Don’t Forget the Schools

Fiscal, Budget and Policy Considerations for Tax Reform

New Jersey is confronting a true fiscal crisis, manifested by a huge projected state budget deficit for FY 2007. Unless we deal now with the underlying causes, we are almost certain to be faced with similar or worsening crises every year into the future.

This state budget crisis exists even though we have long relied excessively on local property taxation to provide important statewide services, including public education.

A major contributing factor to our fiscal problems at both the state and local levels is a dysfunctional school funding system. Among other things, that system has resulted in many school districts receiving insufficient state aid.

This situation has deep, bipartisan roots. Governors and legislators of both political parties have made well-intentioned but irresponsible fiscal decisions for more than 15 years.

Since New Jersey’s fiscal problems are both short- and longer-term, so are the necessary solutions. The solutions will be much more dependent on increasing recurring revenues than on cutting spending. They will involve an appropriate array of state taxes and an appropriate balance between state and local revenue-raising.

A serious and heated debate on these issues is about to begin, in the legislative and executive halls, in municipalities and school districts across the state, and among citizens. Through it all, our watchword will be Don’t Forget the Schools.

Don’t Forget the Schools

Fiscal, Budget and Policy Considerations for Tax Reform

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The Institute on Education Law and Policy

at Rutgers-Newark is New Jersey's premier center for interdisciplinary research and innovative thinking on education law and policy. Its mission is:

- to promote education reform and improvement through research, policy analysis and public discussion

- to mobilize lawyers, scholars and education practitioners to address complex and controversial issues in education law and policy in a comprehensive, in-depth manner

- to improve public understanding of these issues

- to serve as a center for learning and innovative thinking about legal and public policy issues relating to education.

While issues affecting New Jersey's urban students and educators are the Institute's primary focus, those issues are addressed in the context of the state's wide diversity and with an eye toward their ramifications for the nation as a whole.

Support for this project has been provided by the Rutgers University Academic Excellence Fund.
DON’T FORGET THE SCHOOLS: Fiscal, Budget and Policy Considerations for Tax Reform

by Paul Tractenberg

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My predominant professional involvement for almost 40 years has been education law and policy. For most of that time, I have been heavily engaged in school funding litigation and all the legislative, regulatory and educational activity it has spawned, mainly in New Jersey. Abbott v. Burke and its predecessor, Robinson v. Cahill, have been at the center of my professional and personal universe, but I have always tried to maintain a substantial degree of objectivity in the best academic tradition.

My involvement in school finance reform efforts has forced me to learn a great deal about arcane school finance statutes and formulae, and often has brought me into close contact with the broader world of budgets and tax policy. But I have never been an expert in that world. In truth, I may have learned more about it in the six weeks I have been working on this report than I had in the prior 35 years.

Why did I set out on this quest? It’s a fair question. The Rutgers-Newark Institute on Education Law and Policy, which I had the good fortune to establish five and a half years ago, launched a project in June 2005 examining the interplay between tax policy and education, particularly school funding. By January 2006 we had produced a detailed draft report and convened a meeting of experts to comment upon it. Yet I began to feel with increasing strength that there had to be a clearer and more substantial connection between that report and the impending FY 2007 state budget crisis, which clearly would be dominating the public debate until a balanced budget was achieved. This report is the result of that strong feeling. I hope it will make a positive contribution to the debate, especially by making the problems we face and the possible solutions clear to policy makers and the public who, like me, are not experts in this complex subject matter.

Many people have contributed substantially to this project. My colleagues at IELP, Brenda Liss, Professor Alan Sadovnik, Ruth Moscovitch and Mia Kissil, have humored me, challenged me and assisted me greatly. This report owes more than I can say to the ideas, data and suggested text provided by a distinguished group: retired New Jersey Supreme Court Justice Gary Stein, Professor Henry Coleman, Professor Emeritus Ernest Reock, Professor Marc Holzer, Professor Gerald Miller, my law school colleague Professor Charles Davenport, Jon Shure, and David Sciarra. Dennis Kim-Prieto, a reference librarian at Rutgers School of Law-Newark, Risa Williams, Editor in Chief of State Tax Publications at Tax Analysts, and Bill Ahern, Communications Director of the Tax Foundation, provided generous help with state tax information and data.

Newark, NJ
March 2006
Introduction

In his inaugural address, New Jersey's new governor, Jon S. Corzine, decried the state's "recurring fiscal crisis" and insisted that:

The games are over. New Jersey must put its fiscal house in order.

The time of one-shot budget fixes is past.

It's time to balance the books.

Governor Corzine also stated that he would keep his "pledge on property tax rebates" and that he continued to support a constitutional convention—a "convocation of citizens"—to move the state toward "real and enduring property tax reform."

Recognizing the explosive nature of fiscal and tax questions such as these, the Governor promised that "The decisions should be taken; the tough choices made."

We fully agree with Governor Corzine's statement. Although the political climate and public opinion must be considered in making these "tough choices," one of the reasons the choices are especially tough is that they may involve reshaping both the political climate and public opinion, not just accepting them as they are.

An essential element in this process is for the governor to draw upon the collective wisdom of the state's best minds. As an important step in that direction, both to balance the state budget for the upcoming fiscal year, FY 2007, and to put New Jersey on the road to meaningful, long-term reform, Governor Corzine created a number of transition policy groups that have submitted reports to him. He also has launched an impressive program to engage key stakeholders, academic and professional experts, and members of the public in an exchange of ideas, beginning with a March 6, 2006 Budget Summit at the Rutgers-New Brunswick campus.

The Rutgers-Newark Institute on Education Law and Policy (IELP) has committed itself to provide further assistance to the governor, the state's other policy makers and the public. We launched a project in June 2005, examining the interplay between education and state tax policy. Many of the state's and some of the nation's best minds have been involved in the project. This is the first of three related reports that will draw upon their input, and IELP's research and analysis. This report focuses on fiscal, budget and policy considerations for tax reform in New Jersey. We will soon follow up with two reports—one dealing with the legal considerations for tax reform and the other with the education funding considerations. The first will describe the relevant state constitutional provisions, explain how Robinson v. Cahill and Abbott v. Burke affect both school funding and taxes, discuss other recent legal cases and emerging legal issues, and evaluate the call for a state constitutional convention. The second, focusing on education and its funding, will provide profiles of New Jersey’s education and tax structures, describe and analyze various reform proposals, and evaluate other states’ efforts to fund schools equitably and tax fairly.

As with all our work, IELP’s objective with these three reports is to facilitate informed, objective and responsible public discourse and policymaking about difficult, controversial issues. By informing the debate, we hope to enable our state both to get beyond the popular rhetoric and to avoid adopting policies that have negative unintended or unanticipated consequences. In particular, in our work on budget and tax policy we stress to the governor and others, Don't Forget the Schools.

Given the complexity and scope of the challenges facing New Jersey, we do not claim to provide the final word on the subject. We will make some specific recommendations, but we will stop short of prescribing a step-by-step action plan for solving our state’s problems. We have reached a broad bottom-line conclusion, however. It is that the dimensions of our current state budget deficit, which may well continue for several fiscal years, far exceed what we can realize from spending cuts. We will need substantial increases in recurring
state revenues (yes, that means tax increases; there is no viable alternative).

Given that reality, formidable challenges await us. One is how to avoid imposing disproportionate costs—of spending cuts and of tax increases—on the politically vulnerable. Another is how to begin to substantially reduce our over-reliance on local property taxes at the same time as we increase state revenues enough to meet existing state costs. In both respects, and in regard to a new school funding system, we must achieve adequacy, efficiency and equity in the raising and spending of both state and local funds.

This report describes the context in which these tough choices have to be made, the problems which must be addressed, possible solutions to those problems, and the further data-gathering, study and analysis necessary for effective policy making. In preparing this report, we have drawn upon a large, complex body of material. We have sought to distill that information and to present our findings in a way that is fully understandable to those policy makers and members of the public who are not budget or tax policy experts.
The Context in which Tough Decisions Must be Made

Honoring fundamental commitments.

This discussion must begin with a strong cautionary note. The effort to solve pressing fiscal problems can’t ignore or override fundamental state commitments. Although there are many such commitments, some based on federal and state constitutional and statutory provisions and others on the “social compact,” we focus on one—our clear constitutional responsibility to provide all children with a “thorough and efficient” education. Those commitments must be protected against strong political pressures to respond reflexively to the state’s fiscal crisis. Of course, we should act in the best and most cost-effective manner, but we should not use cost-cutting as an excuse for diluting our most important obligations, especially to our state’s most vulnerable residents—in the case of education, poor, disadvantaged and mostly minority children.

We recognize that, politically, this may be a difficult stand to take. Recent public opinion polling provides a contradictory picture of voter sentiment about raising taxes versus cutting services. Still, there is a legal baseline against which some service cuts must be considered and an ethical and moral baseline applicable to others. The executive and legislative branches don’t have unfettered discretion and authority in this regard. Even as to decisions clearly within the discretion of those branches, good public policy should prevail over bad.

Taxpayer and student equity.

A second contextual factor is the long and complex relationship between tax policy and school funding. In New Jersey, these issues have been intertwined for decades. Since the state supreme court’s 1973 decision in Robinson v. Cahill, the rights of taxpayers and school children have received very different constitutional treatment.

In that decision, the court struck down New Jersey’s school funding system because large disparities from district to district in taxable resources, revenues and educational programs violated the rights of students who lived in tax-poor districts to a “thorough and efficient” education. The state’s students, said the court, were entitled to equality of educational opportunity.

