Chairman Greenwald, Vice Chairman Schaer, Budget Officer Malone, members of the Assembly Budget Committee -- thank you for giving me the opportunity to present the New Jersey Department of Community Affairs’ budget for the upcoming fiscal year. I look forward to discussing the Department’s spending plan and answering any questions you might have.

The State of New Jersey and the country as a whole are facing extraordinarily hard times. I know this sentiment has been expressed often in the last three years, but it bears repeating. Many people have been laid off from their jobs and have lost or face the very real prospect of losing their homes. Businesses of all sizes are strained. Construction in most parts of the state has come to a virtual halt.

Government has not been immune to this recession. Revenue has plunged while costs for health care benefits, energy, retirement benefits and myriad other items steadily climb. This has led to hiring freezes, furloughs and, in some cases, layoffs. Government staff at all levels is frequently being asked to do the same or more work with less people and less resources.

Despite these challenges, many municipalities are finding ways to operate more efficiently and cuts costs, whether it’s through shared service agreements with neighboring towns or negotiating employee contracts with the taxpayer in mind. We applaud these efforts and encourage municipalities to continue finding creative ways to run government efficiently and cost effectively.

But given the state of the economy and the difficult financial situation in which we find ourselves, Governor Christie and I are asking municipalities to do more. We understand the level of sacrifice we are asking towns to make, but we are confidant they will not only overcome it, but emerge from the experience better able to tackle any challenge with which they are presented.
At this point, I would like to address state formula aid for municipalities. After listening to last week’s budget testimony during which a great deal was said about state aid, I recognize it is an issue that is foremost on the minds of all the members of this distinguished committee.

As you are all aware, formula aid will be reduced by about $271.4 million under Governor Christie’s proposed Fiscal Year 2011 budget. None of the state’s 566 municipalities will receive an increase in state formula aid. Indeed, the overwhelming majority will see a decrease.

The reductions in aid must be put into context.

New Jersey has the highest combined burden of state and local taxation in the country and the highest property taxes in the nation as I’m sure all of you are aware. Property taxes have increased an astounding 70 percent in the past 10 years. State spending jumped about 50 percent from FY 2002 to FY 2008 while local government spending rose 69 percent from 2001 to 2010.

Without a doubt, many elected officials at all levels of government approved spending increases for what they believed were worthy reasons. Nonetheless, it has resulted in the predicament under which we now find ourselves. We are staring at a projected budget gap of $10.7 billion, which represents the largest deficit in New Jersey history.

Governor Christie has made it clear that government cannot continue to tax and spend, especially in this recession. For this reason, the Governor made the tough decision to make the reductions to state formula aid.

The reductions to Consolidated Municipal Property Tax Relief Aid and Energy Tax Receipts range from 14.45 percent to 26.45 percent. Similar to last year, the reduction calculation of these two programs, which make up the bulk of formula aid, is based on the principle that municipalities with higher wealth and lower taxes can absorb more of an aid reduction than a municipality with low wealth and high taxes.

The calculation placed each municipality into one of nine groups based on low, medium, and high equalized tax rates and wealth. Each group was reduced by a different percent, based on the wealth/tax burden. For example, the highest tax burden/lowest wealth group was reduced 14.45 percent while
the highest wealth/lowest tax burden group received a 26.45 percent reduction. All reductions were limited by capping the increase in property taxes to the average residential property owner in each municipality at $250.

I understand what some of you may be thinking. Reductions in state formula aid will automatically result in municipalities raising taxes at the local level. I’m here to tell you that we at the Department of Community Affairs take the public’s demand and Governor Christie’s directive to control taxes very seriously.

I want to repeat this point because it is an important one. We do not believe a cut in state formula aid automatically means or should mean an increase in property taxes.

Municipalities must find ways to cut the cost of government. They must set budget priorities and conduct rigorous reviews of their services and programs.

As I mentioned previously, many are doing so.

Mendham Township wants to reduce costs by sharing police services. When efforts to partner with Mendham Borough failed, the township didn’t give up. Rather, it pressed forward and is now in discussions with Randolph Township. This type of initiative is commendable and should be emulated throughout the state.

