A Short History of the
NEW JERSEY PROPERTY TAX & the Long Road to Reform
Our property tax goes back to the earliest years of English rule. In 1670, a levy of one half penny per acre of land was imposed for the support of the colonial government. In 1682, with the establishment of counties, the property tax became the primary source of funding for local government. And four years later, townships were given permission to raise revenues for public improvements. Until the middle of the 19th Century, property taxes were levied on real estate and certain personal property at arbitrary rates within certain limits, referred to as “certainties.”

The Public Laws of 1851 brought to New Jersey the goals of uniform assessments based on actual value and a general property tax, meaning that all property classes were to be treated the same, for the purpose of taxation. In 1875, the concept of uniform assessments was enshrined in the State Constitution. Our Courts held that the amendment, however, permitted the classification of property for tax purposes and the exemption of certain property classes from taxation. A long period of the erosion of the “general property tax” concept followed.

In 1884, a State Board of Assessors was created to assess the value of railroad and canal property. The State, thereby, inserted itself into the local property tax assessment process.

As a local tax, the property tax is, generally, locally assessed and collected for the support of municipal and county governments and local school districts. No part of it directly supports State government, but a large part of it supports functions that the State has imposed on local units. All taxable property is assigned a value—assessed—by a local assessor in each municipality. An assessment is given as “taxable value,” except in the case of qualified farmland, which is specially valued. The amount of the tax is annually determined each year, in every municipality, to provide sufficient revenues to meet the budgeted expenditures of municipalities, counties and school districts, minus revenue available from other sources.

Each year school districts, municipal governing bodies, and county governing bodies notify the County Tax Boards of their budgetary requirements through submission of adopted budgets. The various levies are totaled to represent the “amount to be raised by taxation” for each taxing jurisdiction.

The tax levy is divided by the total assessed value of all taxable property within the municipality—or the tax base—to determine the general tax rate. The general tax rate is then applied to the assessed value of each individual parcel of property to determine the property owner’s tax liability. Local budgets, assessed value and the availability of other revenues, then, are the prime determinants of each taxpayer’s burden. The rate is annually adjusted to account for these factors. Because of this, you will see our property tax referred to as a “residual tax.”

**ORIGINS OF THE PROPERTY TAX IN NEW JERSEY**

**PROPERTY TAX EXEMPTIONS**

Intangible personal property was exempted from the tax base in 1945. Our State’s 1947 Constitution contains the famous “uniformity clause,” which states that “property shall be assessed for taxation under general laws and by uniform rules. All real property assessed and taxed locally or by the State for allotment and payment to taxing districts shall be assessed according to the same standard of value, except as otherwise permitted herein, and such property shall be taxed at the general tax rate of the taxing district in which the property is situated, for the use of such taxing district.”

This section was based on an 1875 amendment to New Jersey’s 1844 Constitution. And the next paragraph similarly “grandfathered” all property tax exemptions “validly granted” (under the 1844 Constitution) “and now in existence.” But it subjected those exemptions to future legislative amendment or repeal, “except those exempting real and personal property used exclusively for religious, educational, charitable or cemetery purposes.” Further, it granted the legislature the power to enact other exemptions “only by general law.” The Constitution also allowed the legislature to permit municipalities to grant exemptions or abatements in areas in need of redevelopment and rehabilitation.

In 1953, the Constitutional property tax deduction for veterans who served in time of war or emergency was extended to widows of those who died on duty. In 1960, an Amendment was approved, which allowed a property tax deduction for senior citizens. In 1963, the Constitution was further amended to permit the assessment of farmland at its value for agricultural purposes.

In 1966, non-business personal property (such as household goods and appliances) was exempted by the legislature, along with business inventories, and the taxation of other business personal property (business machinery) was circumscribed.

The 1966 law also rescinded:

- the Retail Gross Receipts Tax;
- the Corporation Business Tax;
- the Business Personal Property Tax; and
- the Unincorporated Business Tax.

