this issue.) The cap law now provides an exclusion from the expenditure limitations for programs funded wholly or in part by Federal or State funds. This has been implemented as an exclusion for grants or matching grants, but not reimbursements. The legislative policy implied by the exclusion language is one of encouraging and enabling local governments to participate fully in Federal or State aid programs. It is consistent with that implied policy to recognize reimbursement programs, and to include not only Federal or State reimbursement, but any reimbursement program. Thus, Medicare, Medicaid, Blue Cross (or other private insurers) reimbursements, which represent a substantial proportion of the expenditure, would be uncapped. This problem was brought to the attention of the Committee by the Home Health Agency Assembly of New Jersey, Inc. There are likely other services for which reimbursement is available. These other services were not the focal point of the Committee but rather the Committee concerned itself with the funding mechanism.

The Committee recommends an amendment of the cap law regarding emergency appropriations. The Legislature should more clearly define the type and nature of emergency appropriations which are to be outside the cap, and address the relationship between the procedure prescribed in the "Local Budget Law" and that in the cap law. The type and nature of emergency appropriations and the procedures for making same, as prescribed in the "Local Budget Law" are reasonable, time-tested, and sufficiently restrictive so that permitting these emergencies outside the cap is recommended. The specific reference to sections of the "Local Budget Law" pemitting such appropriations should be included in the text of the cap law to preclude any misinterpretation of legislative intent. Further emergency appropriations made prior to the adoption of the budget are currently not outside the cap. Thus, an emergency appropriation for repair of streets or bridges damaged during the winter are treated within the cap for that year This places an undue burden upon local governments. The suggested amendments redress this issue. All emergency appropriations or special emergency appropriations made prior to, concurrent with, or subsequent to the adoption of the budget would be uncapped to the extent they are approved consistent with the requirements of the "Local Budget Law."

The Committee recommends that the cap law be amended to delete any exemption from the cap law by virtue of a tax rate of $.10 per $100 of assessed value or less. The cap law explicitly provides (C.40A:4-45.2) that where the municipal purposes tax rate is $.10 or less per $100 of assessed value, the cap does not apply. This represents a policy statement and appears to have been based on the observation that there are several municipalities wherein the municipal purposes rate has been, and would likely continue to be, below $.10 per $100 of assessed value; and in some cases, the rate is zero. These municipalities are primarily rural in character, have high public utilities gross receipts and franchise tax income, have minimal services, or all three. However, what has occurred is that in addition to these types of municipalities, other municipalities have resorted to "ingenious methods" to reduce the municipal purpose rate for one year to a level at or below $.10 per $100 of assessed value, and have been, therefore, able to circumvent the long-term objective of containing expenditure increases. This situation is a serious one, and is contrary to legislative intent. The Committee feels that if the control of local government spending is the intent of the Legislature there are no circumstances where a municipality should be exempt from the cap (see section titled, The "Uncapped Municipalities -- Three Years of Experience," starting on page 122 for a more detailed examination of uncapped municipalities.)

The Committee recommends the current exclusion of Federal and State funds be extended to county government. This is intended to encourage and enable county governments to fully participate in Federal and State programs whether on a matching or reimbursement basis. The language used to accomplish this objective is necessarily different from the language regarding municipal budgets. The county cap is on levy, not expenditure, and therefore, the language excludes from the cap limit that amount included in the levy which represents the county share of matching programs or that amount which represents an appropriation which is, in significant part, reimbursable by Federal, State or private insurer programs. (See page 118 for discussion of this issue.)

This recommendation is expected to place county welfare costs and programs reimbursed through Medicare, Medicaid, Blue Cross or private insurers outside the "cap." The inconsistency regarding the exclusion of welfare program costs for municipalities but not for county governments is noted in the Attorney-General opinion regarding the extent to which welfare costs are capped. (Formal Opinion No. 5 - 1977.)

All of these amendments are intended to be a further clarification, or restatement, of legislative intent and are not designed or intended to relax the 5 percent limitation.

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E X H I B I T IV

Text of Local Cap Law Incorporating Amendments for Fine-Tuning

40A:4-45.1 Legislative policy

It is hereby declared to be the policy of the Legislature that the spiraling cost of local government must be controlled to protect the homeowners of the State and enable them to maintain their homesteads.

At the same time the Legislature recognizes that local government cannot be constrained to the point that it is impossible to provide necessary services to its residents.

In recognition that the two concepts may be at cross purposes, the Legislature recommends that the program proposed hereunder be instituted on an experimental basis with a review at the end of the period to adjust the program based upon experience.

L.1976, c. 68, § 1, eff. Aug. 18, 1976.

40A:4-45.2 Final appropriations; limitation on annual increase

Beginning with the tax year 1977 municipalities[, other than those having a municipal purposes tax levy of $0.10 or less per $100.00] and counties shall be prohibited from increasing their final appropriations by more than 5% over the previous year except within the provisions set forth hereunder.

L.1976, c. 68, § 2, eff. Aug. 18, 1976.

