Let the People Speak

Report of the Citizens' Tax Assembly

JUNE 2004 MEETING

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New Jersey Coalition for the Public Good
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Trenton, New Jersey 08618

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Introduction

When the Citizens' Tax Assembly met over a weekend in September 2003, the delegates clearly demonstrated the public's willingness to discuss, and ability to understand, complex issues involved in dealing with taxes in New Jersey. There was broad agreement in several key areas:

- The state relies too heavily on property taxes
- Taxes must be fairer – they must be based more on ability to pay
- At the same time, adequate funding of public schools is essential
- We need a more efficient way to deliver local services and a clean environment.

Anyone viewing the earnestness and zeal with which citizens from across the state participated in small groups and large discussions might reasonably have asked: what will you do for an encore?

The Coalition for the Public Good, the nonprofit group that organized the Citizens' Tax Assembly, was curious too. Having received widespread media attention, the September gathering was already being credited with helping to move the tax-reform process forward in New Jersey. In the spring of 2004 there appeared to be action on several fronts. Gov. James E. McGreevey joined in the call for a convention where citizens could recommend changes in the tax structure, and he proposed a "millionaires' tax" that he said was the beginning of a commitment to deeper reforms.

Coalition members, and delegates too, felt there was a role to play to keep things on track. So it was decided to bring as many delegates who could make it back to Trenton for a one-day gathering on June 12. The mission would be to dig a bit deeper. After reaching broad consensus nine months earlier, might citizens now make some more specific recommendations for tax reform?

Once again the people of New Jersey rose to the occasion.

The Debate

In moderated groups of 10 or so persons, delegates were asked to consider four questions:

1. The magnitude of property tax reduction—
How much needs to be reduced?
A minimum of $800 million and possibly as much as $10 billion in property tax relief will be needed if New Jersey is to relinquish its claim as one of the highest property taxing states and begin to look more like the rest of the nation with respect to reliance on property taxation. A significant increase in an alternative revenue source, or some combination of alternative revenue sources, would be required to achieve many of these property tax relief options.

2. What alternative sources of revenue
might replace property taxes?
At the Citizens' Tax Assembly in September various alternatives were discussed:

- Increasing the state Gross Income Tax
- Imposing a new consumption tax on luxury items
- Increasing the state tax on gasoline
- Making the overall tax system more progressive so that it is based to a higher degree on people's ability to pay than is now the case
- Some sales and excise tax increases
- Targeting tax relief based on the percentage of the income that people pay in their property taxes
- Consideration of personal property taxes and realty transfer taxes
- After a 5-year phase-in, property taxes should be one-third of the total revenue that comes from property tax, state sales tax and state income tax.

3. How should a Constitutional Convention
be structured?
Since the state constitution does not give guidelines on the actual composition of a convention, many questions are left unanswered, including:
What should the charge to the convention be?
What should the design be?

4. What would meaningful restraints on
spending be?
How can we hold down the costs of government and are there mechanisms to keep those restraints in place?

The Process

The pages that follow contain the background material that formed the starting point for the June 12 gathering (and would be useful to others interested in delving into tax reform issues) as well as the conclusions that were reached.

1.

THE MAGNITUDE OF PROPERTY TAX REDUCTION — HOW MUCH NEEDS TO BE REDUCED?

HOW DO YOU SPELL PROPERTY TAX RELIEF IN NEW JERSEY?

Local property taxes are a major source of revenue in New Jersey, generating $17.2 billion in 2003. This figure is more than the total amount of revenue anticipated for Fiscal Year 2004 from the three largest state taxes (Gross Income Tax = $7.5 billion; General Sales and Use Tax = $6.3 billion, and Corporation Business and Bank Tax = $2 billion) and the total revenues anticipated from the state Lottery ($783 million) and the taxation of casinos (Casino Revenue Tax = $512 million). Moreover, property taxes in the state have increased by at least $800 million in each of the last three years (see page 6). In addressing the need for property tax relief in New Jersey, a major question to be addressed is how much relief to provide. There is a range of options to consider, based primarily on national norms and recent reform efforts in other states. In pursuing any of these options, **steps would have to be taken to ensure that every dollar of property tax relief provided would result in an equivalent reduction in local property taxes raised. Moreover, careful attention would have to be given to identifying alternative sources of revenue (and perhaps spending reductions) to fund these options**.

Option One: Keep the current situation from getting any worse

Between 1990 and 2000, total property taxes in New Jersey (including county, municipal, and school levies) grew from $9.8 billion to $14.2 billion, an average increase of about $500 million per year. However, since 2000, increases in property taxes have ranged from $800 million to $1.2 billion a year. Thus, the amount of property tax increase has grown significantly in recent years. As such, **property tax relief must be at least in the area of $800 million a year, just to keep the current situation from deteriorating further**. This is approximately the yield of the “millionaires tax” recently proposed by Governor McGreevey.

Option Two: State pays “fair” share of school costs

According to the New Jersey State Constitution, the requirement to provide a “thorough and efficient” education is the state’s responsibility. However, the costs of providing a thorough and efficient education to pupils in the state fall primarily on local school districts (through the property tax). In New Jersey, local school districts provide almost 60% of the costs of operating schools (approximately $17-18 billion a year), with state government providing about 40%. The average funding share for all states is about 50%. If New Jersey paralleled the average for all states in meeting its constitutional obligation, **the state share of school costs would have to increase by approximately 10 percentage points, or about $1.5-1.8 billion a year**. This is approximately the yield of the “permanent” components of the “business tax reforms” enacted by the Governor and the Legislature two years ago.

Option Three: Local revenue diversification

Unlike their counterparts around the country, local governments in New Jersey have very limited access to own-source tax revenues. In particular, approximately 98% of local tax revenue in New Jersey is derived from property taxes, with the major exceptions being the Newark Payroll Tax, Atlantic City Luxury Tax, parking taxes for certain classes of cities, and the recently enacted local option hotel tax. Around the country, local governments in other states have far more access to non-property taxes as a source of revenue, with the property tax providing an average of about 74% of all local tax revenues. **If New Jersey local governments were patterned after their counterparts around the country, property taxes in the state would have to decline by about 25% (from 98% down to 74%), or by about $4.5 billion a year**. This is about the size of the property tax relief suggested by the Star-Ledger in its recent proposal.

