

NEW JERSEY TAX POLICY COMMITTEE

(appointed by the Governor pursuant to Executive Order No. 5 of 1970)

HARRY L. SEARS *Chairman*
VERDELL ROUNDTREE *Vice Chairman*
WILLIAM MILLER *Chief of Staff*

TASK FORCE A

The chairmen and vice chairmen of the Committee and of each of the Task Forces.

TASK FORCE B—Part I:

The Revenue Gap and Distribution of the Tax Burden

ALFRED E. DRISCOLL, *Chairman*, Camden County
Chairman, New Jersey Turnpike Authority
Former Governor of New Jersey
JOHN P. LEWIS, *Vice Chairman*, Mercer County
Dean, Woodrow Wilson School of Public &
International Affairs, Princeton University
GEORGE BALDANZI, Passaic County
International President, United Textile Workers
of America
DONALD G. BORG, Bergen County
Editor & Publisher, The Record & The Sunday Record
ROBERT E. BRUMUND, Gloucester County
Mayor of Woodbury

TASK FORCE C—Part II: The Property Tax

LEONARD C. JOHNSON, *Chairman*, Mercer County
President, New Jersey Manufacturers Assn.
ANN KLEIN, *Vice Chairman*, Morris County
Assemblywoman and Former President, New Jersey
League of Women Voters
JOHN W. DUCKETT, Cumberland County
Business Manager, Local 222, Laborers' Union
JAMES P. DUGAN, Hudson County
Attorney and State Senator
FREDERICK H. GUNTSCH, Bergen County
Tax Manager and Asst. Secretary, Grand Union Co.
MARRIOTT G. HAINES, Cumberland County
Assessor, City of Vineland
ROBERT W. KLEINERT, Bergen County
President, New Jersey Bell Telephone Co.
Alternate: ROBERT C. VONSOthen, Somerset County
General Tax Administrator, New Jersey
Bell Telephone Co.
PHILIP H. MOWERY, Hunterdon County
Realtor and Former Vice President, New Jersey
Farm Bureau

TASK FORCE D—Part V:

Non-Property Taxes and a Fair and Equitable Tax System

RICHARD W. DEKORTE, *Chairman*, Bergen County
Attorney and Assemblyman
HENRY C. LANG, *Vice Chairman*, Bergen County
Former President, New Jersey Taxpayers Assn.
Senior Tax Adviser, Standard Oil Company (N.J.)
ARCHIBALD S. ALEXANDER, Jr., Mercer County
Essex County Attorney
RICHARD J. HUGHES, Mercer County
Attorney and Former Governor of New Jersey
LAWRENCE L. LASSER, Essex County
Attorney
RONALD OWENS, Essex County
Attorney and Assemblyman
VAN DYKE J. POLLITT, Union County
Councilman, Borough of Fanwood
FRANK P. REICHE, Mercer County
Attorney

TASK FORCE E—Part III:

State Aid and Service Levels

ROBERT N. WILENTZ, *Chairman*, Middlesex County
Attorney and Former Assemblyman
LAWRENCE F. KRAMER, *Vice Chairman*, Passaic County
Former Mayor of Paterson, (resigned October 1971,
upon becoming Commissioner, Department of
Community Affairs)
ROBERT F. GOHEEN, Mercer County
President, Princeton University
HOWARD C. HARDER, Morris County
Chairman & Chief Executive Officer, CPC International
Alternate: VICTOR FRANK, JR., Bergen County
Executive Assistant to President, CPC
International
VERDELL ROUNDTREE, Union County
State Director, United Negro College Fund, Inc.
RICHARD B. SCUDDER, Monmouth County
Publisher, Newark News
PATRICIA Q. SHEEHAN, Middlesex County
Mayor of New Brunswick

TASK FORCE F—Part IV:

The Use and Costs of Public Credit

JOHN J. MAGOVERN, JR., *Chairman*, Union County
Former President, Mutual Benefit Life Insurance Co.
HUGO M. PFALTZ, JR., *Vice Chairman*, Union County
Attorney and Assemblyman
J. EDWARD CRABIEL, Middlesex County
President, Franklin Contracting Co. and State Senator
J. RICHARDSON DILWORTH, Mercer County
Chairman of the Board, Rockefeller Center, Inc.
EDWARD A. JESSER, JR., Bergen County
President & Chief Executive Officer of Peoples Trust
of New Jersey

The Report in Brief

The thrust of this Report is to achieve a balanced tax structure for State and local government in New Jersey. The key recommendations are to cut the local property tax by approximately 40%; and to follow the policy that henceforth New Jersey State and local governments will raise not more than one-third of their combined tax revenues from property taxes.

