



FY 2011 Budget Solutions: Foundation for Long Term Reform

Protecting Taxpayers and Enforcing Fiscal Discipline

Constitutional Limit on Property Taxes

Providing Critical Property Tax Relief That Works

In 1980, Massachusetts was facing a similar economic and fiscal picture as New Jersey is today. Property taxes were out of control and taxpayers were suffering as Massachusetts struggled to regain its economic footing. To deal with burdensome property taxes, in 1982 Massachusetts implemented a constitutional amendment that was approved by voters in 1980. The proposition enacted a levy cap that prevents a property tax levy increase of more than 2 ½% annually.

Massachusetts has an honest levy cap, generally without exemptions and special deals. It does, however, accommodate growth in ratables, which, in turn, allows local entities to accommodate increasing service demands. It also encourages municipalities, school districts and counties to reduce annual tax increases below the 2 ½% by allowing them to “bank” the unused amount for future use. Governing bodies that wish to exceed the levy cap may seek voter approval to do so.

The result was a drop in the local tax burden. In 1977, Massachusetts had the 3rd highest local tax burden and in 2005 it had the 33rd highest.

Limiting Property Taxes and Reforming Government Spending

New Jerseyans currently pay the highest property taxes in the country. The Tax Foundation estimates that at 11.8% of income, New Jersey's state and local tax burden percentage is the highest in the country. This is well above the national average of 9.7% (The Tax Foundation, July 2009). In 2004, the property tax average was \$5,617 and in 2009 it was a staggering \$7,281. This was an increase of nearly 30% over the course of five years (NJ Dept. of Community Affairs).

If one thing is clear, it's that New Jerseyans cannot afford to pay higher property taxes. Governor Christie recommends a constitutional amendment that would impose a “hard” annual levy cap of 2 ½%. Like Massachusetts' levy cap, the New Jersey levy cap would be adjusted for increases in ratables, and local entities that do not spend up to the levy cap would be allowed to “bank” the extra levy and use it in subsequent years. Local governing bodies could ask their voters to exceed the levy cap through referenda.

The State cannot ask localities to adhere to standards that it itself is not willing to meet. Accordingly, the Governor recommends a constitutional amendment to cap spending on direct State government service increases at 2 ½% a year. This cap will force local governments to find waste, abuse and inefficiencies in

their own operations. Every community across New Jersey recognizes that it can do more with less. Now is the time to act.

However, until the voters are able to vote on and approve a constitutional amendment, the Fiscal 2011 Budget recommends legislation that would:

- Limit cap exceptions;
- Repeal provisions of the current law that provide automatic cap growth to offset decreases in State aid;
- Lower the levy and spending caps to 2 ½ %; and
- Permit banking of unused cap.

A Taxpayer's Tool Kit to Fight Property Tax Increases

Governor Christie's Fiscal Year 2011 Budget builds a "tool kit" that protects taxpayers while empowering local governments and school districts to manage their budgets more effectively without raising property taxes. This tool kit provides critical assistance that will help provide services at prices taxpayers can afford.

Working With Municipalities to Create Fiscal Discipline

The challenge the Christie Administration is facing amid New Jersey's fiscal emergency is not confined to State government alone. Local governments are facing similar difficulties – depressed revenue, reduced aid, and fewer resources.

Governor Christie recognizes that the only way to overcome this current crisis and rebuild New Jersey's economy is by working together. Difficult economic times call for shared sacrifice, which is why every community, town, and county must do its part.

Restoring fiscal discipline may be difficult, but the answer is not to raise taxes on families who already bear the highest tax burdens in the nation. To reduce property taxes, municipalities must look inward and conduct the same rigorous reviews of services and programs that the Christie Administration is performing in State government.

Many local governments run very efficiently, but there are also numerous examples of extreme waste and misuse of taxpayer dollars:

- One municipality paid \$15,000 per month to lobby Congress, and \$8,500 per month for State lobbying expenses;
- Another paid nearly \$288,000 in 2008 to a vendor under a 2006 emergency resolution that limited payments to approximately \$117,000; and,
- Still another community awarded a no-bid contract in excess of \$42,000 for floor coverings.

There are also numerous examples of city governments that have done innovative things to reduce their expenses and provide top-notch services for their communities:

- Mark Smith, the Mayor of Bayonne, conducted an extensive review of municipal operations that will produce better, less-costly government, including opportunities to downsize the number of departments, consolidate human resource services, and enhance the use of information technology. The new structure reduces departments from nine to four, intelligently consolidates services, and enables divisions to share employees and maximize productivity.
- In Haddon Heights, Mayor Scott Alexander conducted a review to optimize performance and make better use of people, processes, and technology. The town has adopted zero-based budgeting, lowered employee costs, and contracted with private companies to perform government services where it was cost effective and quality could be maintained. In 2009, Mayor Alexander cut department budgets across the board, fully met the city's pension obligations, and invested in economic development opportunities, without receiving a dime of Extraordinary Aid from the State.