In the same opinion, the court ruled that the New Jersey constitution did not guarantee taxpayer equality across municipal and school district lines, even though the court recognized that education was ultimately a state responsibility. Reversing a trial court ruling, the supreme court found that the primary burden of paying for the schools could continue to be imposed upon local taxpayers residing in districts with dramatically disparate amounts of taxable property and, therefore, dramatically different tax rates, so long as the state assured that students in poor urban districts received sufficient funds for a “thorough and efficient” education. The state’s taxpayers, said the court, simply weren’t entitled to equality of treatment or burden beyond their district borders.

In subsequent rulings in the Robinson case, and throughout the long history of its successor case, Abbott v. Burke, that distinction between student and taxpayer rights has persisted and is relevant to our discussion.

The New Jersey budget, fiscal and tax context.

To understand both the problems confronting our state and possible solutions, some baseline information is necessary. It should help to answer three threshold questions, which are very much on the minds of policy makers and the public:

- Why are we confronted with a large state budget deficit for FY 2007?
- To what extent is our projected deficit a function of a “structural deficit” (and what does that mean)?
- How heavily taxed are we already?

Some baseline information relevant to each of those questions follows:

**Why are we confronted with a large state budget deficit for FY 2007?**

First, let’s be clear that the deficit we’re talking about is in the state budget. It may
have a spillover effect on local budgets and
tax burdens if state aid to localities,
including school districts, is reduced to
balance the state budget, but it is not
directly a local budget problem.

We also should be clear that experiencing a
fiscal crisis of this magnitude is hardly a new
experience in New Jersey. For each of the
last six fiscal years, large state budget
deficits were projected, ranging from more
than 10 percent to more than 20 percent of
the budget. In dollar terms, that’s between
almost $3 billion to more than $5 billion.
We even compounded the problem by
increasing state spending in FY 2005 by 17
percent. What is different about FY 2007 is
that we’ve largely used up one-time budget
fixes and we have a governor who has
committed himself and the state to fixing the
underlying problems before they swallow us
up.

A state budget deficit is projected when state
spending threatens to outstrip state
revenue-raising in a given fiscal year (July 1
to the following June 30). For years, New
Jersey has been spending more each year
than we have taken in as “recurring
revenues” (relatively predictable annual
revenues), and we have filled the gap by
fiscal gimmickry (in Governor Corzine’s
words, “one-shot budget fixes”).

The imbalance between spending and
revenues at the state level does not result
from a lack of growth in recurring revenues.
Our recurring revenues actually have been
growing from year to year recently. The
problem is that these increases are being
outstripped by the growth in spending,
much of it dictated by contractual
obligations, court mandates, federal rules or
inflation.

Having said that, though, New Jersey’s state
spending, relative to other like states, is not
that high. For example, New York, with
slightly more than twice New Jersey’s
population, has a state budget virtually four
times the size of ours. Yet, New York is
raising enough revenue to have a projected
surplus this year of more than $3 billion.
(The fact that New York raises
approximately four times as much state
revenue as we do is not because its residents
are wealthier. New Jersey is the second
wealthiest state in per capita income, behind

\begin{itemize}
  \item New Jersey’s debt has increased to
  about $30 billion, more than twice
  the amount in 2000 and more than
  three and one-half times the amount
  in 1996;
  \item the state’s credit rating has
  worsened, making future borrowing
  more expensive;
  \item our annual debt service obligations
  have grown; and
  \item a culture of outspending our
  revenues has taken ever-firmer hold.
\end{itemize}

Another fiscal gimmick involves taking
funds slated for state retirement and health
care programs and using them on other state
budget items. This has resulted in unfunded
liabilities of approximately another $30
billion, and the need to replenish those
coffers at substantially more than the
normal annual contribution rate to reduce
those liabilities.

Still other fiscal gimmicks have involved
depleting the Transportation Trust Fund
and using New Jersey’s tobacco litigation
proceeds.

In effect, therefore, much of FY 2007’s
projected state budget deficit is a result of
our having to reap what we have sown—to
make up for a decade or more of fiscal
irresponsibility under both Democratic and
Republican administrations. Governor
Whitman’s 30 percent cut in the state
income tax in good economic times and her
subsequent reliance on borrowing when the
economy declined started us down the
wrong path, and Governor McGreevey’s borrowing practices accelerated our speed in the wrong direction.

To what extent is our projected deficit a function of a “structural deficit” (and what does that mean)?

A report issued in May 2005 by the Center on Budget and Policy Priorities, entitled Faulty Foundations: State Structural Budget Problems and How to Fix Them, indicates that “When a state faces a gap between estimated revenues and expenditures in any given budget year, the problem may be the result of both a structural deficit and a revenue adequacy problem.” That seems demonstrably true of New Jersey.

Although both problems relate to a mismatch between state government revenues and costs, the distinctions are that the structural deficit is:

• Chronic, not short-term; and

• Involves an imbalance in growth rates of revenues and spending, not just in the amounts at any particular point in time.

According to the report, “The distinction between structural deficits and revenue adequacy problems is important because the solutions are different. Reversing previous tax cuts, enacting new taxes, or eliminating spending programs can address revenue adequacy problems by bringing revenue and spending in line for a particular year. However, if the state also suffers from an underlying structural gap in revenue and spending growth rates, the gap will simply reappear unless the revenue structure is strengthened ... so that its future growth rate matches the growth in the state’s economy and spending needs.” (p. 38)

This supports the view that New Jersey’s current fiscal crisis has two components. One involves short-term solutions for the upcoming fiscal year—primarily regarding a revenue adequacy problem. The other involves longer-term solutions—primarily regarding a structural deficit, which should begin as soon as possible, but will require a sustained effort over years.

The fact that some states, including our neighbors New York and Connecticut, are projecting state budget surpluses for FY 2007 doesn’t necessarily mean they’ve cured their structural deficits. They may simply be further along in the economic recovery process than New Jersey and, as a result, they’re producing enough revenue to mask their continuing structural deficits.

How heavily taxed are we already?

New Jersey’s state tax revenue as a percentage of per capita income for 2004 was 6.1 percent, substantially below the U.S. average and 36th in the nation, significantly below Connecticut and New York.

By contrast, as of FY 2002, New Jersey’s local property tax burden was the highest in the nation at $1,872 per capita, far above the U.S. average of $971, but only slightly ahead of Connecticut at $1,733. New York ranked fifth at $1,402.

When per capita income is factored into the property tax picture, New Jersey’s status is about as bad compared to the U.S. average—in 2002, we spent five percent of our personal income on property taxes as compared to the U.S. average of 3.2 percent. By another measure, however, a different longer-term perspective emerges. New Jersey’s net property tax levy as a percentage of personal income was 4.64 percent in 2004, slightly less than the New Jersey average of 4.66 percent for the 15 years beginning in 1990.

Of course, all that may tell us is that New Jersey has over-relied on the property tax for many years. Moreover, averages often mask large disparities among individuals or groups, as they do here. Many taxpayers are experiencing a real crisis because of factors such as the growing income inequality in the nation and in our state and the growing mismatch in many cases between current income and escalating property tax bills.

When we combine total state and local taxes as a percentage of per capita income for 2005, New Jersey was only slightly above the U.S. average at 10.4 percent. By that measure, we ranked 14th in the nation. Compared to two neighboring states, we were slightly below Connecticut and far below New York.

When federal taxes are added, New Jersey jumps to third in the nation, behind only Connecticut and New York, but that is a
function of income per capita and the relative progressivity of federal taxes (as indicated, Connecticut is the wealthiest state, New Jersey is second and New York is fourth).

Returning to the state tax picture, state tax collections by source for 2004, shown as a percentage of total collections, produce a number of notable facts about New Jersey—our state property tax collections are so negligible that they are shown as representing zero percent, far below the U.S. average; our percentage of sales tax collections is significantly below the U.S. average; our percentage of state excise tax collections is slightly above the U.S. average; our percentage of personal income tax collections is slightly above the U.S. average, but significantly below Connecticut and far below New York; and our percentage of corporate income (or business) tax collections is far above the U.S. average.

So, given this data, what’s the answer to the question—how heavily taxed are we in New Jersey? The answer is multi-faceted:

- Our state tax burden is relatively light.
- Our local tax burden is very heavy by most measures.
- Our combined state and local tax burden, relative to per capita income, is a bit above the national average, but not excessively so, and it is lower than some comparable neighboring states.
- Our combined federal, state and local tax burden is commensurate with our wealth, which means it’s near the top nationally.

Therefore, the bottom line is that New Jersey taxpayers as a whole are taxed fairly in relation to their aggregate personal income, but, as usual, averages hide great variations. For some taxpayers with large incomes, taxes are a relatively trivial, if annoying, burden; for many other taxpayers, they are crushing. Contributing significantly to this problem is a longstanding and significant imbalance between state and local taxes. Put bluntly, we should be paying more to the state in taxes that treat taxpayers relatively equally no matter where in New Jersey they live and less to localities in property taxes that vary greatly based upon where in New Jersey they live.
The Problems to be Solved

The problems we face are complex and interrelated. Although they could be characterized in a variety of ways, we have identified the following four problems:

- We have a short-term problem relating to how we will eliminate a large projected deficit in the FY 2007 state budget.
- We have a longer-term problem relating to how we cure the structural deficit, which otherwise will periodically precipitate a state budgetary crisis like the one we face now.
- We have a longer-term problem relating to how we establish and implement a fair and effective new school funding system.
- For many New Jerseyans, we have another problem, both short- and longer-term, which may well overshadow the first three—the strong opinion that local property taxation is excessive.