Option Four: Better balance among major revenue sources
As noted earlier, property taxes in New Jersey generate revenues that exceed the combined total of revenues from the three largest state taxes. That is, property taxes account for about 45-47% of all state and local tax revenues in New Jersey. The national average reliance on property taxation among all states is approximately 30-32% of total tax revenues. Thus, **for New Jersey to look more like the average state in terms of reliance on the property tax relative to other major taxes (i.e., the personal income and the general sales and use taxes), overall reliance in the state would have to drop by about one-third (from 45% down to 30%), or by just under $6 billion a year**. This is about equal to the recent annual yield of the state's general sales tax.

Option Five: The Cahill Committee
The New Jersey Tax Policy Committee, a blue-ribbon group established by Gov. William T. Cahill, issued its final report in 1972. The Committee recommended that property taxes in New Jersey be reduced immediately by 40%, and then never allowed to constitute more than one-third of all state and local taxes. **An immediate reduction of 40% would generate property tax relief of almost $7 billion a year**, or just less than the annual yield of the state's personal income tax.

Option Six: The Michigan model
Several years ago, the state of Michigan decided to end its reliance on local property taxes as a means of financing primary and secondary education. Once the property tax was removed as a source of funding schools, the Michigan Legislature gave voters a choice: approve an increase in the state's personal income tax or, if not, an increase in the state's general sales tax necessary to offset the loss of local property taxes to fund schools would automatically take place. Voters did not approve the income tax increase, and the automatic increase in the sales tax kicked in. **If New Jersey attempted to eliminate the local property tax as a source of revenue for funding schools, more than $10 billion in state revenues would be needed to offset the loss if the current level of school services was to be maintained**. This is far greater than the best yield ever from any individual state revenue source (the Gross Income Tax generated about $8 billion in Fiscal Year 2000).

Therefore, in deciding "how much" the level of property taxes in the state should decrease, recent trends and patterns for other states provide useful guidelines. These guidelines suggest that:

- A minimum of $800 million and possibly as much as $10 billion in property tax relief will be needed if New Jersey is to relinquish its claim as one of the highest property taxing states and begin to look more like its fellow states with respect to reliance on property taxes and

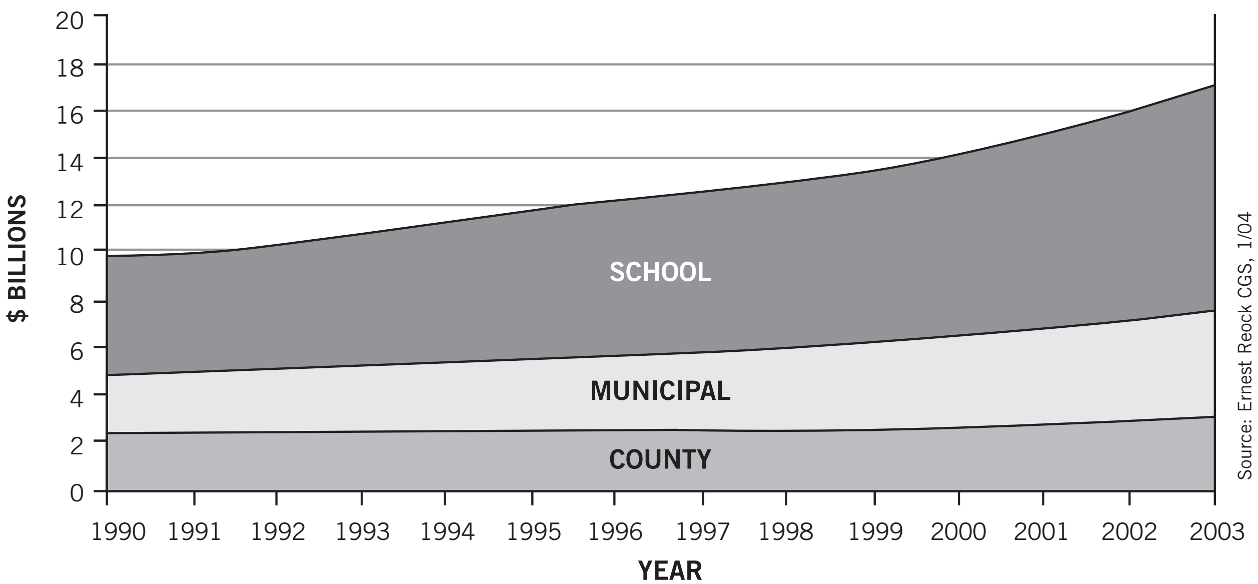
- A significant increase in an alternative revenue source, or some combination of alternative revenue sources, would be required to achieve many of these property tax relief options.

See Page 7 for a graphic display of the above six options.

NEW JERSEY PROPERTY TAX TRENDS, 1990 – 2003

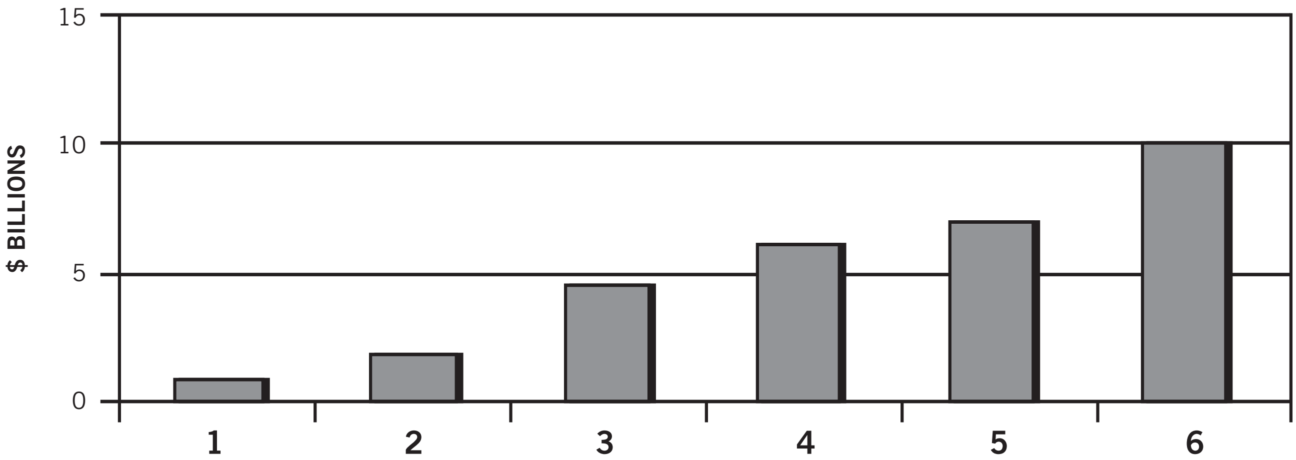
	County Tax Levy	*Municipal Tax Levy*	*School Tax Levy*	***TOTAL***
YEAR	Billions of dollars			
1990	$2.2	$2.6	$4.9	$9.8
1991	2.2	2.5	5.2	9.9
1992	2.3	2.7	5.4	10.3
1993	2.4	2.7	5.7	10.8
1994	2.4	2.9	6	11.3
1995	2.4	3.1	6.2	11.7
1996	2.5	3.2	6.5	12.2
1997	2.5	3.3	6.7	12.6
1998	2.6	3.4	7.0	13.0
1999	2.7	3.6	7.3	13.6
2000	2.7	3.7	7.7	14.2
2001	2.9	3.9	8.2	15.0
2002	3.1	4.1	8.8	16.1
2003	3.3	4.4	9.5	17.3

Property taxes rose 76% during this 14-year period for a total of $7.5 billion. This increase was driven by the school tax levy, which rose 94% over the period. Municipal taxes increased 69%, and the county levy rose 50%.