40A:4-45.3 Municipalities; exceptions to limitations

In the preparation of its budget a municipality shall limit any increase in said budget to 5% over the previous year's final appropriations subject to the following exceptions:

a. The amount of revenue generated by the increase in its valuations based solely on applying the preceding year's general tax rate of the municipality to the assessed value of new construction or improvements;

b. Capital expenditures[funded by any source other than the local property tax, and programs funded wholly or in part by Federal or State funds in which the financial share of the municipality is not required to increase the final appropriations by more than 5%;] <u>including appropriations for current capital whether in a capital budget, to a capital improvement fund, or as a component of a line item in the current or utility operating budget.</u>

<u>c. Programs funded wholly or in part by Federal or State funds or programs where Federal, State or other funds are in reimbursement for local expenditures;</u>

[c.]d.[An increase based upon an ordinance declaring an emergency situation according to the definition provided in N.J.S. 40A:4-46 approved by at least two-thirds of the governing body and approved by the Local Finance Board; provided, however, that all such emergency authorizations shall not exceed, in the aggregate, 3% of current and utility operating appropriations made in the budget adopted for that year, and provided further that nothing herein provided shall be applicable to any emergency appropriation resolution adopted pursuant to N.J.S. 40A:-4-46 for a purpose referred to in d. or j. below;] Emergency appropriations for the purposes set forth in N.J.S. 40A:4-46, 40A:4-53, 40A:4-54, and 40A:4-55.1 adopted at any time in the year whether before or after the adoption of the budget, and approved by at least two-thirds of the governing body and the Director of the Division of Local Government Services; provided, however, that such emergency authorizations shall not, in the aggregate, exceed 3% of current operating appropriations made in the budget adopted for that year, and provided further, that nothing herein provided shall be applicable to an emergency appropriation resolution adopted for a purpose referred to in e. and k. below;

[d.]e. All debt service, including that of a Type I school district;

[e.]f. Amounts required for funding a preceding year's deficit;

[f.]g. Amounts reserved for uncollected taxes;

[g.]h. Expenditures mandated after the effective date of this act pursuant to State or Federal law;

[h.]i. Expenditure of amounts derived from new or increased service fees imposed by ordinance, or derived from the sale of municipal assets;

[i.]j. When approved by referendum; or

[j.]k. Amounts required to be paid pursuant to any contract with respect to use, services or provision of any project, facility or public improvement for water, sewer, solid waste, parking, senior citizen housing or any similar purpose, or payments on account of debt service therefor, between a municipality and any other municipality, county, school or other district, agency, authority, commission, instrumentality, public corporation, body corporate and politic or political subdivision of this State. With respect to the amounts required to be paid for senior citizen housing in the above cited political subdivisions or bodies, the exceptions shall be subject to the review and approval of the Local Finance Board.

40A:4-45.4 Counties; exceptions to limitation

In the preparation of its budget, a county may not increase the county tax levy to be apportioned among its constituent municipalities in excess of 5% of the previous year's county tax levy, subject to the following exceptions:

a. The amount of revenue generated by the increase in valuations within the county based solely on applying the preceding year's county tax rate to the apportionment valuation of new construction or improvements within the county and such increase shall be levied in direct proportion to said valuation;

b. Capital expenditures [funded by any source other than the county tax levy;] including appropriations for current capital whether in a capital budget, to a capital improvement fund, or as a component of a line item in the current or utility operating budget.

c. [An increase based upon a resolution making an emergency appropriation according to the definition provided in N.J.S. 40A:4-46 approved by at least two-thirds of the board of chosen freeholders of the county and, except as to an emergency appropriation] Emergency appropriations for the purposes set forth in N.J.S. 40A:4-46, 40A:4-53, 40A:4-54, and 40A:4-55.1 adopted at any time in the year whether before or after the adoption of the budget and approved by at least two-thirds of the governing body and the Director of the Division of Local Government Services; provided, however, that such emergency authorizations shall not, in the aggregate, exceed 3% of current operating appropriations made in the budget adopted for that year, and provided further, that nothing herein provided shall be applicable to an emergency appropriation resolution adopted for a purpose referred to in d. or f. below, where pertinent, approved by the county executive;

d. All debt service;

e. Expenditures mandated after the effective date of this act pursuant to State or Federal law;

f. Amounts required to be paid pursuant to any contract with respect to use, services or provision of any project, facility or public improvement for water, sewer, solid waste, parking, senior citizen housing or any similar purpose, or payments on account of debt service therefor, between a county, and any other county, municipality, school or other district, agency, authority, commission, instrumentality, public corporation, body corporate and politic or political subdivision of this State. With respect to the amounts required to be paid for senior citizen housing in the above cited political subdivisions or bodies, the exceptions shall be subject to the review and approval of the Local Finance Board.

g. That portion of the county tax levy which represents funding to participate in any Federal or State aid program, or which represents funding for participation in programs for which Federal, State, or other funds are available on a reimbursement basis.

40A:4-45.5 Emergency increase in county tax levy; exclusion from limitation of municipality

In any county wherein the freeholder board has approved an emergency increase in the county tax levy, the amount of such increase apportioned to each municipality shall not be considered in the limitation set forth in sections 2 and 3 herein, limiting the increase in municipal budgets.

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