Of course, curing these problems can’t be done in isolation. The problems are linked in significant ways and so must the solutions be. We can’t cure the short-term state budget deficit problem in a way that would worsen or complicate the curing of the longer-term problems.

For example, eliminating property tax rebates, as Acting Governor Codey proposed in the FY 2006 budget, would reduce the state budget deficit by well over $1 billion, but it would exacerbate the local property taxation problem. Preferably, the short-term cure should pave the way to the longer-term cures, not complicate them. And we can’t put the long-term cures on hold until we deal with the short-term problem.

To the maximum extent possible, we must begin solving longer-term problems immediately.

The Short-Term Problem

Eliminating a projected $4.55 billion state budget deficit for the upcoming fiscal year is a formidable short-term problem. But so is starting to respond to the property tax crisis.

If one-time fixes are truly off the table, that leaves as solutions only increasing state revenues, decreasing state spending, or some combination of the two. As we have indicated, increasing state revenues is essential to solving New Jersey’s fiscal crisis, but how to do it most effectively is complicated. Decreasing state spending, too, has complications. An example, already given, is the $550 million in additional state funds to honor the governor’s promised increase in property tax rebates.

A second looming complication is the pressure building for more, not less, education spending—at least $12.8 billion in additional funds, raised through bonding, to finish the constitutionally-mandated renovation and replacement of inadequate or unsafe school buildings, and increased state aid for a wide range of districts and schools: Abbott districts to continue satisfying court-imposed constitutional requirements; non-urban poor and mid-wealth districts, and charter schools, especially those with students from Abbott districts, both to insure that those districts and schools have sufficient funds to provide their students with a thorough and efficient education and to begin mitigating excessive local property tax burdens; and even high wealth districts that have been clamoring for state aid to cover accelerating special education costs, among other things. The Education Law Center has estimated that additional state aid for those purposes would total about $300 million in FY 2007, but other estimates are higher.

Notes:
1 As will be discussed, the “crisis” may be one experienced by some, but not nearly all, property owners, depending upon factors such as the location of their property and their income levels.
2 In effect, the projected deficit of $4.55 billion already reflects an initial step to provide property tax relief—a $550 million increase in property tax rebates honoring Governor Corzine’s campaign promise. Without that increase, the deficit would be $4 billion.
3 Governor Corzine’s plan to refinance existing debt to provide for transportation improvements stirred up a political storm initially, but it has been enacted by the legislature.
As will be discussed below, realistic cost savings at the state or local levels, although highly desirable, might, at best, offset the $850 million increase in state spending without running afoul of constitutional mandates, good policy, and political and practical realities. That still leaves the projected $4.55 billion deficit to be dealt with by increased revenues.

Longer-Term Problems.

Once the short-term problems of balancing the state’s books for FY 2007 and addressing especially pressing aspects of the property tax and school funding issues are resolved as they must be, we will have to turn our attention to the longer-term problems: curing the state’s structural deficit; establishing a fair and effective school funding system; and addressing the property tax problem.

All three are closely linked, but in ways that may complicate, rather than facilitate, their solution. There is an inherent tension among them. To illustrate, the bulk of state spending—almost $20 billion of a $27.4 billion budget this fiscal year—is aid and grants to municipalities, school districts and other recipients. Almost half of those aid and grant funds—more than $9 billion—go to K-12 education. That makes education by far the largest single item in the state budget. For decades, state aid to education has constituted between 28.4 and 33.8 percent of the entire state budget. In FY 2006, the percentage was projected to be 33.9 percent, the highest ever. Because state education aid looms so large, and because aid to Abbott districts represents such a large proportion of all state education aid, it is a tempting target for budget cutting. As we will explain, it is a temptation that should be strongly resisted.

Even though education aid represents such a large share of the state budget, our state share of all education costs—somewhat more than 40 percent, including teacher pension contributions—is substantially below the national average of about 50 percent. The consequence is that school funding is even more dominant at the local level. On average, school taxes in New Jersey comprise about 55 percent of total local property tax levies.

This heavier than average reliance on local property taxation to fund education is one of several New Jersey-specific factors that complicate solving New Jersey’s longer-term problems. We also have divided our relatively small state into more local governmental units per square mile than any other state, and, because many of those units tend to be socioeconomically homogeneous, we have great fiscal disparities among them. This necessitates our devoting a large portion of state aid to school districts to redressing imbalances in local revenue that result from disparate taxing capacity.

The most dramatic example of that phenomenon is the court mandates in Abbott v. Burke. To vindicate student rights, the court ordered large spending increases in specified poor urban districts—the “special needs” or “Abbott” districts. Because, at the time, those districts had relatively low property wealth, high levels of municipal overburden and educational need, and high tax rates, the court required that the increased spending be paid for almost entirely by state aid. As a result of this mandate and recent growth in property values in many of those districts, the average local school tax rate in the Abbott districts has fallen below all other categories of districts, and the total tax rate in a few Abbott districts has fallen below the state average. The state’s highest wealth

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4 One type of state educational cost saving could come from a re-evaluation of the local fair share requirements for Abbott and other districts whose total local property tax rates are below the state average. Requiring those districts to increase their tax rates to the state average would generate additional local revenues and enable the state to reduce state aid levels by the same amount. This has to be done with caution, however, since it works against an effort, to be discussed, to increase the overall level of state contributions to education.

5 Municipalities are in a different situation because a large part of their aid still reflects an old allocation system that is unrelated to need or property base.

6 It is important to understand the difference between tax rates and tax bills or levies. Although tax rates have gone down in most Abbott districts, the tax burdens, as reflected by tax bills, may not have. Tax burden is a function of tax rates and assessed value of property. For example, if I own a home with an assessed value of $100,000 and my tax rate is $2 per $100 of assessed value, or 2%, my tax bill is $2,000. If the assessed value of my house doubles to $200,000 and my tax rate continues to
were to remain relatively constant, the state contribution would increase by approximately $1.5 billion and the local share would decline by that amount.

That would make a significant contribution toward solving two of New Jersey’s longer-term problems—the need for a fair and effective new school funding system and a less burdensome property tax structure. In the short run, however, it would exacerbate the problem of insufficient state revenue to cover spending, since it would increase total state spending by more than five percent. If, under a new education funding system, state costs were to grow at a greater rate than recurring state revenues, it also would add to the structural deficit problem.

The real challenge, then, is how we respond affirmatively to all three longer-term problems simultaneously, notwithstanding their inherent tensions. The answer almost certainly, as it was regarding solution of the short-term problems, is more on the revenue side than the spending side.

be 2%, my tax bill will double to $4,000. But, even if my tax rate goes down to 1.5%, my tax bill will still be $3,000 on my more highly assessed house, 50% more than it was when the house was assessed at $100,000 and my tax rate was 2%. The economic bottom line for me will depend on what’s happened to my income during the same time period. If it’s grown by 50%, then the $3,000 property tax bill will be no more burdensome for me than the $2,000 tax bill was when my income was lower. But, if my income has remained flat or declined, then the $1,000 increase in my property tax bill may create a hardship, at least in terms of cash flow. In that case, it’s small comfort that my property tax rate has gone down. On the other hand, I now own a house that’s ostensibly worth at least twice as much so, to that extent, my economic circumstances have improved.
Possible Solutions

So what’s to be done? We need to proceed in a careful, thoughtful, informed way or we could do substantial, long-term damage to our state. The property tax and budget-capping approaches taken by some other states, notably California and Colorado, are worst-practice, not best-practice, models, examples of what New Jersey should not do in response to the current fiscal crisis.

Unfortunately, we have not found any comprehensive best-practice model for New Jersey, either regarding property tax reform or a combined approach to achieving taxpayer and student equity. There simply is no magic bullet. Instead, the state will need a set of measures carefully constructed to meet its particular circumstances, a lot of political courage and leadership, and some time. But a serious start has to be made immediately.

IELP has identified, based on what other states are doing or on the recommendations of the Governor’s transition teams, blue ribbon commissions and experts in New Jersey and elsewhere, a number of ways in which our state could respond effectively to its current fiscal crisis, and, at the same time, set in motion improvements in our longer-term prospects.

In this section of the report, we set out to answer the following questions:

• What additional sources of recurring state revenue can be tapped in both the short- and longer-term?

• How much cost saving can we realistically achieve in the short- and longer-term?

• What other means are there to eliminate the FY 2007 deficit and to address New Jersey’s longer-term structural deficit?

• How can we begin to address the property tax crisis at the same time as we eliminate the deficit? What should we do in the longer-term to achieve an appropriate balance between state and local funding of governmental services, especially those that are, to a substantial degree, statewide functions?

• How can we begin to ameliorate the inadequacies of our current school funding system? How can we construct a new funding system that will serve New Jersey for the longer-term?

For clarity’s sake, we will address these questions in separate sections, one dealing with short-term solutions and the other longer-term solutions.

Short-Term Solutions.

Obviously, the major short-term solutions must address the large state budget deficit projected for FY 2007. Overhanging and complicating this process, however, is the need to alleviate, or at least not worsen, the property tax and education funding problems in the short-term.

As we have indicated, a substantial increase in recurring state revenue is essential to the solution. State revenues can be increased by raising taxes or by “growing the economy.” The former is certain, but politically volatile; the latter is less certain and longer-term. Indeed, in the short-term, serious efforts to grow the economy could result in a net outflow of dollars if, for example, the state augments its current efforts to attract new businesses and retain existing ones by adding staff or offering additional tax incentives. So, we will have to bite the tax-increase bullet. This section will consider tax increases that might be put in place in time to make a difference for FY 2007.