This chart shows that property taxes rose 76% during this 14-year period for a total increase of $7.5 billion, an average increase of more than $500 million a year. Over the past 5 years, the average annual increase has been almost $750 million. The increase over the entire period was driven by the school tax levy, which rose 94%. Taxes for municipal purposes have increased 69%, and the county levy rose 50% during this period.

NEW REVENUE OR SPENDING CUTS NEEDED UNDER EACH OPTION



To hold property taxes at their current level would require about $800 million in new revenue or spending cuts to meet the growth likely to occur next year (Option 1). If New Jersey were to raise its support for education funding from the current 40% of total spending on the schools to the national average of 50%, it would require new revenue or spending cuts of about $1.5-1.8 billion a year (Option 2). To permit local governments to reduce their reliance on the property tax from 98% of local revenues to the national average of 74% would require about $4.5 billion a year in new local taxes (Option 3). If New Jersey were to lower its reliance on property taxes to the national average of 30%, it would require replacing $6 billion in current property taxes with new revenue sources or spending cuts (Option 4). If the state followed the 1972 recommendation of the Cahill Committee for an immediate 40% cut in the property tax to hold it to no more than a third of all state and local taxes would require almost $7 billion a year in new revenue sources or spending cuts, equal to what the state income tax brings in now (Option 5). If New Jersey, like Michigan, eliminated the local property tax as a way to fund schools, it would need to offset the loss with $10 billion in new revenues or spending cuts (Option 6).

I. The Findings

Delegates resoundingly felt the status quo is not an option. New Jersey needs fundamental tax reform—not merely tax relief, they said.

From among the potential choices listed above (and delegates were told they need not be limited to only these), there emerged a strong sense that New Jersey should reduce its reliance on property taxes at least to the national average (30-32% of the state/local tax mix). For New Jersey to reach this goal, the state would have to reduce its reliance on property taxes by about one-third, amounting to about $6 billion a year.

Among other views expressed by participants in at least some of the groups:

- School tax calculations should exempt the first $250,000 of a house's value

- The state should fully fund public school education. Others were equally clear in the feeling that at least some of school costs should be borne at the local level

- A way should be found so that property tax assessments are more uniform among municipalities

- Property taxes should be cut by 10% in one year and then further cuts should be phased in as practical

- Some services now provided at the local level should be done by counties instead

- Property taxes should be frozen at their current levels as a way to force action on reform.

UNRESOLVED

Delegates were not able to reach agreement in all areas. There were prominent questions on which they could not reach consensus in the time available:

To what degree should property taxes be reduced for businesses, or should relief be targeted solely to homeowners and tenants?

2.

WHAT ALTERNATIVE SOURCES OF REVENUE MIGHT REPLACE PROPERTY TAXES?

OPTIONS FOR ACHIEVING BALANCE

New Jersey's over-reliance on property taxes is exhibited clearly when state revenues collected in Fiscal Year 2003-2004 are compared to revenue collected from property taxes during the same period. A total of $41.1 billion was collected from all sources. This is the breakdown:

Source	Amount	Percentage
Property Tax	$17.254 billion	42 %
All State Revenues and Receipts	$23.853 billion	58%
Total	$41.107 billion	100%

Page 11 shows the estimated New Jersey budget revenues for 2003-04 ($23.853 billion). It contains a pie chart with revenue resources showing dollar amounts. Page 6 reports property tax collections from 1990 to 2003 broken down by counties, municipalities, and school districts. Over this period of time, the property tax levy grew by $7.47 billion, or 76.4%.

The effect of New Jersey's disproportionate reliance on property taxes on individual taxpayers is shown on Page 12. This chart shows the amount of the New Jersey income tax at various income levels compared to the amount of property tax paid on houses assessed at different values, ranging from $50,000 to $500,000. The disparities are staggering, especially since property values have skyrocketed in New Jersey. This has greatly increased the amount of property taxes paid on a residence, regardless of whether the owner/taxpayer has experienced any increase, or decrease, in income received.

Alternative revenue sources, as well as balancing present sources, could be used to help correct New Jersey's over-reliance on property tax.

Option One: New Jersey Gross Income Tax

New Jersey's Gross Income Tax was passed in 1976 after the State Supreme Court closed down summer sessions of the public schools because of the state's failure to address disparities in money available to provide New Jersey's constitutionally required "thorough and efficient system of public education." It was an almost flat tax, with rates ranging only from 2-2.5%. During the 1980s rates were increased slightly, making the tax more progressive. In 1990, with another Supreme Court decision on school funding imminent, income tax rates were further increased. From 1994 to 1996 there were three separate reductions in the tax rate. Most income categories received a 30% reduction, except for the highest income class, which saw a somewhat smaller reduction. From 1994 through 2001, these changes reduced revenue collected by the state by $8.648 billion. The loss in 2001 alone was $1.669 billion.

Restoration of income tax rates to the pre-1994 levels would increase revenue significantly, every penny of which is dedicated by the New Jersey Constitution to property tax reduction through municipal aid, school aid and other payments such as rebates. Page 13 contains four charts comparing New Jersey's income tax to: the national averages for married and single taxpayers; the neighboring states; and the 10 most heavily taxed states.

Option Two: Sales Tax
The Star-Ledger recently proposed a property tax reform program for New Jersey. Among its recommendations, was to expand New Jersey's Sales and Use Tax to apply to seven categories of services not taxed now: consulting; legal; computer systems design; architectural, engineering and related; accounting; advertising; and data processing. The newspaper noted that the direct impact on individuals would be limited, with businesses paying most of the service taxes. The Star-Ledger estimated the sales tax extension would generate $2.24 billion a year. It would be possible to look at other types of services that are used by individual taxpayers to consider whether they should be subject to the sales tax and what amount of revenue might be collected. Extending the sales tax to selected products and items that are now exempt would expand the available revenue options.

