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Report

TO MEMBERS

Cutting Gov't Spending Key to Lasting Property Tax Reform

In unveiling his 8-point plan for property tax reform this summer, Governor Jon Corzine hit the nail on the head when he talked about the underlying problem: “Our business model for delivering and paying for government and school services is broken. If we were a business, we’d be bankrupt.” This is indeed the crux of the problem.

For years, state and local governments in New Jersey have been on a spending spree. A business will go bankrupt if it keeps spending more than it makes, but state and local governments can keep on spending — as long as they continue to raise taxes. This is precisely what has been happening in New Jersey.

As a consequence, our property tax burden is the highest in the nation: the average New Jersey property-tax bill is approximately \$6,000.

New Jersey property owners collectively paid about \$20 billion a year in local property taxes last year. If property tax bills keep escalating at 7 percent a year, as they have since 2001, that burden will double to \$40 billion in ten years. Clearly, we have a staggering problem on our hands.

Excessive government spending is the root cause of New Jersey’s highest-in-the-nation property taxes. The only way to achieve lasting property tax reform is to reduce that spending. We have to attack the problem at its root.

Spending can be reduced in many ways, starting with the public-employee head count, which has grown much more rapidly over the last five years than employment in the private sector. Like business, governments can learn to be more productive. They can do more work with fewer people. Local governments, for example, can share police, fire, and education services with their regional neighbors. And the massive state agencies surely can deliver services with fewer people.

Reducing the head count is important, but government also must attack the exploding cost of public employee healthcare and retirement benefits, for these “entitlements” are driving property taxes higher.

Four years ago, one in eleven state budget dollars was spent on public employee benefits. Today, the figure is one in seven. In four years, it will be one in five. The primary reason for this explosive growth is that state and local governments continue to give their employees a gold standard in healthcare and pension benefits.

Governments pay extraordinarily generous benefits to their employees, but they require them to contribute little or nothing compared to the value of those benefits. This standard has all but vanished in the private sector because it is too costly.

To give one example, New Jersey’s State Health Benefit Plan is far more generous than comparable private-sector plans, and it costs about one third more. But public employees and retirees are not required to pay anything toward the cost of those plans. If they were in the private sector working for a comparable large employer, they would contribute 20-30 percent of the cost of their health insurance premiums.

To give another example, public employees receive defined benefit pension plans based on their highest three years of pay. Most of the private sector has moved to defined contribution plans in which the employee makes a contribution, with a match from their employer, to a retirement savings account.

New Jersey’s public employees certainly are entitled to health insurance and pension benefits that are equivalent to those given in the private sector. But it is unfair and just plain wrong to ask New Jersey taxpayers to foot the bill for a gold standard that they themselves do not receive. ❧