

Senator Smith, Assemblyman Wisniewski, Senator Karcher, Senator Kyrillos, Assemblyman Gordon, Assemblyman Malone, Ladies and Gentlemen:

Thank you for allowing me to appear before this joint legislative committee that could have the most significant impact upon reducing New Jersey property taxes. In attempting to achieve that desired affect, it is apparent that you are examining the holy of holies of New Jersey: namely, the sacred cow of local governance. You must not be deterred, disheartened, off put or even threatened by local government politicians and employees or their self-serving organizations and consultants, all worshipers of the sacred cow. They care not the slightest about emptying the pockets of the 8.7 million residents of New Jersey as long as they triumph in maintaining the ruinous status quo serving their wellbeing.

Consider the insanity produced by this sacred cow. New Jersey has five layers of local governance, including 21 of the smallest counties in the United States. We have 12 forms of municipal government totaling 566 distinct entities, of which 366 occupy fewer than ten square miles, 315 have a population fewer than 10,000 persons, and 193 have similar names. We have 651 school districts including charter schools, 208 local public authorities and 232 special taxing districts, of which 184 are fire districts.

These 1,678 units of local governance have produced mind boggling excesses that no other state experiences. The litany includes 347,538 local workers and approximately 20,000 elected local officials. Incredibly, ELEC, the responsible state agency, does not know the exact number of elected local officials. New Jersey has 39.85 local government workers per square mile, the most of any state and double the U.S. average of 18.96 per square mile. They consume more than 90 per cent of annual New Jersey property tax collections in salaries. Adding insult to injury, the 1,678 units of local governance are the direct cause of the highest rate of corruption of any state as it is impossible to provide adequate oversight of that many units of government. Sadly, all of the above combine to produce the highest property taxes of any state.

Upon any threat to the sacred cow, its worshipers will quickly invoke the tired old cry of home rule to thwart any change. However, home rule does not exist in the New Jersey constitution, it is not memorialized in New Jersey legislative law, nor have the New Jersey courts applied that principle in any case law.

Despite the dire sacred cow conditions that plague New Jersey, a solution exists, and this solution does not involve shifting taxes or any new tax revenue. In the private sector it is known as restructuring, rather than consolidation or shared services, as the latter implies only the gluing together of broken pieces. Restructuring is the act of partially dismantling and reorganizing an organization for the purpose of making it more efficient and, therefore, more profitable. Confirming the widespread use of restructuring can best be gauged by a Google search producing 44,900,000 restructuring entries. That hardly signifies an obscure or unsuccessful process. The tool is applicable to every organization— public and private. If restructuring is properly undertaken, it involves a thorough examination of the business processes involved in an organization's market, the appropriateness of the service produced for that market, production and distribution efficiencies, and the cost of producing the service. If these examinations are carefully made, the success rate of restructuring is remarkable.

The applicability of restructuring to the 1,678 units of New Jersey local governance is obvious. Based upon the long history of restructuring effort and experience, it is apparent there is no good reason for having five levels of local government when one level of sufficient critical mass

can perform the task of local governance more efficiently and at less expense. Consider the following:

1. According to social and political scientists, the four factors that make a municipality a desirable place in which to live are quality education, green spaces and parks, modern infrastructure and a thriving business community. Given the variants of New Jersey geography and population density, an appropriate municipality size would measure some 20, 40 or 60 square miles. That approximation would take into account natural boundaries such as rivers, streams and highways. Restructuring New Jersey municipalities per the above guidelines would produce 184 distinct entities. Given the four livability considerations as the foremost tenet of restructuring, the quality of the 184 restructured municipalities would be superior to most of the current 566 municipalities.

The new municipality would adopt the name of the largest former municipality in the area, and all other municipal names not used would reflect neighborhood naming in the new municipality. Each municipality would be governed by an elected mayor serving a four year term and a nine member council serving staggered three year terms.