Further, the 1966 law provided for level State ‘hold-harmless’ funding to compensate local taxing units for these revenue losses.

In addition to these provisions, other exempt properties include:

- those used by governments or public authorities;
- those used by certain youth associations or veterans’ associations or fraternal organizations;
- parsonages;
- those occupied by district superintendents of religious organizations;
- certain historic properties;
- conservation or recreation land owned by non-profits;
- property owned by medical service corporations or dental service corporations or the New Jersey School Boards Association; and
- dedicated pet cemeteries.

The total 2012 estimated market value of all exempt real property in New Jersey was over $136 Billion. The net value of all taxable land and improvements in that same year was just over $982 Billion.

**ALTERNATIVES TO THE PROPERTY TAX—LOCAL OPTION TAXES**

On October 12, 2006, the Legislature’s Joint Committee on Constitutional Reform and Citizens Property Tax Constitutional Convention heard testimony presented by Judy A. Zelio of the National Conference of State Legislatures. Ms. Zelio stated that 43 states permit some form of local option sales or income tax. In some cases, the authority is limited to certain classes of municipalities only. 38 states permit local option sales taxes. 18 states permit local option income or payroll taxes. (13 states permit both, in some form.)

According to the U.S. Census Bureau figures for 2009-2010, local own source general tax revenue in the U.S. totaled $569 billion. Of that, $427 billion was generated by the property tax; $62 billion by a general sales tax; $1.3 billion by a motor fuels tax; $523 million by an alcoholic beverage tax; $436 million by a tobacco products tax; $14 billion by public utilities taxes; and $11 billion by “other selective sales” taxes. Individual income taxes generated $24 billion; corporate income taxes produced $6 billion; license taxes brought in $1.6 billion. “Other taxes” produced $20 billion.

According to the same source for the same year, New Jersey local own source tax revenue equaled $25 billion, of which $24.7 billion was produced by property taxes.
Although New Jersey does not allow local governments to levy income, wage or a general sales taxes, it does allow some local governments to tax certain things for local benefit. Among the taxes permitted in New Jersey:

- The Atlantic City Luxury Sales Tax (1991) on alcoholic beverages, entertainment charges, room rentals, hiring of rolling chairs on the Boardwalk and admission tickets to events. The rate is 3 percent on alcohol and 9 percent on other items. Revenues are dedicated for the State Sports and Exposition Authority to run Atlantic City convention facilities. Also, the Atlantic City Tourism Promotion Fee (1991) collects $2 per day for each occupied room in hotels that provide casino gambling and $1 per day for occupied rooms in other hotels. These funds are dedicated to the Atlantic City Convention Center Operating Authority. In 2011, these taxes generated $31.2 million.

- The Cape May County Tourism Sales Tax (1992) levies an additional 2 percent sales tax on room rentals, restaurant food, admission charges to amusements and cover charges in nightclubs only in Wildwood, North Wildwood and Wildwood Crest. Fees collected are used to pay principle and interest on bonds issued by the county tourism authority. In 2012, $4 million was collected.

- A parking fee of $3 required to be charged by casino hotels in Atlantic City (1993) for use by the Casino Reinvestment Development Authority to finance public improvements in Atlantic City. In 2005, $17.8 million was available for this purpose.

- In 2002, a 1.85 percent assessment on hotel and motel occupancy fees. The state rate is 5 percent and local governments are allowed to levy an additional 3 percent tax. State revenues from these fees are used to promote tourism and for cultural and historical projects; local revenues remain with the municipality and are used for general purposes.

### PARKING TAX

Beginning in 1970, Newark and Jersey City were permitted to levy a parking tax. In 1987, by definition, the power was extended to Elizabeth. In 1991, by definition, the power was extended to all Hudson County municipalities (except Kearny, Secaucus and, at the time, North Bergen) and to Belleville, Orange, East Orange and Irvington and to Bogota, Cliffside Park, Fair Lawn, Fort Lee, Garfield, Lodi, Palisades Park and Wallington. The authority was set to expire for all in 2004, but was permanently extended, in 2004, by repeal of 40:48C-8. Further, North Bergen now has the authority, as its population density exceeded 10,000 per square mile, in the last census.