To make it possible for more municipalities to provide services at prices that taxpayers can afford, the Christie Administration is providing the additional tools to help communities achieve the same kind of successes that Mayor Smith and Mayor Alexander have engineered. These include:

Collective Bargaining Reform. In order to help local governments lower costs and ease the burden on taxpayers, Governor Christie is calling for bargaining reform at the local level. The current statutory framework unfairly favors the interests of public sector unions against taxpayers. To level the playing field, the Governor recommends legislation to provide that:

- No municipality or county contract award, inclusive of benefit costs, may exceed the statutory or constitutional levy cap;
- The Executive Branch of State government will select arbitrators for municipalities and counties; and
- Arbitrators must specifically take into account the impact on property taxes in reaching their decisions.

Employee Benefits Reform. To reduce runaway benefit costs, the Governor recommends legislation that would:

- Repeal the N/55 increase in benefits formula for all pension service credit earned in the future, for current as well as future employees, to the extent permitted by law;
- Require employee contributions to health benefits that equal or exceed required contributions made by State employees under the New Jersey State Health Benefits Program;
- Cap payouts for accrued sick leave at \$15,000 for current as well as future employees.

Election Reform. The Governor recommends enactment of legislation to move school board and fire district elections to November.

Civil Service Reform. The Governor recommends legislation amending civil service rules to eliminate obstacles to cost-saving local shared service and consolidation initiatives and to permit furloughs at the municipal and county levels. The Governor further recommends legislation that would permit municipalities and counties to opt out of Civil Service.

Extending Refund Offset Authority to Local Governments. The Governor recommends legislation that will allow local governments to offset unpaid property taxes against State gross income tax refunds.

Working with School Districts to Find Cost Savings

Faced with the loss of \$1.1 billion in non-recurring federal stimulus funding that was used for education funding in the Fiscal Year 2010 Budget, this year's spending plan dedicates nearly \$70 million more of State funds to education aid than last year. Still, the loss of most federal stimulus funds will mean that total aid to New Jersey's school districts will fall by \$820 million. No school district will lose more in formula aid than 4.99% of its original Fiscal 2010 Budget.

The Christie Administration plans to work with school districts to deal with this loss in education aid and help districts find reasonable savings and prepare efficient and workable budgets.

Collective Bargaining Reform. To help school districts lower costs, Governor Christie is calling for collective bargaining reform at the school district level. The current statutory framework unfairly favors the interests of public employee unions to the detriment of taxpayers. To level the playing field, the Governor recommends legislation to ensure that:

- No school district's union contract, inclusive of benefit costs, may exceed the statutory or constitutional levy cap;
- School districts can once again impose a "last, best offer" contract under certain circumstances.

Employee Benefits Reform. To help school districts reduce runaway benefit costs, the Governor recommends legislation that would:

- Require Executive County Superintendent approval for all school district contracts. Approval shall be withheld for contracts that:
 - Increase salaries and benefits, more than the statutory or constitutional levy cap;
 - Fail to include cost sharing for health benefits;
 - Fail to mandate a minimum of not less than five hours of pupil contact per day for teaching staff;
 - Fail to specify a minimum number of work days for staff; or
 - Bar the contracting out of auxiliary and ancillary services.

Management Reforms. Empower Executive County Superintendents to implement sharing of school business functions across districts and municipalities.

Making Higher Education More Affordable

New Jersey's public institutions of higher education are struggling under the weight of arcane decision and policy-making criteria. These impediments to affordability are driving up the cost of tuition and driving away the state's best and brightest. The Christie Administration is proposing reforms that will empower New Jersey's higher education community and ultimately drive down tuition costs.

Bargaining Reform. Collective bargaining for unionized employees at State college and universities should be removed from State management. The State is not the employer of record; nor does it pay these employees' salary. Affected employees are about 80% of all employees on campuses. The Governor recommends legislation that would allow State colleges and universities to conduct collective bargaining on their own behalf.

- If colleges and universities do not gain the power to conduct negotiations, colleges and universities, or the individual boards of trustees, should gain the right to accept or reject terms proposed by the State for collectively-negotiated contracts that affect college and university employees.

Risk Management. The Governor recommends empowering State colleges and universities to manage their own workers' compensation programs and claims for workplace illness and injury. Compensation payments from State colleges and universities to the State have increased 100% in five years. Similarly, health claims from workplace illness and injury increased 146%, from \$500,000 in fiscal 2000 to \$1.3 million a year in fiscal 2005.

Plan Reviews and Field Inspections. The Governor recommends legislation authorizing the Department of Community Affairs to either contract with private firms directly or delegate such authority to State colleges and universities. Currently, persistent plan review and field inspection delays result in increased construction costs.

Civil Service Reform. The Governor recommends legislation that would permit State colleges and universities to opt out of Civil Service. State colleges and universities' classified employees should not be subject to State Civil Service rules. Affected employees account for approximately 40% of all employees on these campuses.