2. Having established the base line of 184 municipalities, each municipality would have one kindergarten through 12th grade school district. The principal officer of each school district shall be an appointed superintendent responsible to a nine member elected school board serving staggered three year terms.
3. Counties are an anachronistic form of government established in the 11th century. In New Jersey, counties are agents of the state with no authority except that delegated by the state. Therefore, it would not be difficult for the 184 municipalities to absorb county government functions such as roads, parks, elections, recording, surrogate, weights and measures, health functions, etc. Community colleges would be transferred to the New Jersey Department of Education. The county jail, prosecutor office and sheriff department would be funded on a shared basis by the new municipalities located in the county. Other county functions labeled "nanny government" by most New Jersey residents would be subject to detailed business process scrutiny with a view toward elimination if no discernable cost-benefit can justify its continuance. New Jersey counties would exist in name only and have no elected officials. This plan or a version thereof has been adopted by Connecticut, Massachusetts, Virginia and Maryland.
4. All special taxing districts and local public authorities would be folded into the municipality they currently serve and administered by professional municipal employees. Where a local public authority spans two or more restructured municipalities, joint municipal ownership would be established. As to fire districts, given the security threat we currently face, 184 municipal Departments of Public Safety would include police, fire and emergency medical acting in a coordinated fashion to offer far more public protection at less cost than the current system of freestanding police departments and fire districts, some with EMT capability. Ending the practice of separating special taxing districts' and local public authorities' property taxes and fees as well as bonded debt from the municipal budget, the public would no longer be uninformed or misled about the true cost of the community in which they reside. Most importantly, the absorption of special taxing districts and local public authorities would return the transparency and accountability for clearly accepted municipal functions to elected municipal officials where unquestionably, the responsibility and therefore, better governance resides.

Two important issues remain. How much would restructuring save, and how would we implement the restructuring effort? First, the total savings would approximate \$9.55 billion or almost 50 per cent of current property tax revenue. However, to assure future solvency without resorting to annually escalating property taxes, only a one-third reduction in property taxes would be appropriate. The major elements comprising the restructuring savings would include:

1. Given an average staffing of 600 employees per restructured municipality, including the absorption of county, special taxing district and local public authority functions, the estimated savings would total \$3.3 billion. That amount reflects a dedicated source of debt service payment comprised of the difference between the 50 per cent restructuring savings and the 33½ per cent property tax reduction and the savings resulting from a statewide local governance e-government system, as explained below.
2. The Department of Education reports that administrative costs total 12.6 per cent of per pupil expense or \$3.5 billion. Although a 71.6 per cent reduction in the number of school districts to 184 is proposed, only a 50 per cent reduction in administrative costs or \$1.75 billion is foreseen. Secondly, New Jersey has 1,398,000 public school students and 151,542 teachers or a ratio of 9.23 students per teacher. Raising that ratio to 10.0 students per teacher would save an additional \$1 billion/year and raising the ratio to 11.0 students per teacher would save \$2 billion/year. At the current rate of New Jersey teacher turnover and retirements, no layoffs are needed to accomplish the savings.
3. With county budgets nearing \$5 billion for FY2007, a savings of \$3.5 billion is a realistic expectation. The \$1.5 billion balance represents the county prosecutor offices, the county jail systems and sheriff departments to be funded by the restructured municipalities that those functions serve.

A further use for the difference between the restructuring savings of 50 per cent and property tax reduction of 33½ per cent is a post-restructuring local government employee buy-out. To reduce large one-time payments, the option of offering bonus retirement credits based upon age and length of service to only full time employees should be considered. Over time, the amount paid out for the assumed debt and buyout cost will lessen, providing a buffer against future spikes in property tax rates.

To avoid some of the disparity issues associated with the present property tax system, property tax rates throughout New Jersey would be based upon a 100 per cent market value assessment to be updated once every seven years. Seniors, disabled persons and working farms would be billed at 50% of property tax rates. Restructuring would reduce average New Jersey property taxes by \$2,000 to \$4,000 per year, an amount consistent with the national average.

As for how restructuring would be accomplished, in order to establish the municipal boundaries, a commission similar to the Base Closing Commission would be established. It would be comprised of leading geographers, social scientists, political scientists, business leaders and a highly knowledgeable state and local government employee support staff. The Commission would undertake two distinct tracks. The first track would be the redrawing of municipal boundaries mindful of the four livability factors of quality education, green spaces and parks, modern infrastructure and a thriving business community plus population density. A preliminary report would be prepared and would be subjected to a heavy schedule of public meetings across the state in order to familiarize the public, accept and consider public comments and finalize the Commission's recommendation. The final report would be issued to the Legislature

which would exercise a no amendment permitted, up or down approval vote similar to the federal Base Closing Commission process.

The second track would be the basis for replacing Chapter 40 of the New Jersey Statutes Annotated, currently an incomprehensible hodgepodge of local governance law. The key to such replacement is the analysis and mapping of all local government business processes with a view toward developing the most efficient and practicable method possible— from obtaining a dog license to recording a deed to preparing a municipal budget. When completed, a statewide standard for the most efficient method of managing and handling every municipal business process would be available, and would be codified through a new Chapter 40.