Five towns in Morris County – Dover Town, Mine Hill Township, Mount Arlington Borough, Rockaway Borough and Wharton Borough -- created a joint municipal court in early 2009. Middlesex County is providing juvenile shelter services for Monmouth County. Hamilton Township in Mercer County has contracted with Mercer County for Weights & Measures Services. Mount Laurel Township is considering abolishing its own dispatching center and contracting with Burlington County for police dispatching services. I could go on, but I believe you get the point.

For those towns that are not making a good faith effort to curb property tax increases, the proposed budget gives them an incentive to reconsider the lack of effort. Any attempt by a municipality to use cuts in state formula aid as a reason to go above the 4 percent property tax levy cap currently in place will
result in a decrease of remaining formula state aid by a like amount. Good faith efforts must be documented and will be scrutinized by the Department in consideration of any waivers to the levy cap law.

Furthermore, all applications for levy cap waivers will be scrutinized by the DCA. Municipalities will have to go to great lengths to prove extreme hardship in their efforts to exceed the 4 percent cap.

Municipalities will also have to adopt best practices and be held to account if they don’t. The DCA is earnestly developing a “Best Practice Initiative Program” whereby a municipality will not receive its final formula aid payment unless it certifies that it has met a minimum of pre-selected best practice standards. The Department intends to release the program next month. It is expected that many of the best practices will be those currently deployed by many municipal governments around the state. This new program will encourage the adoption of new best practices and the taxpayers will benefit.

In the long term, Governor Christie has outlined a series of proposals to protect taxpayers and empower local governments to more effectively manage their budgets without raising property taxes.

At the heart of the Governor’s plan is Proposition 2 ½, which would impose a hard 2.5 percent cap on property tax increases for municipalities (as well as counties and school districts) and a hard 2.5 percent cap on spending increases for state government operations. Governor Christie and I urge the Legislature to approve this constitutional amendment and send it to the voters this November. We believe the Proposition can work in New Jersey just as it’s done in Massachusetts, which went from having the third highest property tax burden in 1977 to the 33rd highest in 2005 after voters approved the measure in 1980.

The Proposition would give municipalities the wherewithal to reopen multi-year contracts with local public unions in an effort to address salary increases and cost-sharing on benefits.

The Governor’s package of proposals would also:

- Prohibit municipal and county contracts, inclusive of benefits costs, from exceeding the 2.5 property tax levy cap;
• Require local government employees to make contributions to their health benefits that equal or exceed required contributions by State employees;
• Cap payouts for accrued sick leave at $15,000 for current as well as future employees; and
• Allow counties and municipalities to opt out of Civil Service, which would make it easier for them to pursue shared service agreements, consolidation initiatives and furloughs.

All of these recommendations require legislative support. I encourage the Legislature to quickly introduce and approve bills aimed at achieving these goals.

Let me now address some items we are particularly proud of here at the DCA.

Despite having its budget reduced by 35 percent, the Department was able to preserve funding for housing programs that are essential to some of the state’s most vulnerable people.

The State Rental Assistance Program (SRAP) will continue to operate on a $52 million budget for the coming fiscal year. This worthy program provides rental assistance to elderly and disabled people who were either living in deplorable housing units or were severely cost-burdened, paying over 50 percent of their limited income on housing costs. It also helps formerly homeless families who were either living on the streets, in emergency shelters, or in transitional housing facilities.

The program since its inception in 2005 has grown significantly, from one household served in 2005 to more than 4,300 as of this month. With new vouchers in the federal Housing Choice Voucher Program limited to Veterans Assisted Supportive Housing, the State Rental Assistance Program has been the only program in New Jersey that has been issuing vouchers to households in dire straits.

The Homelessness Prevention Program is funded at $4.3 million annually and will remain so going into the next fiscal year. The program is a cost-effective method of averting homelessness. Thousands of low and moderate-income households who have experienced a temporary loss of income due to problems beyond their control would lose their apartment or home and
would enter the emergency shelter system without the Homelessness Prevention Program and the financial assistance it provides.

The program last year assisted over 2,000 households, including 100 domestic violence clients. With the current recession, the number of inquiries about the program has doubled.

