

'06-'07 ISSUE brief

Issue:

Legislature's 2006-2007 Property Tax Reform Efforts

Overview:

New Jersey's highest-in-the-nation property taxes have always been a focus of the State's taxpayers and policymakers. For the latter half of 2006 and the first few months of 2007, a special legislative session on property tax reform made providing property tax relief and reform the priority for New Jersey's Legislature.

For more than six months, the State Legislature and its four special session joint committees created to examine property taxes (the Joint Legislative Committees on Public School Funding Reform, Government Consolidation and Shared Services, Public Employee Benefits Reform and Constitutional Reform and Citizens' Property Tax Constitutional Convention), examined many of the reasons for, and potential solutions to, New Jersey's exorbitant property taxes. The joint committees made 98 recommendations that had the potential to significantly reduce local government spending and property taxes.

In the end, the full State Senate and Assembly accepted some recommendations and watered down, ignored or rejected many of the joint committee recommendations. The special session of the Legislature offered a historic opportunity to cut spending but, unfortunately, it never fully materialized. Progress has definitely been made to provide property tax relief and reform, but its long-term impact is questionable.

Status & Description of Property Tax Reform Proposals:

After more than six months of trying to reform New Jersey's property taxes, the status of some key Special Session proposals is as follows:

- Property Tax Credit to Most Homeowners and Four Percent Cap with Some Exemptions – A-1 (Roberts, McKeon, Burzichelli)/S-20 (Codey, Kenny) has been passed by both houses of the Legislature and is now **awaiting the Governor's signature**.
 - The legislation's property tax relief will not extend to business properties. Residents will be eligible for a credit on the first \$10,000 of their property tax bill – a 20 percent credit if your household earns less than \$100,000 per year, a 15 percent credit if your household earns less than \$150,000 and a 10 percent credit if your household earns less than \$250,000. Senior citizens would receive the greater of the new tax credit or the amount they would have received under the expiring Homestead Rebate program. Renters will receive approximately double their existing rebate.
 - The legislation implements a new, five-year, 4 percent cap on annual increases in tax levies by local governments with general taxing authority (school districts, counties,

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102 West State Street
Trenton, NJ 08608-1102
609-393-7707
www.njbia.org

municipalities and fire districts). This provision drew criticism by legislators on both sides of the aisle who said there were too many expenditures that could be outside of the cap, but government employee wages do fall under the cap. To give local governments more flexibility to control their costs, the legislation permitted local governments participating in the State Health Benefits Plan to negotiate premium cost sharing and cafeteria benefit plans for their employees.

- State Comptroller to Review Spending – A-2 (Watson Coleman, Burzichelli, Greenwald, Greenstein, Payne, Gusciora, Chivukula)/ S-15 (Kenny) has been passed by both houses of the Legislature and is now **awaiting the Governor’s signature**.
 - The legislation establishes an independent Office of State Comptroller and consolidates financial audits and performance reviews of government units. Concerns were raised over the fact that the bill was amended to largely remove local spending and local land-use issues from the comptroller's purview.
- Greater School Accountability – A-5 (Conaway, Stack, Watson Coleman, Cruz-Perez, Gordon, Greenwald, Lampitt, Burzichelli, Johnson, Vainieri Huttler)/S-4 (Adler, Doria) has been passed by both houses of the Legislature and is now **awaiting the Governor’s signature**.
 - The legislation strives to bring greater efficiency to all school districts, restricts travel and expense reimbursements, increases budget transparency, provides greater oversight over administrative salaries and expenses, and allows the Department of Education greater financial oversight and requires more training for school board members.
- Commission to Promote Regionalization – A-15 (Wisniewski, Gordon, Malone, Schaer, Lampitt, Mayer, Greenwald, Cruz-Perez, Watson Coleman, Burzichelli, Greenstein, Vas)/S-12 (Smith, Sweeney) has been passed by both houses of the Legislature and is now **awaiting the Governor’s signature**.
 - The legislation would establish a permanent commission devoted solely to enhancing government efficiency and bringing its recommendations to local residents for a vote. Their annual report will force the Legislature and people of New Jersey to constantly review local government structure, efficiency and spending patterns.
- Limiting Public Employee Benefits – A-21 (Pou, O’Toole, Giblin, Van Drew, Greenstein)/S-17 (Codey, Karcher) has been passed by both houses of the Legislature and is now **awaiting the Governor’s signature**.
 - Highlights of this legislation include: allow newly elected and appointed officials to participate in a defined-contribution pension program instead of a defined-benefit pension program; exclude all professional service contractors from membership in the public employee retirement system; cap the total payout for unused sick time for all current elected and appointed officials at all levels of government to \$15,000; and allow local employers participating in the State Health Benefits Plan to offer opt-out incentives to employees.