New Jersey's present tax structure is inelastic and regressive. By 1980, if the present system is not changed, State and local governments would have to resort to new taxes or rate increases totaling \$1 billion to \$1.8 billion a year to close recurrent revenue gaps.

The effective rate of tax incidence of the present total State-local tax structure is 19.1 percent for families with under \$3,000 a year in income. For those with over \$25,000 a year, the effective rate of the total structure is 5.4 percent.

The property tax is the chief cause of the major defects in the structure. The tax is by all measures either the highest or near-highest in the nation. It is harshly regressive.

The Committee recommends the following measures to reduce property taxes by an estimated \$863 million a year:

	<i>Amount of Reduction</i>
State financing of local school costs	\$607.9 million (net)
A \$100 million municipal aid program	75.0 million (net)
State assumption of welfare costs	75.0 million
Senior citizens property tax relief	37.8 million
Abolition of veterans' property tax deduction	22.3 million
State assumption of county judicial costs	30.0 million
State payments to municipalities for state-owned property	13.5 million
State assumption of county tax board costs	1.5 million

To insure against future escalation of local property taxes, the Report recommends that local tax rates be

limited by law to not exceeding: \$.50 per hundred for county taxes, exclusive of debt service; \$1.50 per hundred for municipal purposes taxes, exclusive of debt service and reserve for uncollected taxes; and zero for local school taxes, except for debt service and specially voted taxes for amounts over the standard state-funded program. These are ceilings to reduce the high present tax rates; most local units will be able to live well below the ceiling rates because of the massive property tax relief program recommended by the Committee.

State funding of substantially the full costs of the public schools is one of the main vehicles for property tax reductions. The other is a new municipal block grant system to take care of the "municipal overburden" or high cost of providing municipal services in an urbanized society. The State would provide sufficient funds for a thorough, efficient standard of education in each local school district. Districts now spending above the standards would be allowed to continue. Local referendum approval would be required for those seeking to increase spending above State support levels (unless the district falls within the exception). A statewide property tax levied at a rate of \$1.00 per hundred of equalized valuation would be used to provide \$553 million (as of 1972) of the funds needed. The remainder of \$852.9 million required would be obtained from non-property taxes, including \$245 million of existing State Aid money.

The following steps would be taken to provide \$926.1 million in non-property tax revenues:

A personal income tax at one-half New York rates	\$550.0 million
Elimination of some sales tax exemptions	237.6 million
Increase corporation tax	90.0 million
Increase business personal property tax rate	27.5 million
Cigarette tax increase	30.0 million
Beer and wine tax increases	10.6 million
Tax on non-commercial banks	2.0 million
Abolition of retail gross receipts, unincorporated business tax	-21.6 million

Consultants and staff for the Report are acknowledged at the foot of the Synopsis of each Part—

William Miller, Staff Director
 Lewis B. Thurston III, Administrative Assistant to the Chairman
 John Kolesar, Editorial Consultant
 Martin T. Dyke, Office Manager

Large cities and urban centers should be allowed to adopt site value taxation by local referendum. Land would be assessed at full value, improvements at 50 percent of value.

The Farmland Assessment Act should be tightened to prevent misuse.

The senior citizens' property tax relief program should be expanded and revised to vary assistance according to income and local tax rates. Elderly tenants should also be provided assistance.

Administration of the property tax should be reformed to eliminate unfair disparities in assessments.

A New Jersey Municipal Credit Corporation should be created to lower local bond interest rates by operating a municipal bond bank, a loan guaranty fund and a debt management advisory service.

Administration of the tax laws should be reformed to make appeals and other procedures less expensive and burdensome for taxpayers.