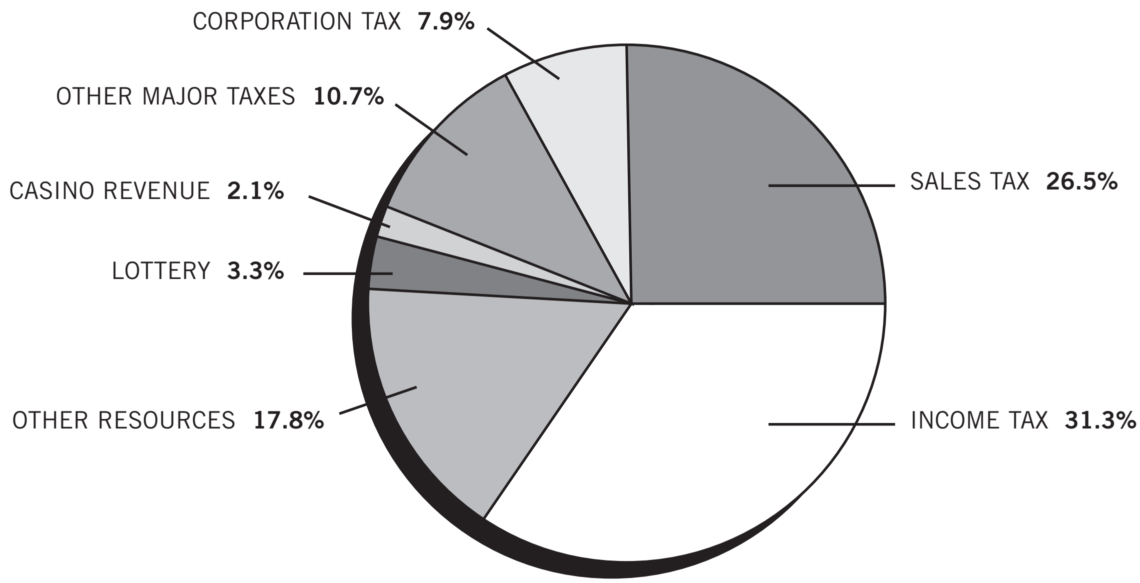
Option Three: Tax Rebates and the Millionaires Tax
The Star-Ledger proposal recommended that existing property tax rebates be folded into a comprehensive property tax reform initiative. Meanwhile, the McGreevey administration wants to increase rebates by $800 million by raising the rates of the income tax for taxpayers with incomes over $500,000. This tax increase would affect approximately 28,500 taxpayers, less than 1% of the approximately 3.6 million taxpayers in the state.

Option Four: Wealth Tax
Many countries, including 11 in Western Europe, and three states—Florida, Georgia, and Kentucky—as well as some local governments levy a small tax (typically 0.1% or 0.2%) on the value of intangible assets like stocks and bonds. Because ownership of these assets is so concentrated, it is possible to raise large amounts of revenue with a relatively modest tax rate and a very high threshold before the tax is imposed. As of 1995 (the most recent year for which we could find data), the wealthiest 10% of U.S. households held 66% of the country's net wealth. The other 90% held only a third. The 90% of households with the smallest assets held only 11% of the total amount of stocks, bonds, and similar assets. Most of their assets are <u>tangible</u>, such as automobiles and homes, which already are taxed. The wealthiest 1% owns 58% of all stocks, bonds, and non-incorporated business assets, with the top 0.5% owning 47%. One estimate finds that New Jersey could raise more than $400 million by a 0.2% tax on stocks, bonds, and similar assets—with no taxation until one's assets exceeded $3 million.

OTHER TAX OPTIONS:
Additional research and analysis might develop revenue opportunities in the following areas:

- Gambling
- Corporate
- Realty transfer
- Excise (including luxury items)
- Local option Income or Sales taxes.

BUDGET REVENUES – ESTIMATED



RESOURCES

($000)

INCOME TAX	**$7,493,820**
SALES TAX	**6,333,800**
CORPORATION AND BANK TAX	**1,902,000**
LOTTERY REVENUE	**783,000**
CASINO REVENUE	**512,200**
OTHER MAJOR TAXES:	
Motor Fuels	544,000
Cigarette	499,000
Transfer Inheritance	378,000
Insurance Premium	356,000
Motor Vehicle Fees	233,979
Petroleum Products Gross Receipts	221,000
Realty Transfer	210,000
Alcoholic Beverage Excise	83,000
Savings Institutions	20,000
Tobacco Products Wholesale Sales	10,000
Public Utility Excise	8,700
Sub-total, Other Major Taxes	**$2,563,679**
OTHER RESOURCES*	**4,264,823**
TOTAL RESOURCES	**$23,853,322**

* Included in "Other Resources" are: Tobacco Settlement Fund ($1,448 million). Medicaid Uncompensated Care proceeds ($455 million), Interfund transfers, as well as numerous fees, assessments, licenses, fines, surcharges, and miscellaneous levies.

BURDEN OF PROPERTY TAXES COMPARED TO BURDEN OF INCOME TAX IN NEW JERSEY

The amount of income tax imposed on a family compared to property tax is eye opening.

Shown are five levels of taxable income and the state income tax liability for each.

Taxable Income	Tax Liability
$ 20,000	$ 280
50,000	805
100,000	2,750
150,000	5,512
300,000	15,067

The following schedule shows property taxes (year 2002, statewide average) at high, low and median rates for six different property values.

Value of Property	Property taxes at low rate of $1.50	Property taxes at high rate of $3.50	Property taxes at median rate* of $2.22
$ 50,000	$ 750	$ 1,750	$ 1,110
100,000	1,500	3,500	2,220
200,000	3,000	7,000	4,440
300,000	4,500	10,500	6,660
400,000	6,000	14,000	8,880
500,000	7,500	17,500	11,100

The household earning $50,000, living in a $200,000 value home, will pay five and one-half times more property tax than income tax, assuming the state median. While there is a relation in the value of the home to the income of the owner at the time of purchase, over time inflation of the value of homes and changes in the income of the owner can result in a residence valued far higher in proportion to the income of the owner. For the vast majority of New Jersey families, the amount of state income tax paid is far less than the amount of property taxes paid.

This imbalance is not surprising when you compare the annual revenue raised by each tax: property taxes $17.2 billion; income tax $7.5 billion.

