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## Broken tax system defies easy repair

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Gannett New Jersey

New Jersey's broken property tax system is not a million-dollar problem. It's a billion-dollar problem a \$23,000,000,000 problem, to be exact.

An overhaul of property taxes would require an unprecedented commitment from both politicians and the public, experts and reform advocates say.

Residents and their elected officials would have to decide what types of spending cuts they could tolerate and how to raise the rest of the money through other taxes.

"I argue that we are taking piecemeal approaches to problem-solving in this state," said Henry A. Coleman, a professor at Rutgers University's Edward J. Bloustein School of Planning & Public Policy who has studied New Jersey's tax issues for decades.

Coleman said New Jersey is unique because it requires property owners to pay most of the costs for local services, including education, but gives most towns just one main revenue source: the property tax.

But if you shuffle the tax structure, what would the bottom line look like? How much would a change actually save you, the homeowner, in property taxes?

It's a question that's easy to ask, but hard to quantify.

The largest part of your property tax bill about 53 percent goes toward education. It was \$12.4 billion statewide last year.

If just 10 percent of that burden is shifted away from property taxes, and the state picks up the tab, it would save property owners \$1.2 billion. That would likely cut the average property tax bill by \$370. Instead of an average property tax of \$7,045, it would drop to about \$6,675.

But where would the state get the extra \$1.2 billion?

It would have to cut services, cut expenses or raise other types of taxes.

"If you don't cut spending, you're just shifting taxes around to something else," said Joseph Henchman, Director of State Projects for Washington-based Tax Foundation. "New Jersey's residents and elected officials really need to sit down and discuss what their goals are and how they're going to change things."

Hammering out a solution everyone can live with has been the elusive Holy Grail of state politics. For every winner -- homeowners with tax cuts -- there will be losers, perhaps laid off government workers. And government unions have a powerful voting bloc that usually supports the Democrats, who control the State House.

"This didn't happen in the past year or two years," said Jerry Cantrell, president of the New Jersey Taxpayers' Association. "Not a single politician has stepped up and said, 'We were a part of creating this mess, we have to resolve it.' "

Both taxpayers and pundits agree that New Jersey has reached a crisis point.

"If we're not at that critical point, it's going to happen in the near future," said Joseph Marbach, dean of the College of Arts and Sciences at Seton Hall University and an expert in New Jersey politics. "We're going to have to discuss both spending and the way we raise money."

Fundamental changes to the tax structure are easier to achieve in states that do not have so many entrenched special-interest groups, according to Ingrid W. Reed, director of the New Jersey Project at Rutgers University's Eagleton Institute of Politics.

Interviews with economists, tax experts and taxpayers groups, and a review of other state tax systems, reveal several ways in which the state could fix its tax system to meet the needs of the public and make tax collection fair. Possible solutions include:

Convene a constitutional convention. Every other fix so far has failed to stem the rise of property taxes. Some, such as changes that came out of the Legislature's 2006 special session on taxes, imposed some spending limits on towns and schools. But the total local tax levy still rose 5 percent between 2007 and 2008.

The most direct way to address the complexity of the tax issue is to impanel delegates from all sectors of the state to sit down and work out amendments to the state Constitution. The Legislature and voters would have to approve such a convention, and votes would have to approve any changes to the constitution.

"A major recasting has to be radical on the revenue side and radical on the cost side . . . to break the logjam," said Joseph J. Seneca, professor of economics and public policy at the Bloustein school, Rutgers. If both spending and revenue are addressed, "then it is worth pursuing," he said.

Cut expenses. Taxes and government spending go hand in hand. To reduce taxes, expenses have to drop. But cutting expenses means cutting government services, employees, programs, or all three.

GOP gubernatorial candidate Chris Christie has said he wants to cut state jobs by the thousands, but has not set a specific number.

But if 10,000 jobs were cut, at an average salary of \$60,000 a year, that would be a \$600 million savings. If all that money went to property tax relief, the average property tax bill of \$7,045 would drop by 2.6 percent, or \$184.

But the 74,600-strong state work force would be reduced by 13 percent, which could lead to service cuts.

Democratic Gov. Jon S. Corzine said he has reduced government employees by 8,400 positions during the last three years, mostly through attrition. Those cuts combined with revamped pension rules will save taxpayers \$6.4 billion over the next 15 years, the governor said, or an average of \$426 million a year. That would translate to a 2 percent reduction in property taxes if all that saved money were used for property tax relief.

Still, are any cuts enough to make a dent in property taxes? If the number of local government employees and teachers were trimmed 10 percent, from 400,000 to 360,000, that would add up to \$1.8 billion in salary savings alone. That could reduce the average property tax by \$550.

But would parents tolerate larger class sizes? Would homeowners embrace cutbacks in police,

garbage collection and code enforcement for what works out to \$1.50 a day in savings? And would a flood of 40,000 unemployed government workers cripple the state's already weak economy?

Even freezing employee salaries would likely keep taxes near their current rates, but not lead to any reductions.

Tax-base sharing. Municipalities would pool a portion of their revenues, and the money would be distributed on an equitable basis. This also could reduce the competition between municipalities seeking new businesses and developments, and encourage them to develop regional planning.

In Minnesota, Minneapolis and St. Paul have had a regional tax-sharing system since 1971. Experts say that most municipalities in the regional district have lower property tax burdens than they would have if there was not tax-base sharing.

New Jersey also has one small regional tax base sharing system, among the towns and counties that are part of the state's Meadowlands Commission.

The majority of residents in New Jersey would benefit from tax-base sharing, according to a 2003 study conducted by Myron Orfield of the University of Minnesota and Thomas Luce of Ameregis, a private research group.

Shuffle the tax structure. This would move revenue away from property taxes and toward other taxes. Independent gubernatorial candidate Chris Daggett suggested expanding the state's sales tax to currently exempt services in order to raise nearly \$4 billion. That would allow property taxes to be cut by 25 percent, he said.

If the income tax were raised to offset property taxes, it would be a more fair taxation system. But it could also drive the rich to neighboring states where tax rates are lower.

Local revenue diversification. The Legislature could allow municipalities to add new taxes for local revenue, such as a restaurant tax.

A 2003 state law allowed municipalities to levy a local occupancy tax of up to 3 percent on hotel rooms, which is collected on top of the 5 percent state occupancy tax and 7 percent sales tax. Mount Laurel, Howell, West Long Branch and Brick are among the local municipalities that have adopted the extra occupancy tax.

Fifty-six percent of mayors want the ability to collect additional local taxes, according to a 2008 League of Municipalities survey.

Regionalization and consolidation. Would forcing municipalities and school districts to merge automatically reduce taxes? Studies indicate that there would be winners and losers in almost all consolidation cases, but combining some of New Jersey's 566 towns and 605 school districts could reduce duplication of services and future costs.

Targeted property tax "circuit-breaker." If you're too poor to pay your property taxes, the state would step in with financial help. This income-sensitive program could take the place of the variety of property tax relief programs that now exist in the state, including the Senior Saver and Homestead Rebates. But this program could result in a decrease in property tax revenue for local municipalities, especially those with many lower-income residents.

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