Decreasing state expenditures in a justified manner should be part of the mix, but that holds limited dollar potential relative to our projected deficit. One of New Jersey’s limiting circumstances is that, compared to neighboring states with which we often compare ourselves—New York, Connecticut and Massachusetts—we do not spend that much per capita at the state level. In 2005, it amounted to only about $3,150 per resident, compared to $5,551 in New York, $4,358 in Connecticut and $3,911 in Massachusetts.

Logically, there are only three ways to reduce state expenditures: by shifting more
of the financial burden for services to local government; by increasing efficiency; or by cutting services. Each is problematic or limited.

Shifting more of the financial burden from the state to local governments would increase local property taxes in the face of great public concern about our manifest over-reliance on them.

Enhancing the efficiency of service delivery, and thereby reducing costs, has been attempted for decades in New Jersey with limited or no success. For example, regionalizing or consolidating local services or local governmental units has been recommended by a succession of blue-ribbon commissions for more than 50 years with virtually no impact. In the Abbott case, one of the state’s early arguments was that poor urban districts had sufficient money, they just weren’t spending it efficiently. Having taken extensive evidence, the New Jersey Supreme Court unanimously rejected that argument. Periodically, the legislature and state education department have sought to reduce administrative and other spending in the name of efficiency, especially in high-wealth districts, and that effort, too, has failed to achieve significant cost savings.

Nonetheless, the pressure to improve efficiency and lower the costs of services will continue, and it is important to respond more effectively than we have for several reasons. First, even if greater efficiency results in only modest cost savings, every dollar saved is a dollar less in possible service cuts or tax increases. Second, enhancing government credibility is always important, but it is even more so in a time of crisis. Being able to assure the public that public dollars are being spent as wisely and as well as possible is central to government credibility.

As for cutting services, especially those the public thinks are really important, the conventional wisdom has been that it would be unacceptable. Some recent polling results raise questions about whether or not that is still the case, at least if the only alternative is raising taxes, but such polling is a weak basis for important public policy decisions.

If substantial service cuts are to be considered, the focus must be on which services. Several distinctions among services are relevant. The first is whether the services are provided directly by the state or are delivered by local governments with some state funding. A second distinction relates to the importance or even constitutional status of the service. The delivery of a “thorough and efficient” education to all students, and especially to those in poor urban districts, is a constitutional imperative of the highest order. The substantial state funding being provided to students in poor urban school districts is pursuant to specific court orders. Therefore, despite the undeniable temptation to put Abbott-mandated programs on the chopping block, Governor Corzine and New Jersey’s other policy makers must strongly resist that temptation.

There are some promising, if not always popular, elements of a solution. We present them in summary form below, as responses to the series of questions raised at the start of the “Possible Solutions” section, giving special attention to their likely educational impact:

What additional sources of recurring state revenue can be tapped in the short-term?

- Increasing state sales tax revenues. New Jersey relies somewhat less on the sales tax than most states. Part of the reason is that we cover fewer transactions. We could increase the yield by extending coverage rather than by increasing the current six percent rate. Extending coverage to more service transactions, instead of to sales of food and clothing, could improve progressivity by taxing transactions more frequently entered into by wealthier taxpayers. According to some estimates, it also could produce up to $2.2 billion in increased revenues. Although the sales tax is less progressive than the gross income tax even with this expansion, it has the advantage of being both a more stable revenue source and more compatible with economic growth.

- Instituting a gross receipts tax. Governor Corzine has said he might
recommend a gross receipts tax as an alternative or supplement to the sales tax. A gross receipts tax is assessed as a percentage of total sales or revenue from covered businesses. It is like a sales tax except that it is collected from sellers rather than purchasers, which should make collection cheaper and easier. New Jersey already has gross receipts taxes covering specified transactions, such as cosmetic medical procedures, certain ambulatory health care facilities’ services and retail sale of billboard advertising space. Gross receipt taxes could be extended to professional service firms, such as law firms, accountants and architects, which are exempt from the sales tax, as well as to other untaxed services. This would make it a more progressive tax than the sales tax since it would reach transactions usually entered into by wealthier residents. Some states already rely on gross receipts taxes. New Mexico, for example, has used its to replace the sales tax.

- Increasing the gasoline tax. New Jersey’s state gasoline tax is among the lowest in the country. Also, given our location, a significant amount of revenue from this tax comes from non-residents driving through the state. Those factors argue for at least a short-term rate increase. However, a recent poll suggests that New Jersey voters strongly oppose such a tax increase and increased gasoline tax revenues might have to be dedicated to the Transportation Trust Fund making them unavailable to directly reduce the budget deficit (although, based upon a transition group recommendation, the governor has proposed refinancing existing debt as an alternative way to shore up the Fund).

- Closing “illogical loopholes and exemptions in the sales and income taxes.” As part of its recommendation that New Jersey should begin immediately to modernize its tax structure to increase revenue, the Governor’s Budget and Reengineering Government Transition Policy Group (“Budget Group”) recommended that the state consider the full range of loopholes and exemptions in the sales and income taxes and close those that “serve no discernable purpose.” A December 2004 paper by Professor Donald A. Krueckeberg, entitled Free New Jersey: The Burden of Property Tax Exemptions, provides a good starting point for such an analysis.

How much cost saving can we realistically achieve in the short-term?

The short answer is not as much as we’d like. In his February 2005 Budget Message,
Acting Governor Codey proudly proclaimed that he was proposing the largest budget reduction in the state’s history—$614 million, or 2.2 percent of the budget. And that was largely achieved by a proposed $1.2 billion elimination of the property tax rebate. Governor Corzine’s Budget Group suggested some relatively draconian spending cuts in state government operations for both the current fiscal year and for FY 2007. The problem is that less than $6 billion of the state budget is spent on operating state government. Even a ten percent reduction would save less than $600 million, barely enough to cover the costs of Governor Corzine’s proposed increase in property tax rebates. Moreover, certain kinds of spending cuts are partly offset, at least in the short-term, by costs. For example, reducing the state work force by induced retirements or layoffs would trigger other spending through unemployment compensation, “bumping” and other negotiated worker rights, emergency health services and housing assistance, increased pension payments and the loss of federal matching funds.

The other type of short-term cost-saving recommended by the Budget Group involves greater efficiencies and economies. It is very difficult to estimate how much, if any, might be saved in the short-term. As indicated, the state’s track record in that regard is not encouraging and the potential short-term fiscal upside is probably not great. Yet it is something well worth pursuing, both for its longer-term potential to achieve meaningful cost-reductions and for its short-term potential to win over public support.

Reining in the costs of state pensions and health care must rank high in the longer-term effort to correct New Jersey’s structural deficit, but the process must begin immediately. The Budget Group recommended many specific ways to begin doing that, including implementing recommendations in the December 1, 2005 report of the state’s Benefits Review Task Force. These recommendations, as well as the Budget Group’s additional ones, dealt with, among others, raising the retirement age and reviewing other eligibility requirements for benefits, ending pension boosting and tacking, basing pensions on a longer time horizon (the highest five salary years instead of three), requiring all current and retired employees to contribute to health care, and increasing use of generic drugs.

Many of the recommended changes, and especially those that impose new charges on retired state employees, will be unpopular and, in some cases, very painful. If New Jersey is to deal with its short- and longer-term problems in a meaningful and enduring way, however, there will be a lot of pain to spread around. One of many challenges for our governor is to do so in a manner that is in fact and appearance fair and equitable.

Still another cost-containment, as opposed to cost-reduction, recommendation relates to capital items. After joining the governor in rejecting “one-time sources of revenue or gimmicks to defer expenditures,” the Budget Group recommended that the Transportation Trust Fund be funded by restructuring existing debt and, if necessary, by increasing dedicated funds (presumably from an increased gasoline tax), not by taking money from the general operating budget. The report also recommended developing appropriate capital plans for the School Construction Corporation and other capital spending programs. Finally, the report recommended that proceeds of any sales of excess state capital assets be used for needed capital improvements and debt reduction, not as substitutes for recurring revenues.

What other means are there to eliminate the FY 2007 deficit?

- **Long-term leases of state highways.** Despite the admonition against selling state assets to generate revenue to help close the state budget deficit, one proposal that has been aired relatively quietly is the long-term lease of a highway such as the New Jersey Turnpike or Garden State Parkway. A possible model is being developed in Indiana, where Governor Mitch Daniels is pushing the legislature to approve a 75-year lease of the Indiana Toll Road, a 157-mile highway across the northern part of the state. The lessee would be a
Spanish-Australian consortium and the upfront payment would be $3.85 billion. Although Governor Daniels has proposed using the proceeds to improve and expand the state’s highways, presumably nothing would prevent such a payment from being used to meet a short-term state budget deficit. Is that a good idea? Reasonable people seem to differ on the subject, but various kinds of public-private partnerships regarding highways are in place throughout the world, as well as in a number of U.S. states and cities. Even if an immediate decision were made to begin serious exploration of this possibility, it is highly unlikely that the transaction could be finalized and payment received in time for FY 2007. The negotiating, contractual and political challenges are simply too great.

- **Tax surcharge.** The Budget Group recommended as a last resort—if expanding the tax base and cutting expenditures are insufficient to balance the state budget—adoption of a temporary tax rate surcharge. This recommendation is stated in a broad, non-specific manner. There is no indication of which state taxes a rate surcharge would apply to. It could conceivably apply to a range of taxes, including both the broadly-based, such as gross income, corporate business and sales taxes, and the narrower, such as gasoline and cigarette taxes. There is no indication of the surcharge rate that might be required. The duration of the surcharge is stated ambiguously.