While important to the qualifying municipalities, none of these local option taxes are sufficient to address New Jersey’s property tax problem.

### ALTERNATIVES TO THE PROPERTY TAX—STATE REVENUE REPLACEMENT FUNDING

There are two main formula-driven general municipal property tax relief programs currently in use in our Garden State. Though often referred to as “State Aid” programs, these are actually Revenue Replacement programs. The revenue they replace was, formerly, generated through taxes assessed and collected locally.

The simplest to describe is the Energy Tax Receipts Property Tax Relief program. It is the direct descendant of the Public Utility Gross Receipts and Franchise Tax (PU-GRAFT). That was a tax on regulated public utilities originally assessed and collected at the municipal level. In the early 1980s, at the request and for the convenience of the tax paying utilities, the State became the collection agent for this assessment. The law that effected this change promised that the proceeds would be distributed back to the municipalities, which provide services to utility facilities and from whence come utility profits. The State of New Jersey neglected that commitment, immediately repurposing large and growing portions of the proceeds to its own general fund.

Modernization and deregulation led to a major reform of utility taxes in the mid-Nineties. That reform law validated and, supposedly, capped the State’s annual percentage. It also included a ‘poison pill,’ which required the State to annually increase the municipal distribution of Energy Tax proceeds. Failure to do so would result in the forfeiture of the State’s authority to collect the tax.

Around the same time, the State decided to ‘consolidate’ a number of previously discrete municipal property tax relief programs. While some may see ‘no rhyme or reason’ to the distribution of Consolidated Municipal Property Tax Receipts Aid (CMPTA), each of its component parts was distributed according to state established formulas. And many of those parts were, like Energy Taxes, the lineal descendants of taxes that had once been assessed and collected at the municipal level. Among its many components, CMPTA includes the Financial Business Tax, the Business Personal Property Tax Replacement, the Railroad Class II Property Tax, the Insurance Franchise Tax, the Corporation Business Tax on Banking Corporations and a big chunk of State Payments In Lieu Of Taxes (PILOT) payments, that had been under-funded for many years, prior to being folded into the Consolidation. These are, or were, all municipal revenue replacement programs. They were not, properly speaking, State aid. They were not meant to make things better for municipal property taxpayers. They were only intended to keep things from getting worse.

In the late-Nineties, a law was passed that required both the Energy Tax and CMPTA distributions to be annually increased by the rate of inflation. That law posed a special problem for future State budget makers. But, as those budget makers viewed the matter, the problem was not how to comply with the requirement. The problem was how to evade compliance without invoking the Energy Tax ‘poison pill.’ And how did the State increase Energy Tax distributions by the rate of inflation for five straight years without providing municipalities with one new dollar in property tax relief? It reduced the CMPTA distribution by the same amount that it increased the Energy Tax distribution. In 2008, it did even more. That year, CMPTA was reduced by about $62 million more than the Energy Tax was increased. In 2009, the net loss equaled about $32 million.

East Windsor Mayor and 2013 League President Janice S. Mironov leads the effort to convince State policy makers to restore this vital property tax relief funding.

### THE ROAD TO REFORM—THE INCOME TAX AND THE PROPERTY TAX RELIEF FUND

In 1973, the Supreme Court, in Robinson v. Cahill I, determined that over-reliance on property taxes led to inequitable—and, therefore, unconstitutional—public educational opportunities. In this atmosphere, Governor Cahill had asked the Legislature to authorize a progressive income tax. His proposal was rejected and, in part, led to his defeat in the 1973 Republican Gubernatorial Primary.