The bill attempted to restrict dual office-holding, but the Senate and Assembly differed in the timing of the prohibition’s grandfather clause. Originally, the bill recommended cost sharing by public employees and reforms to pensions, but the

Governor intervened to request that most benefit changes occur through collective bargaining and not legislation.

The Administration has a tentative bargaining agreement that requires, for the first time, public employees to contribute 1.5 percent of their salary to pay for health benefits, and increases their contribution for pension benefits from 5 percent to 5.5 percent and also increases retirement age from 55 to 60.

- Facilitated Regionalization, Budget Transparency and Empowered County Superintendents to Improve School Efficiency – A-4 (Roberts, Wisniewski, Green, Greenwald, Lampitt, Watson Coleman, Fisher, Cruz-Perez)/S-19 (Smith) has passed both houses of the Legislature and is now **awaiting the Governor's signature**.
 - This legislation promotes greater local government efficiencies. It includes greater local government budget transparency, simpler rules to facilitate local government regionalization and cooperation and, perhaps most importantly, a new executive county superintendent to push local superintendents and districts towards more cost-cutting, efficiency and cooperation.
- County Administrative School Districts to Improve School Efficiency – A-8 (Wisniewski, Gordon, Greenstein, Watson Coleman, Vas, Lampitt, Greenwald, Cruz-Perez, Mayer, Burzichelli)/S-7 (Smith, Kyrillos) has passed the General Assembly but has **stalled** in the Senate.
 - This legislation would create a pilot program to merge the administrative functions of every school district in a county into one county administrative school district, but its chances of Senate passage have been hampered by public opposition.
- New School Funding Formula – Several encouraging concepts materialized from the Joint Legislative Committee on Public School Funding Reform, but attempts to create a new formula have been **delayed** because the formula could not have been in place before school districts needed to develop their 2007-2008 budgets. The target for a new formula will now probably be the 2008-2009 school budgets.
- Potential Tax Shifts/Increases to Offset Residential Property Taxes – For businesses, perhaps the most important aspect of the Special Session for businesses was what did not happen. Increasing taxes on business to reduce residential property taxes was discussed as a real possibility at the beginning of the Special Session, but ultimately the Legislature and Governor determined that income taxes and/or business property taxes would not be increased. **No tax increases** of any kind have emerged from this special session. The uniformity clause of the Constitution was preserved.

NJBIA Position:

NJBIA **supports** every one of the key pieces of legislation that have emerged from the Special Session on Property Taxes, but many bills could have gone further to reduce government spending, which NJBIA believes to be the primary reason for New Jersey's highest-in-the-nation property taxes.

Based on our focus on spending, NJBIA was supportive of the following:

- No Tax Increases – The property tax reform effort did ultimately focus on spending and not on new revenues. Because of this, the business community avoided any new taxes to offset residential property taxes.
- Limiting Public Employee Benefits – NJBIA supports A-21/S-17 but wishes it went further to limit New Jersey’s overly generous and unaffordable public employee benefits.
- Consolidation and Shared Services – NJBIA supports A-15/S-12, A-4/S-19 and A-8/S-7 because greater regionalization will improve efficiency, reduce spending and increase quality for schools, municipalities, counties and all local government services. However, the bills were substantially amended to remove many of the carrot-and-stick measures that would have moved municipalities and school districts to consolidate or share services.
- Cap on Annual Property Tax Increases – NJBIA supports A-1/S-20 because it will help control the ever-escalating property taxes that all taxpayers face and force local governments to improve their efficiency to stay under the cap. However, the cap bill was substantially amended to provide many exemptions to the cap that could limit the positive impact of the actual cap.
- Greater Accountability – NJBIA supports A-5/S-4, A-2/S-15 and A-4/S-19 because they will help the public be more aware of local government spending and provide greater oversight of it.
- New School Funding Formula – This will be the last but perhaps most significant component of property tax reform. NJBIA believes that New Jersey needs one funding formula for all New Jersey students that includes more cost controls, greater accountability, a realization of our limited funds, and money must follow individual students and target their individual needs.

NJBIA Contact:

Christopher Emigholz
 609-393-7707, ext. 201
cemigholz@njbias.org

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