At one point, the Budget Group report says the surcharge “would cease to exist when the State has had time to produce sufficient recurring savings, tax modernization, or other structural charges,” a notably vague end point. Immediately following that statement, however, the report states that the “surcharge should have a specific sunset” to create “an impetus for action on these difficult items.”

**How can we begin to address the property tax crisis at the same time as we eliminate the deficit?**

The most direct way is by using state funds either to assume some costs that are currently borne by local property tax revenues (as by increasing the state share of education costs) or to reimburse local property taxpayers for local property taxes they have paid. The latter is more obvious and identifiable as “property tax relief” and, therefore, is more politically attractive, especially when rebate checks appear in many potential voters’ mailboxes shortly before a state election. A properly constructed rebate system also has another advantage. It permits the targeting of property tax relief to those who need it most. State aid to a local government, in whatever form, will provide property tax relief, but to all the residents and businesses of that community, including those that are well off.

The problem with either of these forms of property tax relief is that they require more state dollars at a time when the state budget deficit cries out for spending fewer state dollars. As indicated, implementing Governor Corzine’s property tax rebate promise would require an additional $550 million in state funds. Whether we can “afford” to spend that amount in FY 2007 is, of course, a decision about priorities. If we choose to increase state spending on property tax rebates, then we have to raise additional state revenues or reduce other state expenditures, or do some of both, just to remain even.

There are other possibilities for reducing local property tax burdens, such as providing municipalities and possibly counties with other ways to raise revenues, but they are almost certain to involve substantive, political and even legal issues too complex to be resolved in the short-term. Those possibilities are, therefore, discussed in the “Longer-term solutions” section of this report.

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7 An intriguing possibility is to adopt a temporary surcharge of 30 percent on the gross income tax, justified by reference to Governor Whitman’s 30 percent reduction in that tax, which pushed us down the road to fiscal instability.
How can we begin to ameliorate the inadequacies of our current school funding system?

The process of considering a new school funding system to replace our current dysfunctional non-system will not begin in earnest until some time after June 1 when Acting Commissioner of Education Lucille Davy is scheduled to present her recommendations to the State Board of Education. Fashioning an effective new system through an open, transparent process, and then getting it approved through the legislative process, is likely to involve a substantial period of time. Consequently, the main discussion of this issue is in the “Longer-term solutions” section of this report.

There are, however, a number of short-term steps that can be taken to ameliorate some of the most obvious inadequacies of the current situation, and even to position us more favorably for the longer-term effort. Some of these require more state funding and, therefore, raise issues similar to those discussed in connection with Governor Corzine’s property tax rebate proposal. Others are revenue-neutral or may actually reduce state aid requirements.

Among short-term steps that have been recommended, the following seem worthy of consideration:

- Additional state aid for the 17 districts identified in the State Board of Education’s decision in Bacon v. Dept. of Education as unable to provide a “thorough and efficient” education to their students at current resource levels;

- Additional state aid for Abbott districts to maintain parity in foundation funding, and to maintain and support supplemental programs and early childhood education programs, both pursuant to the New Jersey Supreme Court’s mandates in Abbott; and

- Redefining the municipal overburden level for Abbott districts as the statewide average equalized total tax rate and requiring any Abbott districts below that level to increase the amount of local revenue they provide to support parity foundation funding. This should help to offset a portion of the additional state aid necessary to sustain parity funding and supplemental programs, and to ensure that Abbott districts are maintaining a fair level of local tax effort.9

Longer-Term Solutions.

We earlier identified three longer-term, interrelated problems that must be solved: a structural deficit in our state budget; a dysfunctional school funding system; and excessive reliance on local property taxes. In our discussion of short-term solutions, we suggested some of the things that should be addressed immediately to begin the process of solving these longer-term problems. In this section, we elaborate on those and we discuss other longer-term solutions that are unlikely to be initiated during the upcoming year.

The discussion is organized around the same four questions, and brings to bear ideas and recommendations from many of the same sources, as we dealt with in the section on short-term solutions. For obvious reasons, however, this is a broader discussion addressing the possibility of more fundamental alterations in state and local fiscal, management and programmatic structures and processes. In particular, we discuss process improvements essential to eliminating the state’s structural deficit, including a system for monitoring and adjusting what we are doing.

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9 The Education Law Center also has recommended two short-term measures related to the details of Abbott implementation: that the Abbott regulatory process should be on a regular five-year cycle, not a special one-year cycle; and that the Commissioner of Education should be required to provide the legislature with an annual Abbott Management Plan, delineating priorities and strategies, and establishing clear benchmarks for assessing NJDOE’s performance in implementing Abbott.

8 The Education Law Center, attorney for the Abbott plaintiffs, is discussing a proposal for FY 2007 that includes these and other education funding increases, estimated at $300 million, as well as other short-term reforms.
What additional sources of recurring state revenue can be tapped in the longer-term?

Since our challenge is to cure New Jersey’s longstanding structural deficit, our focus here must be on finding ways, once the FY 2007 state budget is balanced, to assure that the rate at which state revenues grow in the future equals or exceeds the rate at which state spending grows. We first address the revenue-raising side of that equation.

Most of the major current sources of recurring state revenue were included in the discussion of short-term solutions: the sales tax, the gross income tax and the gasoline tax. The one not included was the corporate business tax. All will be discussed here, as will the possibility of several new state taxes, including a gross receipts tax, a value-added tax and a state property tax. In addition, recurring state revenue can be augmented not just by creating new state taxes, or by increasing the rate or coverage of existing state taxes, but also by eliminating or reducing state tax exemptions or deductions, and by “growing the economy.” These also will be discussed here.

Increasing state sales tax revenues. As indicated, New Jersey could significantly increase sales tax revenues in a relatively progressive manner by extending coverage to more service transactions. This could be part of the longer-term, as well as short-term, solution. An additional major increase in sales tax revenues is likely to be primarily part of the longer-term solution—finding a more direct and effective way to collect sales and use taxes on internet and catalog sales by New Jersey residents.

Currently, such sellers are required to charge and collect New Jersey taxes only if they have a sufficient bricks-and-mortar presence in our state. Otherwise, New Jersey purchasers have an obligation to pay a use tax, but collection via the annual gross income tax is far short of the total owed and enforcement is difficult. New Jersey should explore the possibility of redefining under state law what constitutes a sufficient presence here to obligate sellers to charge and collect the state sales tax. Beyond that, as the Budget Group recommended, we should lobby, probably in tandem with other states, the federal government to change its rules, which effectively insulate many internet and catalog sales from state taxation. New Jersey is one of 13 full member states of the Streamlined Sales Tax Project, one of whose charges is to do precisely that. If this effort succeeded, New Jersey could add billions of dollars annually to its sales tax revenues.

Increasing gross income tax revenues. This is another short-term cure that might be equally applicable to the longer-term. As part of a general and ongoing effort to modernize the state’s tax structure, the income tax’s rate structure should be reviewed periodically to ensure that its progressivity does not flatten or diminish over time. Increased reliance on a progressive personal income tax not only has much to commend it in public policy terms, but it also is widely perceived to be fairer than heavy reliance on local property taxation.

By constitutional amendment, all proceeds of the income tax must be used for property tax relief. However, from a structural point of view, this tax has both a major strength and a major weakness—it tends to be very sensitive to the economy. When the economy soars, so do income tax revenues; when the economy sags, so, too, do income tax revenues. The structural problem is that state spending is not as responsive to changes in the economy. This produces a potential double whammy. When the economy and income tax revenues increase dramatically, as they do periodically, we probably will wind up with a substantial surplus and a strong temptation to increase state spending. When the economy and income tax proceeds decline, as they do periodically, we are unlikely to be able to rein in spending quickly and substantially enough to reflect that revenue decline (especially if we have succumbed to the temptation to increase spending in flush times), and the result is a deficit. That is more or less the cycle we have experienced over the past dozen or so years, which has left us in the perilous straits we are confronting. The whole point of eliminating our structural deficit is to prevent that from happening, which means we have to consider with great care the extent to which substantially increased reliance on gross
income tax revenues should be part of the longer-term solution.

A partial answer to this dilemma is the “Rainy Day” fund, or other disaster contingency funds. The problem is that it is difficult for a state to maintain stabilization reserves large enough to forestall budget cuts and tax increases during a significant and sustained economic downturn.

**Increasing gasoline tax revenues.** For the reasons already given, this is a plausible longer-term, as well as short-term, solution. Absent a revolution among car purchasers and in the automobile industry, gasoline usage and gasoline tax revenues are likely to grow year-to-year. Such growth is an important element in countering a structural deficit in the state budget. The problems with increased reliance on the gasoline tax, especially for the longer term, are that it is a relatively regressive tax and that it is highly unpopular with the public, perhaps because it is so visible and so frequently imposed. An alternative means of increasing revenue from gasoline sales (and perhaps sales of alcohol and cigarettes) is to transfer their taxation from excise taxes to the general sales tax. The current gasoline tax is a flat 10.5 cents per gallon. The yield has not increased at all due to the relatively recent run up in gas prices (and actually may have declined if higher pump prices have reduced gas sales). If gas sales were subject to the 6 percent general sales tax, significant additional revenues might be generated.

