

Testimony of Hon. Richard E. Constable, III
Acting Commissioner, Department of Community Affairs
Assembly Budget Committee
April 2, 2012
State House Annex, Committee Room 11, 4th Floor
10:00 a.m.

Good morning Chairman Prieto, Vice Chairman Schaer, and members of the Assembly Budget Committee. I am delighted to have the opportunity to brief you on the priorities of the Department of Community Affairs. Seated with me today are my Chief Financial Officer, Cindy McDowell, and Deputy Commissioner, Charles Richman.

Over the past two years, the Department of Community Affairs has continued to serve its core mission: providing guidance and financial support to local governments, community development organizations, as well as our business community. The Christie Administration, through DCA, has worked diligently to advance common sense principles and help local governments work efficiently and effectively for the people of New Jersey.

Pension and Benefit Reform

With the bipartisan support of this Legislature, we have been able to effectuate significant reforms in the structure of pension and health benefits for public employees. These reforms will achieve enormous savings for the State, as well as local governments. Pension reform is projected to provided \$120 billion in savings, to New Jersey's taxpayers, over the next 30 year, and over \$250 million in savings, in 2012 alone.

In Newark, for example, pension reform reduced the city's 2012 liability by approximately \$10 million. That \$10 million in reduced annual billing will carry forward into future years so that over the next 10 years, the City will save \$100 million.

It is projected that all taxpayers will save an additional \$3.1 billion over the next 10 years and over from the health benefits reform the Governor signed into law last year.

Again using Newark as an example, when health care premiums are fully phased-in, the city will save an additional \$16 million annually.

Taken together, pension and health benefits reforms will assist municipalities across the State drive down the once ever increasing cost of local governments, and help provide real, long term, property tax relief.

The Tool Kit

Two years ago the Governor outlined a comprehensive governmental reform package called the “tool kit” which is designed to address the fundamental drivers of property tax increases. The tool kit is absolutely critical to New Jersey’s future as these measures give towns and school districts more power to hold down pay increases, find efficiencies and reduce duplicative processes and services.

While we have seen some key parts of the tool kit passed –including reforms to the state’s interest arbitration system -- we clearly recognize that the tool kit is critical for our local officials to manage within the 2% cap. Mayors confirm this to us every day.

Let’s be clear – the 2% cap is working. Property tax increases in 2011 were the lowest in two decades. And between 2009 and 2011, property taxes collected from New Jersey’s taxpayers increased from \$24 billion in 2009 to \$25.6 billion in 2011 – a 6.6% increase over a two-year period, and the lowest two-year increase in 20 years.

As of today, only three towns (Lawrence Township in Mercer County, Demarest Borough in Bergen County, and Medford Township in Burlington County) are currently considering levy cap waiver elections. However, we must ensure that even those towns that are living within the 2 percent cap can maintain services and critical personnel. That’s why we need to enact the entire tool kit.

Of particular urgency are the reforms to sick and vacation time payouts. These payouts are creating budgeting shortfalls across New Jersey, and have many municipalities on the hook for millions of dollars. The liabilities facing taxpayers across the state for unused sick and vacation day benefits total more than \$825 million.

A recent news story on the problems associated with sick leave payouts highlighted eight (8) New Jersey municipalities that had to bond to fund their payouts. In these eight towns, 700 employees exacted an average retirement payout of \$54,000 and collectively cost the towns' taxpayers over \$39 million. South Brunswick, for example, had to borrow over \$500,000 to pay just 18 retiring employees.

Large sick and vacation payouts are hurting towns that are cash strapped. In East Orange, budget cuts forced the mayor and city council to lay off 55 employees, at the same time the City had to fund \$1 million in sick and vacation payouts to a dozen (12) retirees. The taxpayers of New Jersey should not have to carry the weight of this fiscally untenable system any longer.

Civil Service Reform

We have heard from numerous municipalities throughout the State that one of the biggest obstacles to both effective management and fiscal efficiency has been the civil service system, which ties the municipality's hands, especially when trying to enter into shared services agreements with neighboring towns.

Fully a third of New Jersey towns will be left out of the shared services discussion, because their arcane, burdensome and expensive civil service structure renders them unlikely partners for a shared service or consolidation effort.

Civil Service regulations were written before sharing services were a common practice and because they restrict who can be promoted, demoted and transferred, they impair a municipality's ability to make sensible choices. We must move swiftly to bring the civil service system into the 21st Century and we need to make it easier for municipalities that want to opt-out of civil service, to opt out of civil service.

Consolidation and Shared Services:

Regardless of what happens with civil service reform, DCA will continue to focus on consolidation and shared services.

As you saw last November, the vote to consolidate Princeton Borough and Princeton Township easily won approval. Its path towards consolidation will be closely watched and will provide a template for other towns considering a merger – particularly other “donut hole” municipalities. It is projected that savings from this merger will save the new “Princeton” \$3 million annually. Such savings will likely be realized immediately to Princeton taxpayers in the form of lower property taxes or increased services.