The Department has also been able to safeguard the Shelter Support Program, which provides funds to local governments and nonprofits so they can eliminate health and safety violations in existing emergency shelters and rehabilitate properties to create new emergency shelters and transitional housing facilities.

The program annually receives $1.6 million from the federal Emergency Shelter Grant Program and the required matching funds of $2.3 million come from the Affordable Housing Trust Fund.

The DCA continues to do admirable work in helping households in need heat their homes and conserve energy.

Through $196 million in Low-Income Home Energy Assistance (LIHEAP) funding, the Department provides assistance to keep over 290,000 New Jersey families warm. The program provides a subsidy to households in the state that are at or below 225% of the Federal Poverty Level to assist them in paying their heating bills. As a result of the overall need for assistance in this recession, the DCA has seen the number of households in need of assistance rise from 197,073 in FY08 to 290,000 in the current fiscal year, a 47 percent increase.

The Department’s Weatherization Assistance Program will help keep families warm by providing whole-house weatherization to over 13,500 homes throughout New Jersey over the next two years with federal stimulus funding, and about 2,500 homes more with regular-year funds.

During 2009, the DCA worked with weatherization agencies with planning and ramp-up activities for production. Weatherization production commenced in late 2009 and to date, 280 units have been weatherized, with approximately 1,500 units in various stages of bidding and award by the agencies.
In the area of helping communities, the DCA’s Neighborhood Stabilization Program (NSP) provides almost $50 million to 35 municipalities, counties and nonprofit organizations to reduce neighborhood blight and create more affordable housing. The funds will purchase, rehabilitate, resell or rent foreclosed and abandoned properties. They will also establish financing mechanisms, demolish blighted structures and redevelop demolished or vacant properties.

The Department is also finding creative ways to use computer technology to advance government efficiency. I will provide you with two examples.

The Government Service Tracking and Reporting System, GOV-STARS, will be an Internet-based application that will allow local government users to post information on how their local unit provides services to their residents. Among the information to be recorded is the type of service program and details about the service activity; how it is provided (whether in-house by employees, through shared service agreements or by outsourcing to private contractors and other providers) and contact information on the provider for follow-up.

GOV-STARS will allow both local officials and DCA’s Division of Local Government Services to cost-effectively comply with the provision of the Uniform Shared Services and Consolidation Act that requires all new shared service agreements to be filed with the Division. By establishing a web-based mechanism for submission and storage, local officials will be saved the expense of photocopying and mailing copies of each agreement. The Division will be saved the expense of receiving, sorting and physically storing what could be many hundreds or even a thousand documents annually. Requests to the Division for copies of the filed documents, which would involve a search, photocopying and mailing costs, will also be eliminated.

A critical part of the GOV-STARS system will be its searchable database. It will allow state and local officials and, ultimately, members of the general public to locate, examine and print copies of the stored information. This resource of how services are provided can be used to identify possible partners for new shared service programs and access contact information. The economies of sharing services can be realized more quickly, with fewer false starts or problematic issues.
The Legislature and other executive branch departments, as well as university and college schools of public and government affairs and others involved in the efforts to improve local government efficiency will be able to draw on the information for their work.

The initial investment for the development of GOV-STARS will be recouped manifold by the avoidance of having to continually survey or search for data each time an agency requires information on how services are provided by local units.

The DCA is also implementing a Registration and Inspection Management System (RIMS) that will meet the shared needs of two important areas in the Department – the Bureau of Housing Inspection within the Division of Codes and Standards and the Bureau of Code Enforcement within the Division of Fire Safety. The goal is to achieve major improvements in IT systems and business process by leveraging assets in which the State has already invested.

This E-government RIMS application will manage registrations, inspections, compliance, appeals and hearings. It will issue various certificates and permits, as well as perform all associated accounting. This will all be done in a secure, accessible and reportable consolidated system that will be more efficient and cost significantly less to operate than the current unwieldy system.

I have briefly outlined for you only some of the many programs and initiatives the DCA is providing or pursuing to enhance the lives of New Jersey’s residents. There are many more as I myself am learning as Acting Commissioner of this vibrant Department for last nine weeks. I would be happy to arrange a more in-depth meeting or information session on what has been discussed today or any of our other programs.

I will be happy to entertain your questions.