**Increasing corporate business tax revenues.** As a percentage of state revenues, New Jersey makes relatively heavy use of corporate business taxes, but given its degree of industrialization and commercialization, one would expect that. There are fair and appropriate ways in which we might be able to increase corporate business tax revenues. One, recommended by the Center on Budget and Policy Priorities, is to consider closing corporate tax loopholes. For example, we could explore adopting combined tax reporting so that all related corporations are treated as a single taxpayer. This would respond to a strategy adopted by many large corporations of insulating income from taxation by locating related corporate entities in low- or no-tax jurisdictions and attributing large amounts of income to those entities. An alternative mechanism for imposing a fair tax burden on corporations might be a corporate version of the federal alternative minimum tax, which was designed to impose a fair tax on wealthy taxpayers whose income would otherwise be largely or entirely exempt from the federal income tax. For the past several years, New Jersey has had an alternative minimum assessment under the corporate business tax. It should be carefully evaluated to determine whether the revenues it generates could be increased.

**Creating a new state tax—the state property tax.** According to a tabulation by the Tax Foundation, 36 states have state property tax collections, although only about 15 states have meaningful statewide property taxes. In those 15 states, revenues usually are directed to education. Of the 36 states listed, eight including New Jersey report very modest tax collections--$6.3 million or less. Our collections in 2002 totaled $3.3 million. We could do much more. In 2002, four states—Montana, Vermont, Washington and Wyoming—raised more than 10 percent of their state revenue from statewide property taxes, and three states—California, Michigan and Washington—reported revenues well in excess of $1 billion.

State property taxes overwhelmingly apply to tangible personal property, such as automobiles and boats, although there are a few states that tax intangible personal property and a somewhat larger number that tax real property. During the past several years, there has been renewed interest in state taxation of real property (although many still consider it a vestige of the 19th century when most states relied heavily on state property taxes). To a significant degree, the resurgence results from school finance litigation invalidating systems based on unequal local property tax bases.
There is strong opposition in some quarters to instituting a new or dramatically expanded state property tax in New Jersey. The recent legislative bill providing for a constitutional convention to deal with property tax reform, adopted by the Assembly but not the Senate, A-5269, sought to expressly exclude from the purview of such a convention the creation of “a Statewide equalized school property tax.”

A Senate Concurrent Resolution, introduced on June 20, 2005, SCR-137, proposed to amend the state constitution “to forbid imposition of a local or State property tax on certain other State taxes on intangible personal property.” Intangible personal property is described as “stocks, bonds, patents, trademarks and copyrights.”

Nonetheless, in a state such as New Jersey, a new or ramped up state property tax, especially on real property, could have some major advantages. Taxing real property at the state level could significantly redress some of the inequities and excessive burdens of the current local property tax. By aggregating real property at the state level and taxing it at a uniform statewide rate, it would even out disparities that now exist because of the dramatically unequal distribution of both property wealth and service demands from one locality to another. A driving force behind both Robinson v. Cahill and Abbott v. Burke was the burden placed on poor urban districts by the combination of limited local real property wealth, an expensive-to-educate student population and high municipal overburden (the cost of providing other, non-education services). Planning groups also have argued that shifting some of the property tax burden from locally-based to state-based taxes would facilitate better land use planning by mitigating the “ratables chase” that many municipalities feel compelled to engage in.

Of course, the move, at least in part, to a state, rather than local, property tax system would produce losers as well as winners. The most obvious losers would be taxpayers, residential and commercial/industrial, in high property wealth and low- or no-

municipal overburden communities, which tend to have very low property tax rates. Many of those individual taxpayers may also be subject to the “millionaire’s tax” under the state’s gross income tax. In some cases, though, relatively low-income residents and businesses may find their tax burdens increasing as the result of a shift from local to state property taxation. They may be good candidates for carefully calibrated tax relief, which, incidentally, can be delivered more directly and efficiently under a state property tax regimen.

A state property tax could be limited to business and commercial property, leaving the taxation of residential property to localities, or it could encompass both. It could produce revenue for the state general fund or it could be limited to educational or other funding purposes.

Another possible advantage of a new state-based property tax is that it would permit the rethinking of how a property tax can be administered most effectively and what exemptions and reductions are justified (a parallel effort to the one described below relating to state sales and income taxes).

Whether instituting a state property tax is good policy and, if it is, how that tax should be structured in terms of coverage and rate require far more study than we have been able to do thus far. An important aspect of evaluating this possibility is a legal analysis of whether any constitutional amendments are required to effectuate such a reform.

Creating a new state tax—a value-added tax. The value-added tax, or VAT, is in wide use throughout the world, and in some countries is referred to as a “goods and services tax,” or GST. It is similar to the gross receipts tax, discussed under short-term solutions, in that generally it is collected from sellers rather than buyers, but it is somewhat more complicated in its application and administration. According to the Center on Budget and Policy Priorities, “[a] value-added tax with a low rate can be used as a backstop to the corporate income tax; it would tax the business activity of companies that are not subject to the corporate income tax, as well as service companies whose products are not subject to the traditional sales tax. Such a tax could be designed in such a way that no
company would have to pay both the corporate income tax and a value-added tax.” (*Faulty Foundations* at 8)

**Creating a new state tax—a gross receipts tax.** As indicated, this has been discussed under short-term solutions because Governor Corzine has already broached it as a possible new tax. Because of potential overlaps among the sales, value-added and gross receipts taxes, it is highly unlikely that all three would be instituted at the same time. If a gross receipts tax were adopted for FY 2007, it likely would be continued for the longer-term rather than shifting to a value-added tax.

**Making greater use of fees and charges for selected services.** This is one way to ensure that various tax-exempt organizations contribute more to the costs of public services they consume.

**Closing “illogical loopholes and exemptions in the sales and income taxes.”** This is another solution with longer-term, as well as short-term, potential. Indeed, it is likely that this will prove to be more significant in the longer-term because of the complexity and controversial nature of some of the possible changes. For example, we should look closely at reducing or eliminating tax breaks based solely on age without regard to financial means. Even more complicated and controversial is the possibility of reconsidering the exempt status of private universities, religiously-affiliated businesses and others currently enjoying tax exemptions or reductions.

**How much cost saving can we realistically achieve in the longer term?**

The short answer is that there’s no way to estimate an amount up front. To eliminate both revenue inadequacy and a structural deficit, we know that annual spending must not exceed revenues in any fiscal year and that the growth rate of spending must not exceed the growth rate of recurring revenue. We can assure those results only by modernizing our tax structure and state governmental operations with an eye toward simultaneously increasing revenue and controlling spending, and we must build in a mechanism that regularly monitors the relationship between the two.

A guiding principle of this effort on the spending side should be to enhance efficiency and eliminate waste and corruption to the maximum extent possible without being penny-wise and pound-foolish and without undermining the achievement of important public policies, especially those rooted in constitutional values and requirements and those serving the most vulnerable and needy residents of our state.

To maximize cost savings at the state level, one obviously has to follow the money—to look carefully at the largest expenditure categories. The Budget Group has done that in its report, giving special attention to three categories:

- The State’s pension and post-retirement health care obligations;
- Education funding costs; and
- Medicaid commitments.

The problem, of course, is that these expenditure categories are large precisely because we have determined that the recipients of this state support are uniquely dependent upon it or deserving of it.

Retired state employees often have devoted their lives to serving the public sector, sometimes at considerable financial sacrifice, with a part of the quid pro quo being a secure and comfortable retirement. To the extent that the State is now tempted to re-open the terms of the deal made with those close to or already in retirement, that raises fundamental policy, ethical and, quite possibly, legal, issues.

A large share of state education aid is committed to satisfying the constitutional mandates of *Abbott v. Burke*, focused on many of the State’s most disadvantaged students. Most of the rest is committed to assisting other school districts to provide their students with a “thorough and efficient” education, and to helping to pay for special education services for disabled students.

The Medicaid program, one of New Jersey’s largest and fastest growing budget areas, is designed to ensure that low-income, often elderly residents receive adequate medical care.

As a practical matter, we may not be able to treat these large, important and growing
areas of the state budget as off-limits to cost-saving and still be able to eliminate New Jersey’s structural deficit. On the other hand, we cannot solve New Jersey’s state budget problems on the backs of our neediest, oldest and most disadvantaged citizens, those least able to fend for themselves.

We must, therefore, proceed to explore appropriate cost savings in these areas with great care and with great respect for the reasons why we chose to allocate so much of our precious and limited resources to them in the first place. The Budget Group’s report provides a good starting point. As to each of these areas, it provides some specific recommendations about how to proceed, but more intensive, ongoing study is required before we actually decide the extent to which we can make cuts in this area. One of the issues we need to address carefully in this study, and in other studies relating to joint federal-state programs, is the impact of state funding cuts on federal funding.

The Budget Group report also makes a number of process or structural suggestions that deserve careful attention, including:

- The creation of an Office of Re-engineering Government “to help focus and streamline government departments and processes” by means such as an outcome-based, multi-year performance review of all government operations and an exploration of opportunities to centralize various state government activities, including procurement and information technology.

- Reform of the budget process to incorporate multi-year budgets, a more realistic assessment of the state’s prospects for collecting sufficient revenues to meet the costs of proposed new programs, the production of “tax expenditure” information to enable policymakers and the public to assess the true cost of tax exemptions, credits and deductions, a capital budgeting process that includes all debt-issuing state agencies, and a requirement that all legislation incorporate “life cycle costs” rather than one-year cost projections.

- A Tax Study Commission to make recommendations about improving the state’s tax structure in time for the FY 2008 budget.

- An independent assessment of the validity and effectiveness of state expenditures, perhaps ultimately by an elected state comptroller.

Others have made proposals that mirror or echo some of those described above. Some relate to the creation or reactivation of state entities, such as a state inspector general or a state-level oversight and study agency.