The committee's recommendations would reform and restructure the State and local tax system of New Jersey to achieve these great benefits:

- **Provide massive relief to the property taxpayers of the State.**
- **Shift the tax burden from property to non-property tax sources.**
- **Close the projected State revenue gap, and avoid recurring State fiscal crises.**
- **Eliminate the gross inequities of the present tax system by redistributing the tax burden according to ability to pay.**
- **Eliminate the inequities of present tax exemptions which make some taxpayers carry a burden that belongs to others.**
- **Humanize the tax system with a new plan for tax relief for senior citizens, including renters.**
- **Modernize the financial support of the public schools, to guarantee every child in the State an equal educational start in life.**
- **Establish permanently fixed ceilings on local tax rates, to guarantee every homeowner that property taxes will be held down in the future as well as the present.**
- **Provide a fair and equitable tax system, fitted to the needs of effective and efficient State and local governments.**
- **Provide a balanced tax structure which will generate revenues to match the cost of government, from economic growth rather than from continual new taxes and increases in tax rates.**

NEW JERSEY TAX POLICY COMMITTEE

Report: Part III

Service Levels and State Aids

Synopsis of Part III

This is the third of five parts and a summary volume which make up the Committee's Report. It includes some of the major recommendations designed to shift the burden of state and local taxation in New Jersey from property to non-property tax resources.

Organization and Functions. The ideal level of government for the delivery of municipal services has been of deep concern to the Committee. After a complete review of the existing research results, a substantial effort by the Committee staff to develop new information, and a survey of the practice in all of the fifty states, the Committee concludes that there is insufficient knowledge available to justify any mandate of a particular area or level of government for the administration and delivery of the various major services of local government. The Report observes:

"The burden of proof seems to have been placed upon those who would propose change, but much may be said to place it upon those who would maintain the status-quo. It obviously is not change that has gotten us into trouble."

Transfer of Functions. There are three functional areas in which the state now has a substantial administrative responsibility, that is, the judicial system, the

welfare system and the county tax assessment system. In each of these three areas, there is a strong case for matching state financial responsibility with state functional responsibility. This would result in a logical and desirable reduction of the property tax burden, and also accomplish a coordination of planning, programming and budgeting responsibilities.

The Committee recommends:

A transfer of financial responsibility to the state for (1) all costs of municipal and county welfare services, (2) the costs of judicial services now borne by the county budgets, and (3) the costs of operation of the county boards of taxation. These transfers will relieve the property tax, at 1971 levels, of the following estimated burdens:

Welfare—\$75.4 million

Judicial costs—\$30.0 million

County tax boards—\$1.4 million

Regionalization. Regionalization of services promises progress in a sense different from tax policy, for in the tax field, our "progress" often consists only of doing what we should have done many, many years ago. In the voluntary transfer of functions by agreement of

Consultants and staff for this part:

Ernest C. Reock, Jr.

Phillip H. Burch, Jr.

Eugene J. Schneider

William Miller, assisted by Committee staff

The cooperation of Dr. Edward Kilpatrick and the Division of Business and Finance, Department of Edu-

cation and S. Herbert Starkey, Director, Research Division, N.J.E.A.—for educational finance data; Robert G. Williams, Executive Director of the Governor's Task Force on Welfare Management; and Joseph N. Ehret, Director, and Aileen Cavanagh, Chief of Bureau of Research and Analysis, Division of Local Finance—for county and municipal data—are gratefully acknowledged.

local governments, either to a regional agency of their own creation or to a different governmental unit, there exists the possibility of innovation that is desperately needed.

The Committee recommends:

In view of findings of the Commission on County and Municipal Government, the state should adopt a program of state-financed feasibility studies of regionalization or consolidation of particular functions, where such a study is formally requested by at least one municipal chief executive. For those proposals which are found feasible, the program should also provide a form of financial incentive, such as transitional state payments to offset temporary financial disadvantage to one of the municipal participants, or a subsidy of administrative costs for an initial period of years, as in A2450, in the 1971 Legislature;

The proposed County Optional Charter Law should be enacted; and

The County and Municipal Government Study Commission should be made a permanent state agency.