Sharing services is yet another method for neighboring municipalities to work together in ways that are both valuable for government, and beneficial to the taxpayer. DCA’s Division of Local Government Services has the expertise to guide municipalities through the decision making process. And to that end, we are intensifying our effort to provide municipalities with the resources and tools to explore and negotiate shared services agreements.

In the last few years New Jersey towns have entered into hundreds of shared service agreements. These include the sharing of police and fire personnel, animal control officers, chief financial officers, and snow removal services. More and more towns are seeing that by working together they can keep costs under control and save taxpayers millions of dollars annually.

Transitional Aid

As was noted last year, the Transitional Aid program has reduced the opportunity for wasteful spending by economically distressed municipalities and encouraged new fiscal discipline at the local level.

We continue to require Transitional Aid recipients to sign and adhere to a Memorandum of Understanding (MOU) agreeing to certain state oversight, reforms and reporting requirements in exchange for state aid. Unlike previous MOUs, these new Transitional Aid MOUs contain measured goals, a clearly defined approval process and conditions that will precipitate the withholding of Transitional Aid funds for non-compliance.

For FY 2013, funding for Transitional Aid towns will again decrease, consistent with the Governor's desire that Transitional Aid be truly "transitional." Total Transitional Aid is decreasing by \$56.4 million, though \$48.2 million of that decrease is being offset by an increase in formula aid for municipalities that are in full compliance with program conditions, and that have taken aggressive steps to control costs. Accordingly, this year's total request for Transitional Aid, along with those funds that were folded into base aid, is \$8 million less than last year.

Requests for Transitional Aid in 2012 have already declined. Two past recipients, Prospect Park and Chesilhurst, are not applying for aid this year. And our expectation is that like Mayor McDonough of Harrison, local officials in current Transitional Aid towns will find that they need less and less aid as their economic health improves. In fact, over the past two years, the number of municipalities relying on this aid has decreased from 22 to 12 largely because towns have taken steps to bring their budgets into structural balance.

Other Successes

It should also be noted that the DCA is making great strides toward streamlining the Department's structure.

Under the Governor's proposed budget, the DCA Division on Women will be relocated to the Department of Children and Families. This move will bring together programs that benefit women, children and families into a more comprehensive and coordinated organization.

Also, it is proposed that Local Government Ethics, which is currently housed in the Division of Local Government Services, will move to the State Ethics Commission. Doing so would centralize all ethics-related functions under one umbrella.

Commitments to Those in Need:

A source of continued pride for the Department is our strong commitment to our most vulnerable populations.

Last year, we were able to serve approximately 290,000 New Jersey residents who received LIHEAP assistance for their winter heating bills, and

this year we have assisted almost 260,000. Better yet, we are offering a supplemental monetary benefit to assist almost 53,000 senior citizens, and households with individuals with disabilities on their summer cooling expenses.

In FY 2013, we will continue our assistance to more than 4,100 low income New Jersey households by providing approximately \$41 million in rental assistance payments through the State Rental Assistance Program (SRAP).

Further, we have vigorously sought federal housing funds to help certain targeted populations. And our efforts have been successful in obtaining 200 additional federal Section 8 vouchers for veterans and 100 additional vouchers for persons with disabilities.

To further boost the positive upswing in the state's housing market, the Department and the New Jersey Housing and Mortgage Finance Agency (HMFA) recently announced a new, fixed interest rate mortgage of 3.75 percent with a 30-year term for qualified first-time homebuyers and Urban Target Area borrowers. The new interest rate, which became effective on March 1, is the lowest rate ever offered by the HMFA. The Agency has \$170 million to lend at this historically low interest rate, which should fund approximately 1,000 conventional mortgages.

As part of the federal ARRA programs, DCA is on track to far exceed the Department's original 2009 target of weatherizing 13,900 units. Our revised target is now set at more than 19,000 units and, to date, we have weatherized over 15,000 units.

For all of our successes this past year, and the promise this budget has to offer, we recognize there is still much important work to do.

COAH Reform

A 2008 law signed by Governor Corzine provided that uncommitted municipal affordable housing trust fund balances revert to the State after four years (July 2012). So, municipalities in receipt of trust fund dollars have had four years to spend or commit the money. Only those towns that chose not to provide affordable housing within the four-year time span will lose control of those funds.

Accordingly, the Fiscal Year 2013 budget anticipates receiving \$200 million of uncommitted and unspent municipal trust fund dollars to support the provision of affordable housing for individuals and households in need.

The Administration will continue to advocate strongly for the elimination of COAH and work for a viable solution to the state's need for affordable housing – a solution that provides clear and realistic standards to guide municipalities.

As you know, on March 8, an appellate panel ruled that the Christie Administration had exceeded its authority under the Reorganization Act in abolishing COAH. While we are disappointed by that decision, we will await the outcome of an appeal that was filed with the NJ Supreme Court by the Attorney General.

Once again, I appreciate the opportunity to come before you. I'm happy to take your questions.