More Robinson decisions culminated, during the Byrne Administration, in the Public School Education Act of 1975, and our State’s first income tax. In order to win voter approval for an amendment to their Constitution, which would permit the collection of the income tax, the proposal included a provision that dedicated income tax proceeds to property tax relief. (Article VIII, Section 1, Paragraph 7)

Despite the dedication of billions of dollars to public school districts, property taxes continued to exact a heavy burden on New Jersey citizens. As a result of this, the State has implemented a host of direct relief programs. These include the Homestead Rebate, NJ-Saver, the Senior Freeze and the Veterans’ Senior Citizens’ and Disabled Citizens’ Property Tax Deductions. These piecemeal relief efforts have not reduced our State’s anachronistic over-reliance on regressive property taxes.

Governor Jim Florio took office in 1990 in the midst of a severe National recession, and recessions are notorious for overwhelming government budgets. Faced with a projected 1991 deficit of $3 billion, Governor Florio asked for a $2.8 billion tax increase. It was said to be the largest increase of any state in U.S. history. The money generated would balance the budget, increase aid to public schools and increase property tax relief programs. Governor Florio also eliminated 1,500 government jobs and cut perks for state officials.
A grassroots taxpayer revolt sprouted in 1990, spearheaded by a citizens group named “Hands Across New Jersey.” The Governor was a regular target of anti-tax broadcasting from talk radio stations in both New York and New Jersey. And rallies were held by “Hands Across New Jersey” protesting the tax increases. Bumper stickers with “Impeach Florio” and “Florio Free in ’93” were seen around the state.

In 1991, the Democrats lost their majority in both Houses of the state legislature, for the first time in 20 years. The Governor’s approval ratings were as low as 18% but rebounded by 1993. Due in part to the tax hikes, Governor Florio was subsequently defeated for reelection. Governor Christine Todd Whitman won a squeaker, on a vote of 49% to 48%.

In 1990, Governor Whitman had campaigned for the U.S. Senate against the previously popular incumbent Senator Bill Bradley. Her long-shot candidacy was almost successful, due to her criticism of Governor Florio’s income tax hike, on which Senator Bradley remained silent.

After rolling back many of the Florio tax increases, Governor Whitman narrowly won reelection in 1997, beating back a strong challenge from future Governor Jim McGreevey, then Mayor of Woodbridge.

THE ROAD TO REFORM—COMMUNITIES, COMMISSIONS, RECOMMENDATIONS

As early as the post-War period, state policy makers began to respond to the property tax crisis by assembling blue ribbon panels to study the matter and recommend reforms. From the Commission on State Tax Policy in 1945, to the New Jersey Tax Policy Committee of 1972, through the State and Local Expenditure and Revenue Policy Commission of 1985-1988, to the Governor’s Property Tax Commission of 1997, thoughtful, detailed studies of the many aspects of New Jersey’s property tax problem by panels of honest, dedicated and highly-qualified volunteers led to carefully considered recommendations, the bulk of which were never adopted by the State Legislature.

It appeared that action on real property tax reform might require Legislators to pay a price at the polls. And it appeared that several Legislators might not be willing to risk that tab.

THE ROAD TO REFORM—STATE PAY FOR STATE MANDATES

Meanwhile, a number of State Legislators recognized the impact that unfunded state mandates have on local property taxes. Such mandates force local officials to ask local property taxpayers to fund programs and services imposed by State law and regulation. State officials are responsible for the costs. But local officials would be held accountable for raising the revenues. A proposal was floated to amend the State Constitution to prevent the State from imposing future mandates, as early as 1986. In 1995, after years of intense lobbying, the Legislature finally sent the proposal, sponsored by then-Senate President Don DiFrancesco and then-Assembly Speaker Chuck Hayaian, to the people. The voters enthusiastically endorsed the Amendment. And, in early 1996, the Legislature passed a bill that created the Council on Local Mandates to enforce the limitations.

Also in 1995, the Legislature began to recognize the negative impact of the scores of mandates that had been imposed over the course of decades. With the bipartisan sponsorship of Senators Len Connors and Jack Casey, the Legislature passed a bill that relieved or repealed a number of those pre-existing mandates. At the time, it was estimated that the bill would provide $25 million in annual property tax relief.

