



by Philip Kirschner
President

Report

TO MEMBERS

Property Tax Reform Rates an “Incomplete”

As New Jersey’s property tax reform program makes its way through the state Legislature, employers have reason to be both happy and unhappy.

NJBIA has said from the very start of the property-tax-reform process that real reform must do two things: reduce government spending and not shift the tax burden onto employers.

As it now stands, the state’s employers have won a significant victory with the Legislature’s decision to preserve the uniformity or fairness clause of the state constitution. That clause, a part of the constitution since 1875, requires municipalities to tax all properties, commercial and residential, at the same rates.

If this clause were to be changed, as some proponents suggested, it would permit unfettered tax discrimination against businesses. Municipalities would be free to impose higher taxes on business properties—with virtually no limit on how high those taxes might go.

Fortunately, the Legislature heeded NJBIA’s warning that changing the uniformity clause would simply shift the burden of taxation from one group of taxpayers, the homeowner, to another group, the business owner. It would not attack the problem of high property taxes at its root, which is government spending, but would only damage an already fragile business climate.

At least for now, the package of property tax bills winding its way through the Legislature protects employers from any kind of tax shifting. However, we are not out of the woods yet.

Real reform must attack spending. Rising government spending sends property tax bills ever higher (an average of 7 percent annually over the last five years). The Legislature’s original reform plans would have attacked spending on two fronts: 1) encouraging greater efficiency through sharing of

local government services and consolidation, 2) bringing rich government health and pension benefits more in line with the private sector.

Fortunately, the bills now being considered by the Legislature would encourage municipalities to share services, and this in the long run will result in taxpayer savings. NJBIA also supports the writing of a new school-aid formula based on student need rather than school location. This will help reduce the disproportionate tax burden borne by many suburban communities that has resulted in large property tax hikes. NJBIA also supports a cap on property tax bills to prevent any one property owner’s bill from going up by more than 4 percent in a single year.

However, we are disappointed that the Governor decided to take reform of public-employee health and pension benefits out of the legislative package. He wants to negotiate those benefits with state workers in upcoming contract talks. Unfortunately, this is the same old tired strategy that has never worked before, and even if the Governor should succeed in negotiating a more reasonable package of benefits for state workers, this would not apply to the tens of thousands of teachers and municipal employees who are covered by local contracts.

Four years ago, one in 11 state budget dollars was spent on public employee benefits. Today, the figure is one in seven dollars. At the present rate of benefit spending growth, the state’s pension and post-retirement medical benefits alone will be \$6.6 billion compared to \$2.4 billion in FY2006. New Jersey’s taxpayers simply cannot sustain these spending levels.

Since business-property owners, unlike homeowners, do not qualify for direct property-tax relief (at least not under the current reform plan), the ONLY way employers are going to see relief from their high property-tax bills is if government spending is reduced. And one of the best ways to reduce that spending is to reform public employee health and pension benefits to bring them much closer to what’s long been accepted in the private sector. ❧