From 1968 through 1992, the New Jersey County and Municipal Government Study Commission, known as the Musto Commission for a recently-deceased mayor and legislator, prepared almost 50 reports on various local government topics, many of which resulted in legislation to improve governmental operations. The statute authorizing the Musto Commission remains on the books, but has not been funded since 1992, and a bill to re-establish the Commission was vetoed in the late 1990s.

Such a commission, or some meaningful alternative, has particular relevance to New Jersey. We are a state where local governments are the major deliverers of public services (as recently as 1962, New Jersey ranked fiftieth nationally in the size of state government as measured by the number of state employees per 10,000 population, and we still rank relatively low). This is no accident; we’ve chosen to structure our government that way. After all, local governments are “creatures of the state,” created by and deriving all their powers from the state. Given that combination of factors, one would expect state government to be deeply interested in how its designated agents are functioning and how their efficiency could be improved. In fact, quite the opposite seems increasingly to be the case.

In addition to the Musto Commission’s fall into disuse, there are other indications of this unfortunate trend:

- For many years, the Division of Local Government Services in the Department of Community Affairs published an annual report presenting “Statements of Financial
Condition of Counties and Municipalities," with detailed statistics for every municipality and county and summary tables that were an invaluable resource. The last annual report was published in 1994, and the limited data available on-line doesn't come close to measuring up.

- Similar detailed data for school districts were published annually by the Commissioner of Education from 1951-52 through 1986-87. After a hiatus, in 1996 the Department began publishing an annual Comparative Spending Guide that provides some useful data, but not the “raw” budget information that researchers need to design and conduct comprehensive studies.

- In an analogous area, where being penny-wise and pound-foolish might be the explanation, New Jersey spends ever closer to $10 billion per year in state aid for K-12 education, and state and local government together spend more than $20 billion annually, but the state has had great difficulty identifying $10 million or less to create an effective student data base so that we can begin to track the performance of individual students.

More broadly, there’s good reason to believe that the New Jersey Department of Education, charged with enormous and ever-increasing responsibilities for public education, has nowhere near the resources to discharge those responsibilities effectively. Former Commissioner of Education William Librera said often that over the years the department’s responsibilities had increased by about 40 percent as its resources had shrunk by about the same percentage, leaving at least an 80 percent gap. This problem of under-funding, not over-funding, state agencies surely is not limited to the NJDOE, and must be looked at carefully. Governor Corzine said at his March 6, 2006 Budget Summit that a common Wall Street refrain is that “you have to spend money to make money.” The analog for our purposes may be that “you have to spend money to save money.” This might sound more credible if we were not confronting a $4.5 billion state budget deficit, but surely in the longer-term we must address this issue.

A different kind of efficiency-enhancing, cost-saving effort centers on county government. Put simply, there is reason to believe that we should either make substantially greater or substantially less use of county government. If we got serious about consolidating local public services or even governmental entities, county government might be an obvious locus to consider. In at least some counties, county government has begun to play a role in coordinating emergency police, fire and medical services. County government also could play a role in performance assessment of local governmental units if it had the resources to do so effectively. Even the possibility of uniform county-wide taxes to support education should be on the table.

As part of this re-thinking of the role of county government, we might consider giving counties their own taxing authority. Among other things, that might take some of the pressure off local property taxes, a subject to be discussed shortly.

These ideas might seem heretical, especially to those whose view is that county government epitomizes inefficiency, wastefulness and political influence. If we limit ourselves to thinking within the conventional box, however, our chances of correcting New Jersey’s structural deficit and related problems will shrink dramatically.

What other means are there to address the state’s longer-term structural deficit?

Since by definition a structural deficit relates to rates of growth in recurring revenue and in spending, anything smacking of a “one-shot budget fix” would not qualify as part of the longer-term solution. That almost certainly excludes the long-term rental or sale of state assets from our discussion (although the long-term rental of a toll road was discussed under the short-term solution).

One possible longer-term solution not yet discussed in any detail is “growing the economy,” a major focus of the governor’s
recent Budget Summit. The concept is appealing—we increase recurring revenue on a continuing basis by enlarging our economy and, thereby, our tax base. The challenge is for that effort to actually produce the expected net revenue growth.

How can we “grow the economy?” Presumably, one way is by attracting additional businesses to New Jersey or by facilitating the growth of businesses already here. Another is by attracting high-income individuals to live in New Jersey even if they work elsewhere. The question is how we do either or both without costs outstripping returns, at least in the short-term. One way or another, state efforts to grow the economy are virtually certain to require a state investment. The most direct and obvious kind are state (or local) fiscal and tax incentives to a particular business or to businesses generally to induce them to locate in New Jersey (or in a locality).

Interestingly, the United States Supreme Court is considering this term a constitutional challenge to certain types of tax incentives designed to attract or retain business. There also is considerable evidence questioning the effectiveness of tax incentives and suggesting that direct expenditures on important services may produce better returns. Of course, no service is more important than education.

In the longer-term, our ability to strengthen the economy will depend to a great degree on our having an excellent educational system, from pre-school through graduate school.

Other approaches are more oblique. For example, former Governor Kean said “on the record” years ago that New Jersey had an “unofficial” state policy to create exclusive residential enclaves designed to attract corporate CEOs to live in New Jersey. The theory was that, if corporate CEOs moved here, corporate headquarters and perhaps other corporate facilities were likely to follow.

There is a final possibility to be raised here—the tax surcharge discussed under short-term solutions. In some respects, this is closely akin to a one-shot budget fix designed to help solve the FY 2007 state budget deficit crisis. But, as indicated above, the Budget Group’s report does not quite recommend that the “temporary” surcharge be limited to that fiscal year. Rather, it suggests, on the one hand, that the surcharge have a “specific sunset,” but, on the other hand, that it “cease to exist when the State has had time to produce sufficient recurring savings from government reengineering and reorganization efforts, tax modernization as recommended by a Tax Study Commission…, or other structural changes.” That makes it sound as if the “temporary tax surcharge” is likely to be around for some time. It is, therefore, both apart from and an element of a longer-term solution.

What should we do in the longer-term to achieve an appropriate balance between state and local funding of governmental services, especially those that are, to a substantial degree, state functions?

In the longer-term, as well as the short-term, there is tension between some mechanisms for reducing local property tax burdens and eliminating the state’s structural deficit. That tension is most apparent when the state seeks to reduce local property tax burdens by assuming a greater share of the costs of providing some public services or by increasing property tax rebates.

The most obvious example of the former—an increase in the state share of K-12 education costs—has already been discussed in detail. But there are other methods for reducing the local property tax burden worthy of consideration. As appropriate, localities could be given authority to impose taxes other than the property tax, such as a local income or payroll tax or a local add-on to the state sales tax. That would shift, rather than reduce, local tax burdens. Of course, there are concerns about local-option taxes. Some local-option taxes, such as the recently-authorized hotel tax, are helpful only to a limited number of local jurisdictions. Additionally, many of the potentially taxable facilities are relatively mobile and may relocate to local jurisdictions that do not impose local-option taxes on them.

Augmented use of county governments, referred to already, could help in a number of ways, but only if their effectiveness and capacity were assured.
• If counties were given authority to impose a tax surcharge to cover their costs above state aid, local property tax payments to counties could be reduced or eliminated.

• Some carefully-selected local functions could be transferred to the counties (e.g., uniformed services, special education services for low-incidence disabilities, pupil transportation and purchasing).

• Counties could be authorized and assisted to develop the capacity to provide fiscal and performance management services, as well as operating functions for municipalities and school districts. If effectively done, this could make municipal and school district operations more efficient and cost-effective.

• Through the counties or otherwise, municipalities and school districts could be encouraged and assisted to consolidate functions or even governmental structures. Seriously considering this option is surely one of the “tough choices” Governor Corzine must make. As with enhancing government efficiency, one of the great benefits of doing so, in addition to any cost savings realized, is the improvement of government’s image and credibility.

Another way to ease the property tax burdens on municipalities and taxpayers is to implement better-targeted and more efficient property tax relief measures. As indicated, choosing between increased general state aid payments to municipalities and increased rebate programs is not simple. If it were possible to structure a program under which state aid was directed to municipalities specifically to reduce the tax bills of designated taxpayers, that might be better still. Governor Corzine is committed to rebates, however, and that is a supportable choice so long as the program is carefully developed.

Currently, New Jersey has six separate tax relief programs. These should be consolidated in a rational manner to ensure that truly needy taxpayers receive sufficient relief to make a difference in their lives. Some form of circuit-breaker—a cap on property tax payments based on a percentage of annual income—should be prominently featured in a new, consolidated tax relief program. Indeed, in the spirit of thinking outside the box, we might consider a more comprehensive circuit-breaker that limited total tax liability (from not only the local property tax, but also from sales and other consumption taxes) to a maximum percentage of income.14

To the extent some recipients of such tax relief are income-poor but property-wealthy, New Jersey should consider implementing a reverse mortgage or lien program under which those taxpayers can remain in their homes until they die or decide to transfer ownership. At that point, the state would recoup the funds it has advanced to municipalities on behalf of those taxpayers.

**How can we construct a new education funding system that will serve New Jersey for the longer-term?**

The short answer is thoughtfully and carefully, through an informed, transparent process, which should be launched soon.

That process will hardly be starting from scratch, though. Apparently, several years ago, the Department of Education convened Professional Judgment Panels of educators to evaluate school needs in relation to a new funding formula. Reportedly, these panels made considerable progress, but stopped short of completion. The fruits of their work have not been made public or even shared with education stakeholders.