But more mandates remain in place. And the Amendment, as important as it is, contains exceptions that permit the State to impose new mandates in certain cases. The State has tried to expand on those exceptions, including an attempt to shift certain State Police costs onto local property taxpayers. But the Council on Local Mandates has proved to be a solid institution that will use its Constitutional power to stop such impositions.

The Amendment and the Council have been effective, but New Jersey has remained overburdened by regressive property taxes. And the Legislature has been slow to effect fundamental reforms.

THE ROAD TO REFORM—LET THE PEOPLE SPEAK

In 2001, the winds of change began to blow. Then-Senator Bill Schluter decided to break the logjam that has prevented good ideas for property tax reform in New Jersey from becoming good laws. His novel and non-partisan approach called for a special Convention. The people of New Jersey would democratically elect the delegates. And, just as the 1966 Convention was limited to one issue (then, legislative reapportionment), so this Convention would be limited to one issue (now, property taxes).

After Senator Schluter left public office, then-State Senator John Adler and then-Assembly Majority Leader Joe Roberts were the champions for this effort. Their companion bills, A-1786 and S-263, were the vehicles designed to carry the promise of property tax reform to fulfillment.

But there was one problem. Then-Governor Jim McGreevey was an opponent of the special convention approach.

Thankfully, the Governor remained willing to listen to our position on this. In the end, he exhibited the strength and the courage to change his mind. And the change was made manifest in a smaller bill. Another step was interposed between the people and their desire for property tax reform. But that step would move us in the right direction.

In July, 2004, League Executive Board Member and Chairman of our Property Tax Reform Review Committee, Mayor Gary Passanante of Somerdale, hosted the Governor’s signing of A-97. The bill created a task force to consider and develop recommendations regarding a constitutional convention designed to change the existing property tax system. The signing of this bill was the most significant step towards true and lasting property tax reform in over thirty years.

Working with others committed to property tax reform, the League of Municipalities had helped to organize the Citizens Convention Coalition. That Coalition came to include Citizens for Property Tax Reform, the League of Women Voters, Citizens for the Public Good, the Black Ministers’ Council of New Jersey, AARP-New Jersey, New Jersey Policy Perspective, New Jersey Future, the New Jersey Chapter of the Sierra Club, the New Jersey Conservation Foundation and the Association of New Jersey Environmental Commissions.

It was the Coalition’s position that a citizens’ property tax reform convention would be New Jersey’s best, if not only, hope for reforms that would:

- reduce property taxes as a share of overall public revenue;
- eliminate inequities in the current system of property taxation, especially as those inequities may affect low and moderate income residents of this State;
- provide relief from the property tax burden on primary residences, whether rented or owned;
- ensure greater uniformity in the application of property taxes;
- be revenue neutral in their overall impact, meaning that the aggregate amount of all revenues collected by the State and local governments, as accurately as can be estimated and measured, would be the same after the implementation of the recommendations, as they were before such changes;
- provide substantial relief, by which was meant that the State’s total reliance on property taxes to fund governmental programs and services would be reduced from the current 44%, as a share of total tax revenue, to near the national average of 30%;
- provide alternatives which lessen the dependence of school districts and local government on property taxes, or
- provide alternative means, including possible increases in other taxes, of funding local government services; and
- provide means to ensure that reductions in property taxes, or limits on increases thereof, would be sustained over time.

Based on decades of institutional inattention to the problems imposed on citizens by New Jersey’s anarchistic over-reliance on regressive property taxes and inaction on structural property tax reforms; and based on the Legislature’s performance in previous special tax reform sessions; we were doubtful that a special session of the Legislature would produce reforms that meet the above listed standards.