*after rebates, the median rate drops to $2.07

Also note: the state average rates have been declining since 1998 as property values have dramatically increased. Nevertheless, since values increase more than the drop in tax rates, the actual property taxes paid each year has been going up. Statewide, this increase has been about 7% per year.

Analysis of contemporary research by Judith Cambria, 2002

NEW JERSEY INCOME TAX COMPARED TO OTHER STATES (by income quintile)

New Jersey vs. National Averages for Married Taxpayers

	Lowest (20K)	Second Lowest	Middle	Second Highest	Highest (100K)
Average of all States	$271	$ 850	$1,729	$2,949	$3,958
Average of States with Income Tax	$331	$1,036	$2,109	$3,596	$4,827
New Jersey	**$0**	**$ 508**	**$ 892**	**$1,659**	**$2,641**

New Jersey vs. National Averages for Single Taxpayers

	Lowest (10K)	Second Lowest	Middle	Second Highest	Highest (70K)
Average of all States	$110	$483	$1,036	$2,014	$2,897
Average of States with Income Tax	$134	$589	$1,263	$2,456	$3,533
New Jersey	**$0**	**$271**	**$ 499**	**$1,358**	**$2,321**

Taxes by Income Category in New Jersey and Neighboring States

	Lowest (20K)	Second Lowest	Middle	Second Highest	Highest (100K)
New Jersey	**$0**	**$ 508**	**$ 892**	**$1,659**	**$2,641**
Pennsylvania	$560	$ 980	$1,540	$2,240	$2,800
Connecticut	$0	$ 225	$1,276	$2,917	$4,115
Maryland	$322	$1,236	$2,194	$3,394	$4,354
Rhode Island	$253	$ 827	$1,644	$3,259	$4,687
Delaware	$210	$ 983	$2,087	$3,528	$4,717
Massachusetts	$360	$1,317	$2,371	$3,762	$4,883
New York	$190	$ 910	$2,080	$3,769	$5,138
State Averages*	$271	$ 925	$1,885	$3,267	$4,385

*Excluding New Jersey

Income categories are for married taxpayers

Ten Most Heavily Taxed States and New Jersey

	Lowest (20K)	Second Lowest	Middle	Second Highest	Highest (100K)
New Jersey	**$0**	**$ 508**	**$ 892**	**$1,659**	**$2,641**
Kentucky	$727	$1,743	$2,955	$4,455	$5,655
Wisconsin	$0	$ 885	$2,428	$4,314	$5,690
Oklahoma	$457	$1,432	$2,781	$4,488	$5,818
Idaho	$157	$1,140	$2,623	$4,556	$6,116
N. Carolina	$602	$1,554	$2,939	$4,688	$6,158
Maine	$135	$ 928	$2,439	$4,560	$6,260
Hawaii	$722	$1,796	$3,336	$5,366	$7,046
Iowa	$504	$1,607	$3,150	$5,351	$7,146
Montana	$477	$1,395	$3,132	$5,631	$7,757
Oregon	$809	$2,010	$3,777	$6,024	$7,824
State Averages*	$459	$1,449	$2,956	$4,943	$6,547

* Excluding New Jersey

Income categories are for married taxpayers

Source: New Jersey's Income Taxes: How Progressive by John Zerillo, NJ Policy Perspective, 2003

2. The Findings

There was a strong consensus that the state's Gross Income Tax ought to be the primary vehicle used to raise revenue needed to reduce the amount of property taxes collected. Making that tax more progressive (increasing the rates as income rises) was the primary means to do this, according to the delegates. They felt that additional state taxes could be increased so long as citizens' ability to pay those taxes was considered as a prominent criterion.

To a more moderate extent there was agreement that the state Sales Tax also ought to be employed, with some interest in extending the tax to services not now taxed. Keeping all options on the table was a minority viewpoint.

Regardless of which taxes are to be raised, there was strong agreement that property tax relief should no longer be delivered to the public in the form of rebate checks.

There also was a strong sentiment that tax reform should be accompanied by changes in how the state relates to other government entities. Specifically, the view was widely shared that anything the state mandated on other governments and on school districts should be accompanied by state dollars to pay the bill.

Other alternatives raised by at least some delegates:

- Take in more revenue from tax-exempt organizations

- Increase excise taxes, such as the airport departure tax

- Exempt the lowest income people from any increase in the state Income Tax

- Increase corporate taxes and at the same time do a better job of collecting that tax and of insuring there is accountability in the business incentive breaks given out by the state

Raise casino taxes, but not to the point where New Jersey cannot compete with other states.

UNRESOLVED
What mechanism can provide stability if New Jersey comes to rely more heavily on the income tax, which responds to the business cycle with swings more dramatic than a tax on property values?

3.

HOW SHOULD A CONSTITUTIONAL CONVENTION BE STRUCTURED?

BACKGROUND

What has been commonly referred to as a "Constitutional Convention" on tax reform would make changes to the state constitution but also—and probably more so—to state laws. So it might be more accurately labeled a "Property Tax Convention." For such an event to take place, two actions are required:

1. The Legislature would have to pass a bill setting forth the structure, scope, content and process of the convention, and the Governor would have to sign the bill into law no less than 70 days before the next General Election.

2. With at least a 60% vote in each house, the State Senate and General Assembly would have to pass a constitutional amendment that would allow the proposed convention to change both the constitution and state laws, since there is no provision in the constitution for a convention to address laws. No approval by the Governor is required for this measure, which must be adopted no less than 90 days before the next General Election.

Neither one of these measures would take effect unless both passed. If they passed, the voters at the next General Election would be given the choice of approving or disapproving a convention taking place. There are no legal guidelines for setting up a Constitutional Convention. Governor McGreevey has requested formation of a Citizens Task Force to make recommendations on structure, scope, content and process.

There were two successful Constitutional Conventions in New Jersey during the 20th Century. Each was limited in scope. The 1947 convention, with 81 delegates elected by the public, met for three months to reform all of the state constitution, except district representation of legislators. The results were approved by 78% of the public. The 1966 convention, with 126 delegates nominated by the political parties and elected by the people, was restricted to creating legislative districts that conformed to U.S. Supreme Court mandates. The recommendations of the delegates met with 64% public approval at the polls.

As envisioned by supporters of a Property Tax Convention, the November question on whether to have a convention would be the first of three actions by the public. The second would be an election of delegates the following March, and the third would be acceptance or rejection of the convention's recommendations the following November.

STRUCTURE, SCOPE, CONTENT, PROCESS

Before a convention could take place, and even before public approval of whether it should take place, many questions would have to be answered. They are presented here for your discussion. In many cases this guide refers to provisions now in the bill that has been introduced for setting up a convention.