The Acting Commissioner of Education is scheduled to submit her ideas and proposals about a new education funding system to the State Board of Education by June 1 (and about an appropriate fiscal and educational response to the special needs of the 17 Bacon districts, mostly poor rural districts, by May 1).

On February 21, 2006, an impressive consortium of major education groups15

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14 This is a variation on a theme recommended by the SLERP Commission—that there be a consumption tax offset as well as a property tax circuit-breaker.

15 New Jersey School Boards Association, New Jersey Education Association, New Jersey Principals
submitted a policy paper, entitled *Beginning Discussions on School Funding Reform*, to Governor Corzine and released it to the public.

In short, New Jersey must develop an effective new school funding system that assures all districts adequate resources to meet the constitutional “thorough and efficient” education mandate and requires all districts to assume a fair local share of the costs. Although this a complicated, difficult and controversial task, compared to the challenges raised by the state’s budget crisis it seems eminently achievable.

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and Supervisors Association, New Jersey Association of School Business Officials, New Jersey Association of School Administrators, New Jersey Parent Teachers Association, Garden State Coalition of Schools and Education Law Center.
Conclusion

In light of everything discussed above, we reach the following conclusions:

- **New Jersey is confronting a true fiscal crisis.** Currently, it is manifested by a huge projected state budget deficit for FY 2007. Unless we deal now with the underlying causes, we are almost certain to be faced with similar or worsening crises every year into the future.

- **This state budget crisis exists even though we have long relied excessively on local property taxation to provide important statewide services, including public education.** Given New Jersey’s unique determination to preserve a local governmental structure with almost 600 municipalities and more than 600 school districts, many of them very small and with dramatically different levels of local property wealth, our over-reliance on local property taxation has had especially devastating effects. This qualifies as another fiscal crisis—an ever-increasing burden on many moderate- and low-income taxpayers because of escalating property tax bills.

- **A major contributing factor to our fiscal problems at both the state and local levels is a dysfunctional school funding system,** which, among other things, has resulted in many school districts receiving insufficient state aid.

- **These crises have deep, bipartisan roots.** Governors and legislators of both parties have made bad and fiscally irresponsible, if well-intended, decisions going back more than 15 years. These have included:
  - Governor Florio’s justified, perhaps even necessary but poorly orchestrated, tax increase, which has contributed to a climate in which tax increases are anathema;
  - Governor Whitman’s 30 percent decrease in the state gross income tax, which led her and Governor McGreevey to fiscal gimmicktry to balance the budget when the economy slowed, including questionable borrowing, and raiding pension and other funds.

- **Another significant contributing factor is inefficient, wasteful and sometimes corrupt governmental structures and practices.** These include:
  - A multiplicity of small municipalities and school districts, and a proliferation of other governmental entities;
  - Inadequate attention to management efficiency at any level of government;
  - Development of pay-to-play into an art form; and
  - A tendency to be penny-wise and pound-foolish regarding state infrastructure to support local efficiency.

- **Since New Jersey’s fiscal problems are both short- and longer-term, the necessary solutions are likely to be different if overlapping.** Of course, short-term solutions should be compatible with, or even pave the way toward, longer-term solutions.

The problems we have to start addressing immediately, but which are likely to involve years of effort, are referred to as “structural deficit” problems. They relate to state costs growing at a greater rate than recurring state revenues. If that phenomenon were permitted to continue, it would mean we would continue to have short-term problems every year.

The short-term problems, although they may be a function of structural deficits, present themselves as “revenue adequacy” problems—less revenues in a particular year than costs.
Solving both the short- and longer-term problems will be much more dependent on increasing recurring revenues than on cutting spending. That conclusion is not based on a value judgment; it simply reflects the reality of the situation. New Jersey has a relatively small state budget, almost three-quarters of which the state passes through in state aid and grants to local governments, universities, the Medicaid program and other recipients. Moreover, the state has little discretion to make cuts in many programs because of federal government, court and contractual requirements.

If, in the longer term, the economy can be grown in ways the Governor and his administration are actively discussing with the public, some of the pressure will be taken off the short-term revenue-raising package that will be needed. It may even be possible that some of those measures—increases of existing taxes or introduction of new taxes—can be phased out. At the moment that looks doubtful, at least without a sharp upturn in the general economy, but our level of optimism about the future should not dictate what we must do now.

Having an appropriate array of state taxes in place, and an appropriate balance between state and local revenue-raising is complex and difficult enough, but it is only part of the task. This report does discuss some cost-saving possibilities, achieved either by increased efficiencies or by cutting services, but we recognize that, at best, this will eliminate only a relatively small portion of the projected deficit for FY 2007. Its impact in constraining the rate at which state spending grows is likely to be greater in the longer-term.

Both to save as much money as possible and to increase public confidence in government, New Jersey must put in place a far better infrastructure than it currently has to ensure that both sides of the equation—revenue-raising and expenditure—operate in an efficient, transparent and accountable manner. That encompasses many elements, including the following:

- State-of-the-art databases and easy availability of those data to policy makers and the public;
- An effective performance management system for all levels of government; and
- An effective state-level oversight agency, such as the Musto Commission that served with distinction for many years, and whose authorization is still on the books.

We can best sum up a meaningful long-term solution to New Jersey’s fiscal crisis as follows:

- Modernization of the state’s tax structure so that recurring revenues will match annual obligations;
- “Growing the economy” to facilitate that matching process (but not assuming or relying excessively on such growth);
- Establishing a structure that assures a substantially greater degree of self-discipline in the use of annual budget surpluses and the establishment of new programs;
- Delivering governmental services more efficiently and ethically;
- Achieving a fair and appropriate balance between state and local funding of governmental services, including education;
- Creating a taxing and funding system under which the state’s taxpayers will be asked to assume a fair and equitable burden no matter where they live; and
- Adopting an education funding system that allocates state aid to districts in a manner that reflects local fiscal capacity and local educational needs, and that assures all districts the ability to provide their students a “thorough and efficient” education.
A serious and heated debate is just beginning—in the legislative and executive halls, in municipalities and school district across the state, and among citizens. The process by which this debate leads to decisions must be as inclusive and open as possible.

Governor Corzine has expressed his strong preference for a constitutional convention, a “convocation of citizens,” to address New Jersey’s fiscal crisis. If the necessary reforms clearly require constitutional amendments, then the convention becomes a plausible approach. If carefully structured, it would be substantially more participatory than either a constitutional commission or legislative action on proposed amendments. A problem that bedeviled the Property Tax Convention Task Force was how to empower a convention to propose necessary statutory changes as well as constitutional amendments. If the primary or sole changes necessary to effectuate fiscal reform are statutory, then a special legislative session might be a more appropriate process. One or more carefully-structured blue ribbon commissions should be considered as an alternative or supplement to a constitutional convention or special legislative session. Among the advantages of this approach is that such a commission can not only generate recommendations for reform, but also can remain a force for their adoption and implementation.

No matter what the process, a major issue that must be addressed is jurisdictional. Should the agenda and the authority of the body be limited to revenue-raising issues and reforms, or should it include spending issues and reforms? The Task Force’s conclusion, with several dissents, was that a constitutional convention should only address the former. Given the interconnectedness of the issues and the Governor’s resolve to cure New Jersey’s fiscal problems in a real and enduring manner, it is hard to see how this can be done if spending issues are totally off the table. On the other hand, there is real cause for concern that a purely majoritarian approach to the current crisis might lead, for example, to constitutional amendments that gut the state’s education clause so that large sums of state aid flowing to the poor urban districts pursuant to court order are “recaptured” in order to lower suburban property tax levels.

We end this report with two cautionary notes:

**Our watchword is “Don’t Forget the Schools.”** We believe that the constitutionally-based funding and educational mandates of *Abbott v. Burke* are of fundamental importance not only to the disadvantaged, mostly minority students in our poor urban districts, but also to the state as a whole. We cannot long survive as a great state if more than 20 percent of our young people are burdened with an inadequate education. We also believe that *Abbott* was correctly decided, and that it is beginning to work—to improve the educational results in poor urban districts and to close the achievement gap. It has become a national model for improving urban schools and giving disadvantaged students a meaningful opportunity to succeed educationally, professionally and civically.

As Governor Corzine eloquently stated at the Budget Summit, whatever decisions are made to solve our state’s budget crisis, **the burdens cannot fall disproportionately on our most vulnerable citizens.** We must be true to our state’s fundamental values. We must all share the burdens in a manner and to an extent appropriate to our means.
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New Jersey is confronting a true fiscal crisis, manifested by a huge projected state budget deficit for FY 2007. Unless we deal now with the underlying causes, we are almost certain to be faced with similar or worsening crises every year into the future.

This state budget crisis exists even though we have long relied excessively on local property taxation to provide important statewide services, including public education.

A major contributing factor to our fiscal problems at both the state and local levels is a dysfunctional school funding system. Among other things, that system has resulted in many school districts receiving insufficient state aid.

This situation has deep, bipartisan roots. Governors and legislators of both political parties have made well-intentioned but irresponsible fiscal decisions for more than 15 years.

Since New Jersey’s fiscal problems are both short- and longer-term, so are the necessary solutions. The solutions will be much more dependent on increasing recurring revenues than on cutting spending. They will involve an appropriate array of state taxes and an appropriate balance between state and local revenue-raising.

A serious and heated debate on these issues is about to begin, in the legislative and executive halls, in municipalities and school districts across the state, and among citizens. Through it all, our watchword will be Don’t Forget the Schools.