Further, there is nothing that the Legislature could do in a “Special Session,” that it couldn’t have done two, or ten or twenty years ago IN A REGULAR SESSION.
THE ROAD TO REFORM—
THE SPECIAL SESSION

Despite the strong advocacy of then-Assembly Speaker Roberts and the support of then-Governor Corzine, key Legislative leaders continued to refuse to advance the Citizens Convention bills. Coming out of the great State Budget deadlock of 2006, the Governor, the Senate President and the Assembly Speaker announced that they had agreed to a Special Session of the Legislature for Property Tax Reform.

On July 28, 2006, Governor Corzine’s address to the joint Houses of the Legislature marked the beginning of that Special Session. He opened by observing, “Our people face a crisis—a real crisis with regard to property taxes and its burden… It is all too clear to everyone, the property tax burden is simply overwhelming our citizens and their economic well-being… In our case, middle class families and seniors bear the brunt of the failure to meaningfully address the root causes of this problem.” At that time, he noted, “Property taxes have been going up an average of 6.5% a year for the past 20 years and at 6.9% since 2001, a period of time when, not surprisingly, aid to municipalities and schools was held essentially flat.” He also said, “(But) we are kidding ourselves if we pretend we can fundamentally alter the property tax equation entirely on the spending side.” And he pledged, “If we fail to take the necessary steps to achieve sustainable relief and reform by January 1st, then I will call and press for a Citizens’ Convention to be on the ballot in 2007.”

And, as a New York Times op-ed piece noted that September, “There is no mystery behind the high rate of property taxes. In the Garden State, local governments, specifically school districts, receive less money from the state to finance their activities than virtually any other state in the union. According to the Tax Foundation, a Washington-based group that favors lower taxes, in 2004, New Jersey localities raised 52 percent of their revenue through property taxes. The national average is 28 percent.”

For the next phase of the Special Session, the Legislature created four Joint Legislative Committees to study aspects of the issue and recommend solutions. Those Committees were on Public School Funding Reform, on Government Consolidation and Shared Services, on Public Employee Benefit Reform and on Constitutional Reform and a Citizens Convention. Volumes of testimony were taken during scores of hearings. Lists of recommendations were submitted to both Houses. And final action produced the following results.

• A new property tax credit/rebate program, which was projected to produce a 20% reduction in property taxes for the great majority of property taxpayers—an average benefit of more than $1,100 for the nearly 1.4 million New Jersey homeowners with incomes of $100,000 or less.
• Another 500,000 homeowners—those with incomes between $100,000 and $250,000—would see benefits that are significantly higher than they had ever been before.
• Overall, benefits for non-senior homeowners would, on average, be more than three times the amount of 2006 benefit.
• Seniors would continue to receive a high level of relief, guaranteed to be no lower than that received in 2006 and averaging nearly $1,250 for senior homeowners.
• Funding for nearly 800,000 tenant households was to be doubled.
• A new Local Unit Alignment, Reorganization, and Consolidation Commission was created to perform thorough research, review, and development of proposals for shared service arrangements and consolidations that would reduce duplication and inefficiency.
• So-called “non-operating school districts,” which actually are school districts without schools, would be eliminated.
• New executive county superintendents would develop proposals to create or enlarge regional school districts so that school districts smaller than K-12 could be eliminated. These proposals will then be subject to voter approval.

• Civil service and other legal barriers that often make regional or consolidated approaches more difficult to design and implement would be eliminated.
• A new State Comptroller would have unprecedented authority to root out waste, fraud, and abuse and to improve performance and internal controls at all levels of government through fiscal audits, performance reviews, and procurement monitoring.
• Pension abuses like padding and tacking would be eliminated through pending reforms that would remove service credit for professional service work by independent contractors and place a cap on the amount of salary that will count toward a defined benefit pension.
• Mandatory pension forfeiture and a prison sentence would apply to public employees or officials convicted of corruption.
• To enable voters to have a better understanding of how their property tax dollars are being spent, all school districts and local governments would be required to prepare “user-friendly” budgets that would be publicly available and posted on the Internet.
• Compensation for school superintendents and other top-level school administrators would be subject to greater oversight and control, including a requirement that all employment contracts for these officials be pre-approved by executive county superintendents.
• A 4% cap on the local property tax levy.
• School districts and local governments were given the legal authority to achieve through negotiation greater employee contributions toward healthcare costs.
• School districts would be required to implement a variety of efficiency standards as a condition of State school aid.
• Executive county superintendents in each county were given the authority to disapprove portions of a school district’s budget if a district had not implemented all potential administrative efficiencies or if a budget includes excessive non-instructional expenses.
• Municipalities were to be graded against performance measures designed to promote cost savings in the delivery of services, and new Municipal Efficiency Promotion Aid would be available only to towns that meet those standards.