State Aids Generally. The major categories of state aid to local government, other than for schools, cover health, roads and urban aid. The Committee concludes that the present program which encourages regionalization of health services is satisfactory in its present form, with planned improvements in the formula for apportionment of aid. Road aids are found to suffer from a number of serious defects and inequalities.

The Committee recommends:

A complete revision of the three present state road aid programs, so that the distributions will be based largely on the 1967 program legislation. Two of the recommendations are directed toward increasing efficiency and economy in highway construction and maintenance, by greater emphasis on the use of the aid system to assure compliance with a highway master plan, more emphasis on environmental and other non-transportation factors, and greater service by the Department of Transportation to counties and municipalities in the preparation and publication of standards of design, construction, maintenance and costs for road work.

A Proposed Block Grant System. One of the key recommendations of this part is a new system of block grants to municipalities intended to provide all municipalities with the equivalent of a property tax base equal to the statewide average property tax base per capita, for the support of municipal functions. This would substitute a \$100 million grant program for the present \$25 million program of urban aid. The proposed block

grant is intended to cope with the problem of municipal "overburden", and is deemed a package together with the new proposed system of state funding of the costs of education.

The Committee recommends:

The block grant would replace the present urban aid program, and would be controlled as follows:

(i) the first year's distribution is mandated for property tax reduction;

(ii) no municipality may receive more than 50% of its previous year's tax levy for municipal purposes plus urban and or block grant aid, or both, received; and

(iii) the expenditure of grant moneys shall be subject to a performance post-audit by state management examiners, with appropriate sanctions for improper use of funds.

State Funding of School Costs. This part of the Report presents recommendations of far reaching consequence, and of major importance in the restructuring of the state-local finance system in New Jersey. Its basic strategy is equality of educational opportunity for every school pupil in the state. Its tactics are to establish high quality standards, to guarantee state funding of financial support needed to implement those standards, and to provide for a continuing performance audit of the effectiveness of educational expenditures.

The Committee concludes:

Equality of educational opportunity under the State and Federal Constitutions, as presently interpreted by the Courts involves two separate issues: *First*, the equality of property tax burden to provide financial support for the state responsibility in education—now required by the weight of authority of those Courts which have passed on the issue. *Second*, such equality of educational opportunity as may be implied in equal expenditures per pupil—this has not yet been recognized by the Courts as a constitutional requirement, so long as the funds provided by the state support a "thorough and efficient" education. The constitutionality of permitting any expenditures above that level in the discretion of the local school board has not yet been determined.

The Committee recommends:

A program of full state funding of the current operating expenses of a uniform high quality standard of elementary and secondary education; with provision for some local leeway, with state equalization aid, for a local district to spend more per pupil than the state supported program subject to approval by the voters at a local referendum; and provision

to guarantee that every child shall have an equal educational opportunity under a public school system which remains under local control and management.

The Committee further recommends:

Full funding shall be provided from a combination of sources consisting of state non-property taxes and a statewide uniform local property tax for schools at an effective tax rate of \$1.00 per hundred of full valuation, the latter to replace existing school taxes to finance the state standard quality educational program.

Cost of the Program. A first year's cost estimate (page 49 of the Report) shows that the new program would support a net total current expense of \$1.4 billion for the school year 1971-72. This program would be funded with \$552.9 million from the property tax, \$245 million already being provided by the state to fund the present state aid formula in fiscal 1971-1972, and new non-property taxes to be raised by the state in the amount of \$607.9 million.

In brief, the recommended program would cut the average school property tax by one-half, and would

equalize educational opportunity for all school pupils in the state. It would apply the State's resources to permit and encourage presently under-funded and inadequate local educational programs, in the core cities and in poor school districts, to be brought up to a quality level without burdening local taxpayers at all.

As compared with the present policy of ultimately financing 40% of the total expenditures of the school districts (including current, capital, and pension fund costs) from non-property taxes at the state level, the recommended program will provide 65% from non-property taxes. This will assure part of the massive relief of the real estate tax which is a goal of the total program recommended by the Committee.

The Committee's basic recommendations concerning educational financing while hopefully complying with constitutional requirements, were arrived at prior to, and independent of, all of the recent judicial decisions in this country. They represent the Committee's own judgment concerning sound educational policy regardless of constitutional requirements.