1. What would be the subject of the convention?

The subject matter of a convention can be limited to a single issue, such as property tax reform, as long as that is what the public votes to authorize. Such a vote is contemplated in the bill introduced for a Property Tax Convention. Many have expressed fears that without it being limited to a specific issue, there might be a "runaway convention" that takes up all sorts of extraneous issues.

2. Would the public vote on all of the convention's recommendations at once?
The bill introduced to implement a Property Tax Convention allows for one public vote on the convention's recommendations. The convention could submit multiple ballot questions to the public, but the history of state conventions indicates that a single vote on the entire package is the preferred course of action. The Legislature would have the right to pass laws changing anything that the public approved, though there is a feeling that elected representatives would be unlikely to do so for fear of seeming to overrule the public's will.

3. What kind of information would delegates receive to inform their judgment?
Under the current bill, if the public approves convening of a Property Tax Convention, the Office of Legislative Services (the nonpartisan agency that provides the Legislature with research and analysis) would be directed to conduct specific research studies designed to provide the future delegates with extensive background.

4. When and how would delegates be selected? How many delegates should there be?
The bill sets the second Tuesday in the following March as the election date for choosing delegates. A prime concern is that there should be a sufficient number of delegates to insure broad representation, yet not so large as to be unwieldy. The bill provides for two delegates elected from each of the state's 40 legislative districts.

In addition, a special committee consisting of the Chief Justice and four college presidents would appoint 10 additional "at-large" delegates to insure diversity and representativeness at the convention. The present and former governors automatically become delegates. There is no provision for alternate delegates, but if a vacancy occurs, a three-member committee designated in each delegate's nominating petition shall fill the vacancy.

Also under consideration is the selection of more "at-large" delegates and/or "super" delegates selected by legislative caucuses or by local government organizations. Some see an advantage in allowing current elected officials as delegates because they would bring government and political experience to the convention. Others, however, see a disadvantage in that public distrust might be heightened. Some states prohibit elected officials from serving as delegates to their Constitutional Conventions.

An alternative to March would be for delegates to be chosen in November at the vote authorizing the convention. This would save the expense of a special election but, because other offices were on the ballot, it could become difficult for the public to focus attention on delegate candidates and their qualifications. A March election of delegates would likely produce a smaller turnout, but the public and media attention on property tax reform might well create a spirited campaign with highly informed voter participation.

The current bill requires that each delegate be a resident of the legislative district from which he or she is elected, and a New Jersey resident for at least two years. As a way of weeding out non-serious candidates, those interested in being delegates would have to obtain the signatures of 500 registered voters on nominating petitions. There could be no joint candidate committees or pairings on the ballot, no slogans accompanying the candidate's name on the ballot and party identification would be limited to a "D" or "R" next to the name. Special campaign contribution limits would apply as follows:

- Maximum contribution from individuals - $500
- Maximum contributions from county political party - $5,000
- Maximum aggregate political party contributions - $10,000

Incentives would be offered for a delegate candidate to limit campaign spending to $25,000, with no more than $2,500 from the candidate's own resources. In return for agreeing to abide by these limits, Candidates would receive two publicly-funded district-wide mailings and free NJN television services.

Something to consider is whether the provisions of the contemplated bill safeguard against special interests being able to gain an inordinate number of delegates through excessive campaign spending and by excessive power of political or quasi-political organizations?

5. Where and when would the convention take place?
The bill calls for the convention to be held at Rutgers University in New Brunswick, starting the second week in April. Rutgers was chosen on the basis of the success of the 1947 Constitutional Convention held there; there was a strong feeling that taking it away from Trenton would enhance the deliberative process.

6. How much would this cost?
An appropriation of $15 million is specified in the bill. Of this, $9.5 million pays for the special March election. The balance of $5.5 million is for research and costs associated with the convention and its staffing. Delegates are only reimbursed for out-of-pocket expenses.

7. What should be the Charge to the convention?
The wording of the current bill includes these general assumptions:

- Property taxes should be reduced
- Property taxes should be replaced with alternate revenues
- Property taxes should manifest fairness
- The resulting state tax system should be revenue neutral (meaning that the new tax system should take in the same amount of money as the old one)

Can this charge be refined more? For example, should property tax reductions be directed more to specific constituencies such as seniors, low income citizens, owner occupied residences, tenants, and others?

This is the section that must instruct the convention and its delegates if it should control government spending and, if so, how. New Jersey's reliance on the property tax may be reduced in two major ways: 1) by shifting to taxes other than the property tax to pay for existing services or 2) by reducing expenditures on the services. How should the convention be charged to deal with spending issues?

8. Is there a way to make sure the convention addresses its assigned mission and doesn't stray from that?
Under the bill, a three-member panel of retired Superior Court Judges would be appointed to review the recommendations of the convention and rule, within 48 hours, whether or not the recommendations have exceeded the authorized agenda of the convention. If approved, the question is then certified to go on the ballot.

3. The Findings

Delegates felt that geographical representation would be important in a tax convention and that it could be achieved by electing convention delegates from legislative districts.

Most convention delegates should be elected, but some could be appointed to supplement them, though there was no agreement on an appointing authority or mechanism.

Convention delegates should be paid for their services so that anyone who is interested can afford to serve.

The number of delegates should be manageable, within the range of 80 to 100.

Other than being a registered voter in the district from which a delegate candidate runs, there should be no specific qualifications.

Members of the Legislature should not be permitted to seek election as delegates.

Ways should be found to limit the role of political parties, contributions and campaign expenditures so as to minimize the role of interest groups and keep the process nonpartisan. One way to accomplish this would be for candidates to run as individuals, as opposed to on a slate with other candidates, and without being identified by a party.

Voters should be provided with objective, concise information on candidates and convention meetings should be highly publicized.

The convention should be supported by a well-qualified staff large enough to meet the demands of the process in the time available for the convention's work.

UNRESOLVED

Should local officials be allowed to serve as convention delegates?

Should the election of delegates take place in a special election in the spring or, to help promote higher turnout, during the November general election? How important is voter turnout to the legitimacy of the convention and its recommendations?

How should public financing be supplied to delegate candidates?

How can the amount candidates may spend be limited?

How can delegates be chosen so as to accurately reflect New Jersey's demographic diversity?

Is the best way to achieve tax reform a convention or legislative action? In a show of hands at the final session of the day, at least two-thirds of delegates supported a convention, but a significant minority was opposed.

A-97/SCS-1787 was signed into law by Governor McGreevey on July 6, 2004 (PL 2004, c.85)

This law creates the Property Tax Convention Task Force. The task force will consider and develop recommendations regarding a constitutional convention designed to change the existing property tax system. The task force will issue, by December 31, 2004, a report containing its recommendations for legislative and other changes, and, if appropriate, a draft legislative proposal to implement the convening of such a convention.