The second and equally important purpose for developing the business process standards is for it to become the basis for a statewide system of e-government. The computer system would include 184 municipal local servers linked through a communications network to a central computer platform that would allow data base oriented transaction processing of municipal functions. The implementation and operation of the system would be outsourced to an Accenture, IBM, EDS, etc. and cost several hundred million dollars for development alone. Financing that cost would be the state savings derived from an end to the property tax rebate system— totaling nearly \$1.9 billion for FY2007. The ongoing savings the envisioned New Jersey Local Governance System would produce would offset the system's cost and equally important maintain a lid on annually escalating costs.

Restructuring would not be complete unless New Jersey corruption concerns were also addressed. Therefore, NJSA:40 must also contain a method of rigorous oversight of local governance. It must apply specific deterrence measures such as loss of pension and other meaningful sanctions for every corruption, malfeasance and misfeasance conviction for all elected local governance officials up to and including a mayor and superintendent of schools.

Restructuring would require 18 to 24 months to fully implement. Therefore, a freeze of property taxes over that period would be warranted.

Admittedly, the plan to flatten the structure of local governance is radical yet, completely modern in creating an ultra-efficient one-stop city hall for most resident needs. Experience teaches us that the alternative of selective reforms, developed through the "sausage grinding" of legislative compromise, usually falls far short of desired goals. It is imperative that we accomplish the goal of reducing local governance inefficiency, lest we experience ever higher property tax rates accompanied by an escalating New Jersey exodus of businesses, young people and seniors. If we stop at the "polishing" of elements of the existing sacred cow of local governance, we will only remove 230 years of accumulated tarnish destined to return sooner rather than later.

Respectfully submitted,



Eli Hiller
Cherry Hill, NJ

County	Number Municipalities	2000 Popu- lation	Housing Units	Total Area Sq. Mi.	Water Area Sq. Mi.	Land Area Sq. Mi)	Population Density Sq. Mi.	Housing Density Sq. Mi.	≈20 Sq. Mi.	≈40 Sq. Mi.	≈60 Sq. Mi.	Total Munic- palities
Atlantic	23	252,522	114,090	616.36	55.25	561.05	450.1	203.4			10	10
Bergen	70	884,118	339,820	246.81	12.63	234.17	3,775.5	1,451.2	12			12
Burlington	40	423,394	161,311	819.45	14.86	804.56	526.2	200.5		10		17
Camden	37	508,932	199,679	227.60	5.28	222.29	2,289.5	898.3	6			6
Cape May	16	102,326	91,047	284.91	29.72	255.17	401.0	356.8			5	5
Cumberland	14	146,438	52,863	504.50	15.18	489.32	299.3	108.0			8	8
Essex	22	793,633	301,011	129.57	3.28	126.27	6,285.4	2,383.9	6			6
Gloucester	24	254,673	95,054	336.92	12.20	324.71	784.3	292.7		4	3	7
Hudson	12	608,975	240,618	62.45	15.75	46.69	13,043.8	5,153.9	3			3
Hunterdon	26	121,989	45,032	437.76	7.80	429.93	283.7	104.7			7	7
Mercer	13	350,761	133,280	228.86	2.90	225.94	1,552.5	589.9	5	3		8
Middlesex	25	750,162	273,637	322.50	12.79	309.71	2,422.1	883.5	10	3		13
Monmouth	53	615,301	240,884	525.12	53.16	471.92	1,303.8	510.4		13		13
Morris	39	470,212	174,379	481.27	12.29	468.99	1,002.6	371.8		12		12
Ocean	33	510,916	248,711	756.92	120.68	636.29	803.0	390.9			13	13
Passaic	16	489,049	170,048	197.06	11.75	185.29	2,639.4	917.7	10			10
Salem	15	64,285	26,158	372.57	34.68	337.83	190.3	77.4			6	6
Somerset	21	297,490	112,023	305.06	0.36	304.68	976.4	367.7		8		8
Sussex	24	144,166	56,528	536.00	14.76	521.35	276.5	108.4			9	9
Union	21	522,541	192,945	105.46	1.88	103.29	5,059.0	1,868.0	5			5
Warren	22	102,437	41,157	362.75	4.99	357.89	286.2	115.0			6	6
Total	566	8,414,320	3,310,275	7,859.90	442.19	7,417.36	1,134.4	446.3	51	59	74	184