Further, the proposed FY ‘08 State budget called for a significant increase in School Aid, including funding targeted to at-risk children regardless of where they live. The budget also called for an increase in State Aid to municipalities so they could, at least for a year, reduce their reliance on property taxes to fund needed local services.

But the Special Session had ignored the revenue side of the property tax equation, providing no significant, sustainable alternative source of support for vital local programs and services.

This weakness became apparent when the FY ‘09 State Budget slashed funding for municipal property tax relief by over $150 million. That Budget, further, tried to shift some of the State’s State Police Rural Patrol costs on to municipal property taxpayers. The affected municipalities were forced to contest that attempt, which was turned back by the Council on Local Mandates.

When the economic crisis caused New Jersey to account for declining revenues, local property tax relief funding was further reduced in early 2009. And, as the Great Recession deepened the FY 2010 Budget pushed the two-year short-changing up over $200 million, the Special Session’s failure to provide sustainable property tax alternatives on the revenue side compounded the recession-induced problems facing local budget makers.
THE ROAD TO REFORM—
THE TOOL KIT

In the 2009 election, Governor Corzine faced a strong challenge from Republican candidate Chris Christie and Independent Chris Daggett. Governor Christie won election with the largest margin for a first term Republican since 1969.

As he unveiled his first full fiscal year budget proposal to the Legislature, Governor Christie recognized that sacrifices were needed to responsibly align State spending with State revenues. In his speech, he stated, “In the task of getting control of our finances and turning New Jersey around, we cannot do it alone. If we do not see spending control at the county, municipal and school board level, we will be leaving the job undone. …

‘Their spending growth is out of control in large part for the same reasons that state spending has grown—employee costs, health care costs, retirement costs, and a failure to set priorities while establishing reasonable means of control. So today I am introducing in this budget a series of proposals that constitute a toolkit to protect taxpayers from property tax increases. At the same time, my plan will give local governments and school districts the tools to cut costs so they too can reduce taxes for New Jerseyans.”

After lowering the property tax levy cap from four to two percent, Governor Christie worked with the Legislature to enact a series of ‘toolkit’ reforms. These included a matching cap on interest arbitration awards and reforms of the process; historic reform of the pension and health benefit system; a municipal and county government best practices program; increased accountability and state partnership in the Transitional Aid program; tool kit reforms to lower costs and increase management flexibility; and, renewal of the Transportation Capital Plan with $200 million in grants specifically for local government projects.

In 2011 and 2012, respectively, the rate of local property tax growth was held down to 2.4% and 1.4%. Such restraint would not have been possible without the real reforms enacted by the Governor and the Legislature. For things like the 2% cap on arbitration awards and pensions and benefits reforms, the Governor and Legislative leaders deserve our thanks and recognition. It took political courage to advance those reforms. The 2012 increase in school aid was also welcome.

Mayors working with local governing bodies all around the State also deserve credit for making the tough decisions in tough times. They have pruned budgets, pursued savings, engaged in tough negotiations, reduced the workforce, shared services, cut spending, applied best practices, emptied reserve accounts and deferred investments. They did this as property values declined, tax appeals increased, development and economic activity slumped, employment slumped and property tax relief funding was used for State budget purposes.