The Property Tax Convention Task Force will consist of 15 members: nine members appointed by the Governor; two members appointed by the Senate President, one of whom will be a member of the Senate and one of whom will be a member of the public; two members appointed by the Speaker of the General Assembly, one of whom will be a member of the General Assembly and one of whom will be a member of the public; one member appointed by the Minority Leader of the Senate who will be a member of the Senate; and one member appointed by the Minority Leader of the General Assembly who will be a member of the General Assembly. The members will have substantial expertise and experience in State and local government matters, constitutional law, public finance or other related areas.

FISCAL IMPACT

The bill appropriates $250,000 from the General Fund to effectuate its purposes.

4.

WHAT WOULD MEANINGFUL RESTRAINTS ON SPENDING BE?

REDUCING SPENDING AS A COMPONENT OF PROPERTY TAX REFORM

BACKGROUND

The level and growth in both state and local government spending are often cited as major causes of the excessive reliance on property taxes in New Jersey. Local government spending contributes directly to property taxes since these taxes are the primary revenue source available to fund local services. State government often affects local spending indirectly, as when local governments are called upon pay for services that are the state's responsibility (such as primary and secondary education), or when the state mandates local expenditures for certain activities or programs (such as pensions for police). Moreover, the impact of state government spending on local property taxes is also indirect when spending by the state government in other areas "crowds out" various forms of state aid within the state budget.

A number of factors beyond the direct control of state and local governments in New Jersey may make it difficult to reduce or even control much of their spending. These factors include:

- Inflation—affects the costs of the public goods and services provided
- Interest rates—affect the costs of state and local government borrowing for capital projects
- Federal government mandates—require governments to do things but provide no money to pay for them
- Demographics—for example, the number of residents under 18 or over 65 has an impact on what services government needs to provide

In considering the role of spending in providing property tax relief in New Jersey, options must be developed to respond to several questions, including:

1. How much should spending be reduced?
2. Where can meaningful spending cuts be made?
3. How can spending reductions be achieved?
4. How can future spending growth be controlled?

Option One: The level and rate of growth of state and local government spending in New Jersey should not exceed the national average

According to data provided by the U.S. Census, total state and local government direct general expenditures in New Jersey were $44.3 billion in 1999 (the most recent year for which comparable census data are available), or about $5,443 per capita. This is above the national average of $5,129, but significantly below neighboring states of New York ($7,351), Connecticut ($5,999), and Delaware ($5,946) and somewhat greater than Pennsylvania ($5,105). Spending growth has also been significant for both the state and local governments, and should be linked to the rate of inflation and/or population growth.

Option Two: Go where the money is

State government spending is generally allocated among several areas, including support for public education (30%); direct state services such as the state police and public operations (21%); human services (15%): aid to county and municipal government (8.5%): support for higher education (6.5%); and other (19%), which includes many important items such as debt service, pensions, economic development. Local government spending consists of spending by school districts (for primary and secondary education), by municipalities (primarily for public safety and public works), and by counties (primarily for health and welfare, corrections, public works, and education—including county colleges and vocational schools).

Local education is the largest area of spending for both the state and local government. Reducing education expenditures may prove difficult in that much of the local education spending in New Jersey is in response to decisions by the New Jersey Supreme Court (the so-called Abbott decisions) and the federal IDEA (which governs many of the expenditures for special education in the state).

Reducing Medicaid—one of the largest and fastest growing components of state spending—would prove difficult given recent changes in federal government policies which shift more and more of the responsibilities for senior health care from the federally funded Medicare program to the joint federal and state funded Medicaid program. Moreover, given the structure of the cost-sharing arrangement for Medicaid, a $1 reduction in state spending would result in a $2 reduction in total spending for the program.

Reducing spending on the Corrections Department, which runs the state's prison system and is the second fastest-growing component of state spending in recent years, would mean revising the state's mandatory-minimum sentencing laws, and a likely increase in local public safety expenditures. Moreover, recent concerns about homeland security may make it difficult to consider reducing public safety and/or correctional spending for the foreseeable future.

Research has shown that spending on public works (i.e., infrastructure such as roads, bridges, sewers, and ports) and higher education (especially research and development and workforce readiness) is more important in stimulating economic development than lower taxes, so reductions in these areas could prove harmful.

Debt service is generally considered an "uncontrollable" spending category, with only very limited opportunities for even modest spending reductions through bond refinancing where interest rates and other market conditions warrant.

Option Three: Changes in the service-delivery mechanism
This option would include—either voluntarily or by mandate: 1) streamlining or reorganizing state agencies or local departments; 2) merging or consolidating local units of government (such as when the municipality of Pahaquarry was combined with Hardwick) or state departments (such as Banking and Insurance); 3) joint purchasing or shared-service arrangements; 4) greater reliance on contracting-out services or privatization (such as what several states have done for their jails and prisons); 5) changing of bureaucratic customs (such as preventing end-of-the-fiscal-year spending sprees for agencies or so-called "Christmas Tree" supplemental spending by the Legislature); and 6) changing the structure (i.e., the number or types) of local governments (although recent research shows that the savings from such an action are modest).

Option Four: Targeted spending cuts
This approach involves targeted cuts in specific agencies, types of governments, or services (such as the elimination of the State Energy Department or recent proposals to eliminate county government). It would also include efforts to shorten the normal hours of operation for local libraries, close parks, lengthen the maintenance cycle for capital facilities, increase tuition for students at public colleges and universities, increase individual co-pays for Medicaid recipients, and reduce aid to selected individuals

or local governments. This approach asks particular recipients of services or units of government to bear a disproportionate share of the total burden for cutting spending (and reducing property taxes) through layoffs, furloughs, and early retirements of government workers or through delays in needed expansion of selected programs (as when no new eligible individuals were permitted to join the state's "Senior Property Tax Freeze" program).

Option Five: All share in the pain
This approach removes the discretion and distributes the burden of reducing spending among all individuals, services, and agencies/units of government. Traditional methods include spending controls such as imposing "freezes" on travel, hiring, salaries, program benefits, and/or overall spending and across-the-board spending cuts. This approach assumes that all individuals, situations, programs, and circumstances are equally important.

Option Six: Reduce indirect spending through the tax code
Relatively few taxpayers are aware of the significant amount of spending (often done in the name of promoting economic development) done through the state tax code through abatements, credits, deductions, and exemptions to various businesses under many programs created at the state and county level. In these situations, the "normal" tax liability is reduced or eliminated in an effort to encourage some type of behavior or activity. Although large amounts of resources are involved, there is generally little oversight or accountability of the resources used and the objectives that they were designed to achieve.

Option Seven: Controlling future spending growth
Several mechanisms are frequently employed to aid in controlling spending. For example, the Legislature can limit by decree the amount that the state or local units can spend in aggregate, or for any particular service. Such caps can be on total spending, spending for selected services, total revenues, revenues from selected sources, indebtedness, or on the year-to-year changes in any of these variables. Governor McGreevey's recent call for a 2.5% "cap" on spending by all units of government is an example of this approach. Where such controls are used, provisions are often made to allow for exceptions in cases where workloads increases (i.e., increases in the size of the population eligible for a particular service) and for inflation-induced increases in the normal costs of providing the service.

Alternatively, the Legislature can implement requirements for voter approval of all budgets (or for those above a certain rate of growth) or for approval by "super majority" votes by legislative bodies for any increases in spending. Where such controls are implemented, provisions are often built in to allow for emergency spending in case of natural or man-made disasters.

In pursuing any of these options, it is important to note that:

- Reducing spending may produce undesirable results by increasing upward pressures on property taxes and/or reducing the availability of alternative revenues by reducing economic development in the state.
- Providing efficiently produced and high-quality services that respond to the needs of the residents in the state may be a more appropriate goal than the somewhat arbitrary approaches to reducing or controlling spending described above.

4. The Findings

The last discussion of the day was difficult for the delegates, but then the process of evaluating and prioritizing public expenditures is always a challenge. Some groups focused on details—like reducing the rate of increase in health care costs for public employees. Others took up broader policy issues—like setting as a target that New Jersey state budget increases would not exceed the national average.

Two of the discussion groups recommended that a convention limit itself to tax reform and not look at the spending side of government. The variety of approaches shows how daunting this issue will be in the context of a convention or other public policy setting, and makes generalizing or summarizing the results here difficult. Indeed, it is fair to say that this area of discussion raised more questions than it answered.

The strongest area of agreement is that state government should fully fund any programs or policies that it requires local governments or school districts to carry out.

UNRESOLVED

Should a cap be placed on property tax increases to control local spending?

Should property taxes be frozen to immediately control spending?

Should a tax reform convention be instructed to only make tax recommendations that take in no more revenue than the current tax system?

Should school budgets continue to be put to a public vote?

What would be the effect on spending of reducing the number of governmental units in New Jersey?

Should the state provide additional incentives for local governments and school districts to regionalize or consolidate? Should the number of municipalities be reduced? How can this be achieved?

Can ways be found to place special education students without resorting to litigation?

Would reforms to the sentencing laws for criminal offenders bring about lower Corrections Department spending?

Summary

Citizens can conduct meaningful and productive conversations on complex topics and arrive at realistic policy positions. The September 2003 Citizens' Tax Assembly produced a broad consensus for necessary reform. At the June 2004 Delegates' Meeting those same delegates developed specific recommendations for tax reform.

The "next step" for the New Jersey Coalition for the Public Good will be to hold a series of regional citizens' assemblies on property tax reform in September and October of 2004. A projected 50 to 60 delegates in each region will be chosen by lot as was done for the statewide assembly, ensuring that each area and constituency in the region is well represented.

The assemblies continue to expose more citizens to the process and expand the debate on property tax reform in New Jersey. They also provide the citizens of this state the opportunity to speak on the issues, to exercise their right to "alter or reform" the government because the public good requires it.

Delegates

Christopher Allyn, Morristown
Niladri Nath Bagchi, Kearny
Bobbi Bauer, Cresskill
Lisa Erickson Becker,Barnegat
Ann N. Bergenstock, Point Pleasant
Mark Bombace, Ridgewood
Sheila Brogan, Ridgewood
Lorenzo Corsi, New Providence
Christian Davis, Newark
Robert N. Davison, Caldwell
Ernest Dubay, Columbus
Leslie M. Ficcaglia, Port Elizabeth
Steve Fonda, Manasquan
Ann M. Franzeo, Voorhees
Malcolm C. Fraser, Cape May Point
Alan M. Haveson, Berkeley Heights
Gemma Haynes, Long Branch
William A. Hobday, Lakewood
Barbara Horl, Red Bank
Matthew House, North Brunswick
Milton M. Itell, Lakewood
Milton Keenan, Woodbury
Patricia Kelly, Ramsey
Caroline Knauss, Ramsey
Steve R. Latz, Maplewood
Sylvia M. Lee, Kendall Park
Helen S. Manogue, Hoboken
Alvin J. Melveger, Flanders
Barbara E. Melveger, Flanders
John Meyerle, Point Pleasant
Carleton Montgomery, Medford
Rosalie Murray, Blairstown
Gary J. Passanante, Somerdale
Creed S. Pogue, Estell Manor
Delores Ruple, Wenonah
Madeline Scott, Monroe
Jim Steinbaugh, Toms River
Herbert D. Stiles, Jr., Elmer
Edward A. Szabo, Newton
Peter Taft, Hopewell
Joan Tomlin, Lawrenceville
Richard A. Tompkins, Hamilton Square
Tsang-Bin Tzeng, Cherry Hill
Lindy W. Wilson, Maplewood
Elizabeth Wong, South Orange

Moderators

Denise Anderson
Sally Dudley
Mary E. Forsberg
Mike W. Klein
Sharon Ransavage
Jon Shure
Patricia Tieman
John Tiene
Nelida Valentin
Penni Wild

New Jersey Coalition for the Public Good

The New Jersey Coalition for the Public Good is a volunteer, nonprofit organization aimed at promoting good government policies and practices in New Jersey through forums, activities and reports.

Citizens for the Public Good

Candace Ashmun
B. Thomas Byrne, Jr.
Judith Cambria
Timothy L. Carden
Bruce Coe
Henry A. Coleman
Carol Cronheim
Christopher Daggett
Sally Dudley
Douglas Eakeley
John Farmer, Jr.
Hon. James. J. Florio
James Gilbert
Jerrold Jacobs
Nicholas Katzenbach
Lorraine Kulick
Susan Lederman
Leonard Lieberman
Roland Machold
Thomas O'Neill
Franklin Parker
Sharon Ransavage
Frank P. Reiche
Richard Roper
Bill Schluter
Linda Stamato
Gerald Stockman
Richard J. Sullivan
Richard L. Wright

New Jersey Coalition *for the* Public Good
145 W. HANOVER STREET, TRENTON, NEW JERSEY 08618