Operating under the 2% levy cap, municipalities are allowed certain common sense exceptions. But pension costs, as well as ‘inside the cap’ costs like insurance premiums, utility bills, reserves for uncollected taxes, funding of tax appeals and motor fuels, continue to rise by much more than 2%. Likewise, the costs of State mandates continue to add up. In 2013, as in every year, the municipal budget maker was concerned with all costs, whether inside the cap or not. So for the vast majority of municipalities that do everything they legally can to control costs there are only three alternatives.

They can cut essential services. They can ask the voters, already facing their own family financial concerns, to approve higher property taxes. Or they can be given the Energy Receipts specifically meant for property tax relief. That would give municipalities more of the resources they need to meet constantly increasing costs, without asking voters to sacrifice either financially or in terms of effective municipal services.

THE ROAD TO REFORM—NJLM TACKLES THE NUMBERS

Frustrated with New Jersey’s chronic property tax crisis, the League’s Officers and Executive Board realized long ago that New Jersey needs to cut property taxes dramatically to improve the state’s competitive position as a place of business, to attract high-income taxpayers working in New York City and Philadelphia, and to make it affordable for families and seniors to stay and for young couples and new graduates to buy homes here.

The only way to do it is by shifting a significant portion of the property tax to other broad-based state taxes. In 1995, the League’s School Finance Committee said the State should “spread the local burden of financing the schools more fairly among the taxpayers of each community by shifting the system’s revenue dependency from property taxation to a more equitable form of taxation.”

In 2009, the League revisited the issue by creating a Property Tax Reform Task Force and charged it with finding a way to remove school funding from the property tax. “If public education funding was supported via another revenue source, property taxes would be reduced by more than 50% to all property tax payers in the state,” the League’s 2009 Property Tax Reform Action Plan stated. “School funding using the property tax is regressive and should be replaced by a more progressive method, i.e., ability to pay based upon annual income.”

Chaired by League 2013 Second Vice President and Eatontown Mayor Gerry Tarantolo, the League’s Property Tax Reform Task Force laid out a basic framework for shifting school taxes from the property tax to a combination of income, sales and other taxes, and met with a wide range of state legislators, government officials and interest groups to discuss the approach and gather ideas. Legislative leaders from both parties urged the Property Tax Reform Task Force to come back with a specific plan that would “show us the numbers.”

To move the discussion forward, the Task Force unveiled a draft working document that has attracted the attention of key policy makers. It would provide a direct 35 percent reduction in property tax bills on principal homes up to a maximum cut of $7,000 that would be funded by shifting the burden to the state income tax and by merging most existing direct property tax relief programs into this single program. The plan would use the current direct property tax credit system to lower property tax bills on principal homes by 35 percent each quarter, and would not in any way affect existing state aid formulas or spending caps for schools, municipalities or counties.

The Task Force’s report concludes with this statement, “We believe that property tax reform should be the top priority of the Governor and Legislature elected this November for the 2014 session. If the Governor and Legislature are unable to agree on a tax reform program that achieves a property tax cut of at least 25 percent—and preferably more—we would urge the establishment of a constitutional convention on property tax reform, as the New Jersey State League of Municipalities has previously recommended, to develop a proposal for citizens to vote up or down.”

That is the road we are on.
NEW JERSEY’S STATEWIDE ASSOCIATION OF MUNICIPALITIES

The New Jersey State League of Municipalities (NJLM) is New Jersey’s association of municipalities. NJLM represents all 565 municipalities at the State Legislature, before the State executive branch and regulatory agencies, to the media, public and in the courts. NJLM provides members with a wide array of other services, including legal assistance, individualized inquiry service, assistance in municipal labor relations, technical assistance and training, policy development, research and analysis, publications, informational and service programs, online resource centers and advisory services. Federal representation is provided by NJLM in conjunction with the National League of Cities. NJLM was founded in 1915.

NJLM is governed by an Executive Board, elected by the member municipalities, with due consideration given to geographic representation, municipalities of different sizes, and balance of political parties. Numerous committees of municipal officials participate in the development of policy and programs.

NJLM headquarters are located in Trenton.